



**HEALTH ANNUAL STATEMENT  
FOR THE YEAR ENDING DECEMBER 31, 2006  
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

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>David Donald Wolf #</u>	<u>Interim CEO</u>	<u>John Anthony Picciotto</u>	<u>Corp. Secretary, Exec. VP &amp; Gen. Counsel</u>
<u>Jeanne Ann Kennedy</u>	<u>Corp. Treasurer &amp; VP</u>		

**OTHER OFFICERS**

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

**DIRECTORS OR TRUSTEES**

<u>Michel Llewellyn Daley</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>	<u>Faye Ford Fields #</u>	<u>Ralph John Rohner #</u>
<u>Nathaniel Thomas Connally M.D. #</u>	<u>Robert Lee Sloan #</u>	<u>Edmund Bertram Cronin Jr. #</u>	<u>Peter Nostrand #</u>
<u>Carlos Mario Rodriguez PH.D. #</u>	<u>Floretta Dukes McKenzie Ed.D</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.

David Donald Wolf #  
Interim 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 2006 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).....	636,934,705		636,934,705	501,012,650
2. Stocks (Schedule D):				
2.1 Preferred stocks .....	13,728,587		13,728,587	10,078,126
2.2 Common stocks .....	262,218,323		262,218,323	226,792,672
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 (\$ .....(51,931,144) , Schedule E, Part 1), cash equivalents (\$ .....0 , Schedule E, Part 2) and short-term investments (\$ .....50,662,532 , Schedule DA).....	(1,268,613)		(1,268,613)	40,804,918
6. Contract loans, (including \$ .....premium notes)			0	0
7. Other invested assets (Schedule BA) .....	166,667	166,667	0	0
8. Receivables for securities .....			0	439,867
9. Aggregate write-ins for invested assets .....	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9) .....	911,779,669	166,667	911,613,002	779,128,233
11. Title plants less \$ .....charged off (for Title Insurers only) .....			0	0
12. Investment income due and accrued .....	5,863,168		5,863,168	4,933,283
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection .....	675,983,206		675,983,206	656,884,803
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	0
14.2 Funds held by or deposited with reinsured companies .....			0	0
14.3 Other amounts receivable under reinsurance contracts .....	529,186		529,186	0
15. Amounts receivable relating to uninsured plans .....	44,218,015	744,026	43,473,989	39,160,938
16.1 Current federal and foreign income tax recoverable and interest thereon .....			0	4,170,447
16.2 Net deferred tax asset.....	10,539,939	3,723,841	6,816,098	7,251,942
17. Guaranty funds receivable or on deposit .....			0	0
18. Electronic data processing equipment and software.....	52,856,626	51,578,738	1,277,888	1,636,962
19. Furniture and equipment, including health care delivery assets (\$ ..... ) .....	7,075,217	7,075,217	0	0
20. Net adjustment in assets and liabilities due to foreign exchange rates .....			0	0
21. Receivables from parent, subsidiaries and affiliates .....	617,642	7,837	609,805	863,445
22. Health care (\$ .....42,155,300 ) and other amounts receivable.....	44,726,844	2,571,543	42,155,301	32,471,456
23. Aggregate write-ins for other than invested assets .....	25,362,092	23,055,363	2,306,729	2,266,152
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	1,779,551,604	88,923,232	1,690,628,372	1,528,767,661
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	0
26. Total (Lines 24 and 25)	1,779,551,604	88,923,232	1,690,628,372	1,528,767,661
<b>DETAILS OF WRITE-INS</b>				
0901. ....				
0902. ....				
0903. ....				
0998. Summary of remaining write-ins for Line 9 from overflow page .....	0	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 9 above)	0	0	0	0
2301. Other Assets.....	2,306,729		2,306,729	2,266,152
2302. Other Assets Non-Admitted.....	23,055,363	23,055,363	0	0
2303. ....			0	0
2398. Summary of remaining write-ins for Line 23 from overflow page .....	0	0	0	0
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	25,362,092	23,055,363	2,306,729	2,266,152

## LIABILITIES, CAPITAL AND SURPLUS

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$ ..... reinsurance ceded)	49,620	265,311,099	265,360,719	250,652,812
2. Accrued medical incentive pool and bonus amounts			0	0
3. Unpaid claims adjustment expenses	1,557	8,323,243	8,324,800	7,949,800
4. Aggregate health policy reserves	0	9,376,521	9,376,521	5,880,527
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	0	538,405,295	538,405,295	511,697,352
9. General expenses due or accrued	0	92,887,312	92,887,312	86,139,269
10.1 Current federal and foreign income tax payable and interest thereon (including \$ ..... (301,072) on realized capital gains (losses))	0	5,904,873	5,904,873	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	82,840,556		82,840,556	73,779,484
13. Remittance and items not allocated	3,639,102		3,639,102	2,110,212
14. Borrowed money (including \$ ..... current) and interest thereon \$ ..... (including \$ ..... current)			0	0
15. Amounts due to parent, subsidiaries and affiliates	14,272,802		14,272,802	21,681,563
16. Payable for securities			0	0
17. Funds held under reinsurance treaties with (\$ ..... authorized reinsurers and \$ ..... unauthorized reinsurers)			0	0
18. Reinsurance in unauthorized companies			0	0
19. Net adjustments in assets and liabilities due to foreign exchange rates			0	0
20. Liability for amounts held under uninsured plans			0	0
21. Aggregate write-ins for other liabilities (including \$ ..... current)	6,609,986	0	6,609,986	7,909,497
22. Total liabilities (Lines 1 to 21)	107,413,623	920,208,343	1,027,621,966	967,800,516
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	663,006,406	560,967,145
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	663,006,406	560,967,145
32. Total liabilities, capital and surplus (Lines 22 and 31)	XXX	XXX	1,690,628,372	1,528,767,661
<b>DETAILS OF WRITE-INS</b>				
2101. Minority Partnership Payable	0		0	8,293
2102. Amounts Withheld for Escheatment	6,165,450		6,165,450	7,901,204
2103. Reinsurance Payable	444,536		444,536	0
2198. Summary of remaining write-ins for Line 21 from overflow page	0	0	0	0
2199. Totals (Lines 2101 through 2103 plus 2198) (Line 21 above)	6,609,986	0	6,609,986	7,909,497
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 through 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 through 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	9,399,669	8,876,205
2. Net premium income (including \$ .....0 non-health premium income).....	XXX	2,461,317,955	2,258,296,721
3. Change in unearned premium reserves and reserve for rate credits .....	XXX	(4,786,576)	(1,971,570)
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	1,062,500	1,119,200
7. Aggregate write-ins for other non-health revenues .....	XXX	0	0
8. Total revenues (Lines 2 to 7) .....	XXX	2,457,593,879	2,257,444,351
<b>Hospital and Medical:</b>			
9. Hospital/medical benefits .....	342,443	1,387,314,944	1,156,089,779
10. Other professional services .....		47,977,529	283,006,232
11. Outside referrals .....			0
12. Emergency room and out-of-area .....	63,959	192,036,850	143,994,267
13. Prescription drugs .....		546,060,986	431,908,607
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) .....	406,402	2,173,390,309	2,014,998,885
<b>Less:</b>			
17. Net reinsurance recoveries .....	0	(4,026,136)	(12,416)
18. Total hospital and medical (Lines 16 minus 17) .....	406,402	2,177,416,445	2,015,011,301
19. Non-health claims (net).....			0
20. Claims adjustment expenses, including \$ .....16,429,547 cost containment expenses.....		73,978,438	68,696,090
21. General administrative expenses.....		157,162,197	138,372,112
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) .....	406,402	2,408,557,080	2,222,079,503
24. Net underwriting gain or (loss) (Lines 8 minus 23) .....	XXX	49,036,799	35,364,848
25. Net investment income earned (Exhibit of Net Investment Income, Line 17).....		35,369,384	26,496,194
26. Net realized capital gains (losses) less capital gains tax of \$ .....(301,072) .....		(1,204,288)	4,630,904
27. Net investment gains (losses) (Lines 25 plus 26) .....	0	34,165,096	31,127,098
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	201,917	2,026,459
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	83,403,812	68,518,405
31. Federal and foreign income taxes incurred .....	XXX	18,780,899	14,120,915
32. Net income (loss) (Lines 30 minus 31) .....	XXX	64,622,913	54,397,490
<b>DETAILS OF WRITE-INS</b>			
0601. FEP Operations Center Performance Incentive.....	XXX	1,062,500	1,119,200
0602. ....	XXX		
0603. ....	XXX		
0698. Summary of remaining write-ins for Line 6 from overflow page .....	XXX	0	0
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above) .....	XXX	1,062,500	1,119,200
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 through 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 through 1403 plus 1498) (Line 14 above) .....	0	0	0
2901. Miscellaneous.....	0	201,917	2,026,459
2902. ....			
2903. ....			
2998. Summary of remaining write-ins for Line 29 from overflow page .....	0	0	0
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above) .....	0	201,917	2,026,459

**STATEMENT OF REVENUE AND EXPENSES (continued)**

	1 Current Year	2 Prior Year
<b>CAPITAL AND SURPLUS ACCOUNT:</b>		
33. Capital and surplus prior-reporting period .....	560,967,145	501,014,467
34. Net income or (loss) from Line 32 .....	64,622,913	54,397,489
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 \$ ..... 2,501,917 .....	36,452,894	7,356,739
37. Change in net unrealized foreign exchange capital gain or (loss) .....		0
38. Change in net deferred income tax .....	(371,644)	2,315,461
39. Change in nonadmitted assets .....	1,726,065	(4,567,264)
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 .....	(390,971)	450,253
48. Net change in capital & surplus (Lines 34 to 47) .....	102,039,257	59,952,678
49. Capital and surplus end of reporting period (Line 33 plus 48)	663,006,402	560,967,145
<b>DETAILS OF WRITE-INS</b>		
4701. SBP minority interest prior year.....	8,294	0
4702. Change in accumulated other - pension.....	(399,265)	112,494
4703. SBP Pension Spin off.....		342,271
4798. Summary of remaining write-ins for Line 47 from overflow page .....	0	(4,512)
4799. Totals (Lines 4701 through 4703 plus 4798) (Line 47 above)	(390,971)	450,253

## CASH FLOW

	1 Current Year To Date	2 Prior Year Ended December 31
<b>Cash from Operations</b>		
1. Premiums collected net of reinsurance.....	2,467,636,913	2,246,302,752
2. Net investment income.....	35,995,682	29,021,705
3. Miscellaneous income.....	1,062,500	1,119,200
4. Total (Lines 1 through 3).....	2,504,695,095	2,276,443,657
5. Benefits and loss related payments.....	2,169,437,347	2,000,849,584
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts.....	0	0
7. Commissions, expenses paid and aggregate write-ins for deductions.....	211,330,993	186,306,021
8. Dividends paid to policyholders.....	0	0
9. Federal and foreign income taxes paid (recovered) \$ ..... net of tax on capital gains (losses)	8,404,508	15,866,314
10. Total (Lines 5 through 9).....	2,389,172,848	2,203,021,919
11. Net cash from operations (Line 4 minus Line 10).....	115,522,247	73,421,738
<b>Cash from Investments</b>		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....	624,290,519	915,887,362
12.2 Stocks.....	43,357,106	37,023,652
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.....	827	9,703,831
12.7 Miscellaneous proceeds.....	1,259,522	0
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	668,907,974	962,614,845
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....	764,907,452	983,853,639
13.2 Stocks.....	41,982,827	74,095,251
13.3 Mortgage loans.....	0	0
13.4 Real estate.....	0	0
13.5 Other invested assets.....	0	0
13.6 Miscellaneous applications.....	680,601	11,384,565
13.7 Total investments acquired (Lines 13.1 to 13.6).....	807,570,879	1,069,333,455
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).....	(138,662,905)	(106,718,610)
<b>Cash from Financing and Miscellaneous Sources</b>		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....	0	0
16.2 Capital and paid in surplus, less treasury stock.....	0	0
16.3 Borrowed funds.....	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....	0	0
16.5 Dividends to stockholders.....	0	0
16.6 Other cash provided (applied).....	(18,932,873)	(5,396,280)
17. Net cash from financing and miscellaneous sources (Line 16.1 to Line 16.4 minus Line 16.5 plus Line 16.6).....	(18,932,873)	(5,396,280)
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....	(42,073,531)	(38,693,152)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	40,804,918	79,498,070
19.2 End of year (Line 18 plus Line 19.1).....	(1,268,613)	40,804,918

**ANNUAL STATEMENT FOR THE YEAR 2006 OF THE Group Hospitalization and Medical Services, Inc.**

**ANALYSIS OF OPERATIONS BY LINES OF BUSINESS**

	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	2,461,317,955	1,080,022,971	15,171,932	50,825,366	0	1,295,757,388	0	0	14,580,595	0	17,526	4,942,177	0
2. Change in unearned premium reserves and reserve for rate credit	(4,786,576)	(4,786,576)	0	0	0	0	0	0	0	0	0	0	0
3. Fee-for-service (net of \$ medical expenses)	0	0	0	0	0	0	0	0	0	0	0	0	XXX
4. Risk revenue	0	0	0	0	0	0	0	0	0	0	0	0	XXX
5. Aggregate write-ins for other health care related revenues	1,062,500	0	0	0	0	0	0	0	0	0	0	1,062,500	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)	2,457,593,879	1,075,236,395	15,171,932	50,825,366	0	1,295,757,388	0	0	14,580,595	0	17,526	6,004,677	0
8. Hospital/medical/ benefits	1,387,314,943	573,956,786	7,646,536	0	0	798,707,939	0	0	6,973,996	0	20,513	9,173	XXX
9. Other professional services	47,977,528	4,345,129	57,888	37,489,917	0	6,046,603	0	0	37,830	0	111	50	XXX
10. Outside referrals	0	0	0	0	0	0	0	0	0	0	0	0	XXX
11. Emergency room and out-of-area	192,036,850	79,562,907	1,059,976	0	0	110,718,310	0	0	692,708	0	2,038	911	XXX
12. Prescription Drugs	546,060,986	227,061,401	3,025,024	0	0	315,974,561	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)	2,173,390,307	884,926,223	11,789,424	37,489,917	0	1,231,447,413	0	0	7,704,534	0	22,662	10,134	XXX
16. Net reinsurance recoveries	(4,026,137)	0	0	0	0	0	0	0	0	0	0	(4,026,137)	XXX
17. Total hospital and medical (Lines 15 minus 16)	2,177,416,444	884,926,223	11,789,424	37,489,917	0	1,231,447,413	0	0	7,704,534	0	22,662	4,036,271	XXX
18. Non-health claims (net)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
19. Claims adjustment expenses including \$ 16,429,547 cost containment expenses	73,978,434	36,362,234	1,535,268	2,932,664	0	32,356,853	0	0	0	0	0	791,415	0
20. General administrative expenses	157,162,196	133,491,725	1,722,523	6,993,212	0	20,789,447	0	0	0	0	0	(5,834,711)	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)	2,408,557,074	1,054,780,182	15,047,215	47,415,793	0	1,284,593,713	0	0	7,704,534	0	22,662	(1,007,025)	0
24. Net underwriting gain or (loss) (Line 7 minus Line 23)	49,036,805	20,456,213	124,717	3,409,573	0	11,163,675	0	0	6,876,061	0	(5,136)	7,011,702	0
<b>DETAILS OF WRITE-INS</b>													
0501. FEP Operations Center Performance Incentive	1,062,500	0	0	0	0	0	0	0	0	0	0	1,062,500	XXX
0502.	0	0	0	0	0	0	0	0	0	0	0	0	XXX
0503.	0	0	0	0	0	0	0	0	0	0	0	0	XXX
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0	0	0	0	0	0	0	0	0	0	0	XXX
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 5 above)	1,062,500	0	0	0	0	0	0	0	0	0	0	1,062,500	XXX
0601.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0602.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0603.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0698. Summary of remaining write-ins for Line 6 from overflow page	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
1301.	0	0	0	0	0	0	0	0	0	0	0	0	XXX
1302.	0	0	0	0	0	0	0	0	0	0	0	0	XXX
1303.	0	0	0	0	0	0	0	0	0	0	0	0	XXX
1398. Summary of remaining write-ins for Line 13 from overflow page	0	0	0	0	0	0	0	0	0	0	0	0	XXX
1399. Totals (Lines 1301 through 1303 plus 1398) (Line 13 above)	0	0	0	0	0	0	0	0	0	0	0	0	XXX

7

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2006 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) .....	1,080,012,973	9,998		1,080,022,971
2. Medicare Supplement .....	15,171,932			15,171,932
3. Dental Only.....	50,825,366			50,825,366
4. Vision Only.....	0			0
5. Federal Employees Health Benefits Plan .....	1,295,757,388			1,295,757,388
6. Title XVIII - Medicare .....				0
7. Title XIX - Medicaid.....				0
8. Stop Loss .....	14,580,595			14,580,595
9. Disability Income .....				0
10. Long-term care .....	17,526			17,526
11. Other health.....	153,201	4,788,976		4,942,177
12. Health subtotal (Lines 1 through 11) .....	2,456,518,981	4,798,974	0	2,461,317,955
13. Life .....				0
14. Property/Casualty.....				0
15. Totals (Lines 12 to 14)	2,456,518,981	4,798,974	0	2,461,317,955

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2006 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	2,176,618,130	895,114,266	11,505,624	38,138,917		1,224,137,414			7,704,534		(1,759)	19,134	
1.2 Reinsurance assumed	3,855,251	0	0	0	0	0	0	0	0	0	0	3,855,251	0
1.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
1.4 Net	2,180,473,381	895,114,266	11,505,624	38,138,917	0	1,224,137,414	0	0	7,704,534	0	(1,759)	3,874,385	0
2. Paid medical incentive pools and bonuses	0	0	0	0	0	0	0	0	0	0	0	0	0
3. Claim liability December 31, current year from Part 2A:													
3.1 Direct	265,189,833	101,186,800	2,373,800	3,201,000	0	153,590,000	0	0	4,600,133	0	227,100	11,000	0
3.2 Reinsurance assumed	170,886	0	0	0	0	0	0	0	0	0	0	170,886	0
3.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
3.4 Net	265,360,719	101,186,800	2,373,800	3,201,000	0	153,590,000	0	0	4,600,133	0	227,100	181,886	0
4. Claim reserve December 31, current year from Part 2D:													
4.1 Direct	0	0	0	0	0	0	0	0	0	0	0	0	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	0	0	0	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year	0	0	0	0	0	0	0	0	0	0	0	0	0
6. Net healthcare receivables (a)	(17,764,842)	(17,764,842)	0	0	0	0	0	0	0	0	0	0	0
7. Amounts recoverable from reinsurers December 31, current year	0	0	0	0	0	0	0	0	0	0	0	0	0
8. Claim liability December 31, prior year from Part 2A:													
8.1 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
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	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
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	2,173,390,309	884,926,229	11,789,424	37,489,912	0	1,231,447,414	0	0	7,704,534	0	22,662	10,134	0
12.2 Reinsurance assumed	4,026,137	0	0	0	0	0	0	0	0	0	0	4,026,137	0
12.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
12.4 Net	2,177,416,446	884,926,229	11,789,424	37,489,912	0	1,231,447,414	0	0	7,704,534	0	22,662	4,036,271	0
13. Incurred medical incentive pools and bonuses	0	0	0	0	0	0	0	0	0	0	0	0	0

(a) Excludes \$ 25,389,300 loans or advances to providers not yet expensed.

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2006 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 (Hospital & Medical)	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 .....	4,000,619	1,526,491	35,811	48,290		2,317,038			69,397		3,426	166	
1.2. Reinsurance assumed .....	0												
1.3. Reinsurance ceded .....	0												
1.4. Net .....	4,000,619	1,526,491	35,811	48,290	0	2,317,038	0	0	69,397	0	3,426	166	0
2. Incurred but Unreported:													
2.1. Direct .....	261,189,214	99,660,309	2,337,989	3,152,710		151,272,962			4,530,736		223,674	10,834	
2.2. Reinsurance assumed .....	170,886											170,886	
2.3. Reinsurance ceded .....	0												
2.4. Net .....	261,360,100	99,660,309	2,337,989	3,152,710	0	151,272,962	0	0	4,530,736	0	223,674	181,720	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 .....	265,189,833	101,186,800	2,373,800	3,201,000	0	153,590,000	0	0	4,600,133	0	227,100	11,000	0
4.2. Reinsurance assumed .....	170,886	0	0	0	0	0	0	0	0	0	0	170,886	0
4.3. Reinsurance ceded .....	0	0	0	0	0	0	0	0	0	0	0	0	0
4.4. Net .....	265,360,719	101,186,800	2,373,800	3,201,000	0	153,590,000	0	0	4,600,133	0	227,100	181,886	0

10

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2006 OF THE Group Hospitalization and Medical Services, Inc.

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

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability Dec. 31 of Current Year		5 Claims Incurred in Prior Years (Columns 1 + 3)	6 Estimated Claim Reserve and Claim Liability December 31 of Prior Year
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year		
1. Comprehensive (hospital and medical) .....	74,760,525	820,353,740	1,377,200	99,809,600	76,137,725	93,609,995
2. Medicare Supplement .....	2,134,622	9,371,002	57,100	2,316,700	2,191,722	2,090,000
3. Dental Only.....	2,962,228	35,176,689	7,800	3,193,200	2,970,028	3,850,005
4. Vision Only.....	0			0	0	0
5. Federal Employees Health Benefits Plan Premiums .....	122,653,486	1,101,483,927	1,372,700	152,217,300	124,026,186	146,280,000
6. Title XVIII - Medicare .....					0	0
7. Title XIX - Medicaid.....					0	0
8. Other health .....	16,964	11,560,197		5,009,119	16,964	4,822,812
9. Health subtotal (Lines 1 to 8).....	202,527,825	1,977,945,555	2,814,800	262,545,919	205,342,625	250,652,812
10. Healthcare receivables (a).....		17,764,842			0	
11. Other non-health.....					0	0
12. Medical incentive pools and bonus amounts .....					0	0
13. Totals (Lines 9 - 10 + 11 + 12)	202,527,825	1,960,180,713	2,814,800	262,545,919	205,342,625	250,652,812

(a) Excludes \$ 25,389,300 loans or advances to providers not yet expensed.

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2006 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 2002	2 2003	3 2004	4 2005	5 2006
1. Prior .....	491,389	492,241	492,637	493,032	492,935
2. 2002 .....	482,109	562,100	563,062	563,218	563,200
3. 2003 .....	XXX	557,213	629,935	630,877	630,531
4. 2004 .....	XXX	XXX	550,216	607,357	607,911
5. 2005 .....	XXX	XXX	XXX	715,332	790,000
6. 2006 .....	XXX	XXX	XXX	XXX	802,589

**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 2002	2 2003	3 2004	4 2005	5 2006
1. Prior .....	492,626	492,241	492,637	493,032	492,935
2. 2002 .....	574,179	564,178	563,062	563,218	563,200
3. 2003 .....	XXX	650,200	631,276	630,877	630,531
4. 2004 .....	XXX	XXX	638,675	608,938	607,911
5. 2005 .....	XXX	XXX	XXX	807,362	791,377
6. 2006 .....	XXX	XXX	XXX	XXX	902,398

**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 Claims 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 Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2002 .....	681,254	563,200		0.0	563,200	82.7			563,200	82.7
2. 2003 .....	788,619	630,531		0.0	630,531	80.0			630,531	80.0
3. 2004 .....	813,060	607,911	19,601	3.2	627,512	77.2	0	0	627,512	77.2
4. 2005 .....	935,200	790,000	27,138	3.4	817,138	87.4	1,377	43	818,558	87.5
5. 2006 .....	1,075,236	802,589	32,377	4.0	834,966	77.7	99,810	4,048	938,824	87.3

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2006 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 2002	2 2003	3 2004	4 2005	5 2006
1. Prior .....	18,515	18,555	18,580	18,618	18,610
2. 2002 .....	10,372	12,853	12,921	12,939	12,918
3. 2003 .....	XXX	10,181	12,408	12,489	12,485
4. 2004 .....	XXX	XXX	9,724	11,596	11,765
5. 2005 .....	XXX	XXX	XXX	9,925	11,923
6. 2006 .....	XXX	XXX	XXX	XXX	9,371

**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 2002	2 2003	3 2004	4 2005	5 2006
1. Prior .....	18,615	18,555	18,581	18,618	18,610
2. 2002 .....	13,742	12,907	12,921	12,939	12,918
3. 2003 .....	XXX	12,797	12,510	12,489	12,485
4. 2004 .....	XXX	XXX	12,141	11,646	11,765
5. 2005 .....	XXX	XXX	XXX	11,965	11,980
6. 2006 .....	XXX	XXX	XXX	XXX	11,688

**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 Claims 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 Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2002 .....	18,516	12,918		0.0	12,918	69.8			12,918	69.8
2. 2003 .....	19,725	12,485		0.0	12,485	63.3			12,485	63.3
3. 2004 .....	18,188	11,765	379	3.2	12,144	66.8	0	0	12,144	66.8
4. 2005 .....	16,384	11,923	410	3.4	12,333	75.3	57	2	12,392	75.6
5. 2006 .....	15,172	9,371	1,367	14.6	10,738	70.8	2,317	171	13,226	87.2

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2006 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 2002	2 2003	3 2004	4 2005	5 2006
1. Prior .....	17,870	17,908	17,908	17,908	17,936
2. 2002 .....	16,439	18,083	18,102	18,104	18,120
3. 2003 .....	XXX	13,676	15,494	15,512	15,528
4. 2004 .....	XXX	XXX	18,259	20,511	20,570
5. 2005 .....	XXX	XXX	XXX	25,221	28,065
6. 2006 .....	XXX	XXX	XXX	XXX	35,177

**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 2002	2 2003	3 2004	4 2005	5 2006
1. Prior .....	17,870	17,908	17,907	17,909	17,936
2. 2002 .....	18,551	18,096	18,102	18,104	18,120
3. 2003 .....	XXX	15,258	15,508	15,512	15,528
4. 2004 .....	XXX	XXX	20,434	20,521	20,570
5. 2005 .....	XXX	XXX	XXX	29,062	28,073
6. 2006 .....	XXX	XXX	XXX	XXX	38,370

**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 Claims 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 Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2002 .....	24,593	18,120		0.0	18,120	73.7			18,120	73.7
2. 2003 .....	25,352	15,528		0.0	15,528	61.2			15,528	61.2
3. 2004 .....	29,686	20,570	663	3.2	21,233	71.5	0	0	21,233	71.5
4. 2005 .....	41,263	28,065	964	3.4	29,029	70.4	8	0	29,037	70.4
5. 2006 .....	50,825	35,177	2,611	7.4	37,788	74.3	3,193	327	41,308	81.3

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2006 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 2002	2 2003	3 2004	4 2005	5 2006
1. Prior .....	978,136	977,531	980,379	980,379	980,328
2. 2002 .....	801,787	923,638	923,698	923,698	923,593
3. 2003 .....	XXX	875,842	1,013,666	1,013,664	1,013,068
4. 2004 .....	XXX	XXX	983,691	1,112,379	1,113,398
5. 2005 .....	XXX	XXX	XXX	1,045,438	1,167,825
6. 2006 .....	XXX	XXX	XXX	XXX	1,101,484

**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 2002	2 2003	3 2004	4 2005	5 2006
1. Prior .....	979,744	977,532	980,380	980,380	980,328
2. 2002 .....	937,229	924,823	923,698	923,698	923,593
3. 2003 .....	XXX	1,017,837	1,015,776	1,013,664	1,013,068
4. 2004 .....	XXX	XXX	1,114,831	1,115,524	1,113,398
5. 2005 .....	XXX	XXX	XXX	1,188,573	1,169,197
6. 2006 .....	XXX	XXX	XXX	XXX	1,253,701

**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 Claims 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 Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2002 .....	986,328	923,593		0.0	923,593	93.6			923,593	93.6
2. 2003 .....	1,048,085	1,013,068		0.0	1,013,068	96.7			1,013,068	96.7
3. 2004 .....	1,161,884	1,113,398	35,900	3.2	1,149,298	98.9	0	0	1,149,298	98.9
4. 2005 .....	1,250,939	1,167,825	40,117	3.4	1,207,942	96.6	1,373	43	1,209,358	96.7
5. 2006 .....	1,295,757	1,101,484	28,811	2.6	1,130,295	87.2	152,217	3,602	1,286,114	99.3

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2006 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 2002	2 2003	3 2004	4 2005	5 2006
1. Prior .....	3,152	3,152	3,111	3,111	3,111
2. 2002 .....	3,141	3,572	3,654	3,654	3,654
3. 2003 .....	XXX	4,299	9,113	9,116	9,107
4. 2004 .....	XXX	XXX	1,309	2,660	2,661
5. 2005 .....	XXX	XXX	XXX	6,035	6,060
6. 2006 .....	XXX	XXX	XXX	XXX	11,560

**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 2002	2 2003	3 2004	4 2005	5 2006
1. Prior .....	3,246	3,152	3,111	3,111	3,111
2. 2002 .....	4,538	3,721	3,654	3,654	3,654
3. 2003 .....	XXX	5,930	9,367	9,116	9,107
4. 2004 .....	XXX	XXX	3,844	3,810	2,661
5. 2005 .....	XXX	XXX	XXX	9,707	6,060
6. 2006 .....	XXX	XXX	XXX	XXX	16,569

**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 Claims 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 Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2002 .....	9,185	3,654		0.0	3,654	39.8			3,654	39.8
2. 2003 .....	9,424	9,107		0.0	9,107	96.6			9,107	96.6
3. 2004 .....	9,581	2,661	.86	3.2	2,747	28.7	.0	.0	2,747	28.7
4. 2005 .....	12,540	6,060	208	3.4	6,268	50.0	.0	.0	6,268	50.0
5. 2006 .....	19,540	11,560	705	6.1	12,265	62.8	5,009	88	17,362	88.9

STATEMENT AS OF ANNUAL STATEMENT FOR THE YEAR 2006 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 2002	2 2003	3 2004	4 2005	5 2006
1. Prior .....	1,509,062	1,509,387	1,512,615	1,513,048	1,512,920
2. 2002 .....	1,313,848	1,520,246	1,521,437	1,521,613	1,521,485
3. 2003 .....	XXX	1,461,211	1,680,616	1,681,658	1,680,719
4. 2004 .....	XXX	XXX	1,563,199	1,754,503	1,756,305
5. 2005 .....	XXX	XXX	XXX	1,801,951	2,003,873
6. 2006 .....	XXX	XXX	XXX	XXX	1,960,181

**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 2002	2 2003	3 2004	4 2005	5 2006
1. Prior .....	1,512,101	1,509,388	1,512,616	1,513,050	1,512,920
2. 2002 .....	1,548,239	1,523,725	1,521,437	1,521,613	1,521,485
3. 2003 .....	XXX	1,702,022	1,684,437	1,681,658	1,680,719
4. 2004 .....	XXX	XXX	1,789,925	1,760,439	1,756,305
5. 2005 .....	XXX	XXX	XXX	2,046,669	2,006,687
6. 2006 .....	XXX	XXX	XXX	XXX	2,222,726

**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 Claims 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 Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2002 .....	1,719,876	1,521,485	.0	0.0	1,521,485	88.5	.0	.0	1,521,485	88.5
2. 2003 .....	1,891,205	1,680,719	.0	0.0	1,680,719	88.9	.0	.0	1,680,719	88.9
3. 2004 .....	2,032,399	1,756,305	.56,629	3.2	1,812,934	89.2	.0	.0	1,812,934	89.2
4. 2005 .....	2,256,326	2,003,873	.68,837	3.4	2,072,710	91.9	2,815	.88	2,075,613	92.0
5. 2006 .....	2,456,530	1,960,181	65,871	3.4	2,026,052	82.5	262,546	8,236	2,296,834	93.5

**ANNUAL STATEMENT FOR THE YEAR 2006 OF THE Group Hospitalization and Medical Services, Inc.**

**UNDERWRITING AND INVESTMENT EXHIBIT**

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

	1	2	3	4	5	6	7	8	9	10	11	12
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other
<b>POLICY RESERVE</b>												
1. Unearned premium reserves .....	.0											
2. Additional policy reserves (a) .....	.0											
3. Reserve for future contingent benefits .....	.0											
4. Reserve for rate credits or experience rating refunds (including \$ ..... for investment income) .....	.0											
5. Aggregate write-ins for other policy reserves .....	9,376,521	7,776,521	.0	.0	.0	.0	.0	.0	.0	.0	.0	1,600,000
6. Totals (Gross) .....	9,376,521	7,776,521	.0	.0	.0	.0	.0	.0	.0	.0	.0	1,600,000
7. Reinsurance ceded .....	.0											
8. Totals (Net) (Page 3, Line 4)	9,376,521	7,776,521	0	0	0	0	0	0	0	0	0	1,600,000
<b>CLAIM RESERVE</b>												
9. Present value of amounts not yet due on claims .....	.0											
10. Reserve for future contingent benefits .....	.0											
11. Aggregate write-ins for other claim reserves .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
12. Totals (Gross) .....	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
13. Reinsurance ceded .....	.0											
14. Totals (Net) (Page 3, Line 7)	0	0	0	0	0	0	0	0	0	0	0	0
<b>DETAILS OF WRITE-INS</b>												
0501. Rate Stabilization Reserve .....	7,776,521	7,776,521										
0502. CDH Supplemental Reserve .....	1,600,000											1,600,000
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 through 0503 plus 0598) (Line 5 above)	9,376,521	7,776,521	0	0	0	0	0	0	0	0	0	1,600,000
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 through 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 2006 OF THE Group Hospitalization and Medical Services, Inc.**

**UNDERWRITING AND INVESTMENT EXHIBIT**

**PART 3 - ANALYSIS OF EXPENSES**

	Claim Adjustment Expenses		3 General Administrative Expenses	4 Investment Expenses	5 Total
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses			
1. Rent (\$ ..... for occupancy of own building).....	1,278,574	2,948,361	9,765,570		13,992,505
2. Salaries, wages and other benefits.....	11,833,533	30,306,933	77,028,513		119,168,979
3. Commissions (less \$ ..... ceded plus \$ ..... assumed.....)			62,454,737		62,454,737
4. Legal fees and expenses.....	57	(195)	1,300,937		1,300,799
5. Certifications and accreditation fees.....					0
6. Auditing, actuarial and other consulting services.....	120,704	113,594	5,338,819		5,573,117
7. Traveling expenses.....	159,018	339,602	1,992,446		2,491,066
8. Marketing and advertising.....	0		4,188,905		4,188,905
9. Postage, express and telephone.....	192,107	3,645,015	4,975,517		8,812,639
10. Printing and office supplies.....	129,384	293,942	2,045,023		2,468,349
11. Occupancy, depreciation and amortization.....					0
12. Equipment.....	58,600	109,460	713,255		881,315
13. Cost or depreciation of EDP equipment and software.....	409,751	2,571,102	20,434,030		23,414,883
14. Outsourced services including EDP, claims, and other services.....	1,266,323	8,218,821	20,495,889		29,981,033
15. Boards, bureaus and association fees.....	18,237	5,309	1,572,337		1,595,883
16. Insurance, except on real estate.....	229,022	666,708	1,267,887		2,163,617
17. Collection and bank service charges.....		(5)	210,289		210,284
18. Group service and administration fees.....					0
19. Reimbursements by uninsured plans.....	0	0	(62,427,644)		(62,427,644)
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.....					0
23.2 State premium taxes.....			12,172,428		12,172,428
23.3 Regulatory authority licenses and fees.....	6,056	201	1,578,026		1,584,283
23.4 Payroll taxes.....	718,484	1,866,178	4,178,469		6,763,131
23.5 Other (excluding federal income and real estate taxes).....	7,249	17,633	270,512		295,394
24. Investment expenses not included elsewhere.....				904,293	904,293
25. Aggregate write-ins for expenses.....	2,448	6,446,232	(12,393,748)	0	(5,945,068)
26. Total expenses incurred (Lines 1 to 25).....	16,429,547	57,548,891	157,162,197	904,293 (a)	232,044,928
27. Less expenses unpaid December 31, current year.....		8,324,800	92,887,312		101,212,112
28. Add expenses unpaid December 31, prior year.....	0	7,949,800	86,139,269	0	94,089,069
29. Amounts receivable relating to uninsured plans, prior year.....	2,635,531	10,354,152	26,171,126	0	39,160,809
30. Amounts receivable relating to uninsured plans, current year.....	3,091,001	10,825,024	29,557,966		43,473,991
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)	16,885,017	57,644,763	153,800,994	904,293	229,235,067
<b>DETAIL OF WRITE-INS</b>					
2501. Charitable Contributions.....	1,847	105	2,951,615		2,953,567
2502. Service Charges Inter-Plan Bank.....		515,938	5,354,869		5,870,807
2503. IPSBB Inter-Plan Bank ITS.....		5,245,043	3,727,422		8,972,465
2598. Summary of remaining write-ins for Line 25 from overflow page.....	601	685,146	(24,427,654)	0	(23,741,907)
2599. Totals (Line 2501 through 2503 plus 2598)(Line 25 above)	2,448	6,446,232	(12,393,748)	0	(5,945,068)

(a) Includes management fees of \$ .....129,483,204 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) 4,443,596	5,209,052
1.1 Bonds exempt from U.S. tax	(a)	
1.2 Other bonds (unaffiliated)	(a) 23,466,435	23,580,758
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b) 268,664	281,317
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)	2,373,829	2,707,235
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) 3,498,264	3,685,366
7. Derivative instruments	(f)	
8. Other invested assets		
9. Aggregate write-ins for investment income	0	814,752
10. Total gross investment income	34,050,788	36,278,480
11. Investment expenses		(g) 904,293
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h) 4,803
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)		909,096
17. Net Investment Income - (Line 10 minus Line 16)		35,369,384
<b>DETAILS OF WRITE-INS</b>		
0901. Misc Interest Income		814,752
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	814,752
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 \$ 1,149,392 accrual of discount less \$ 2,381,764 amortization of premium and less \$ 5,262,675 paid for accrued interest on purchases.  
 (b) Includes \$ 208 accrual of discount less \$ 324,020 amortization of premium and less \$ paid for accrued dividends on purchases.  
 (c) Includes \$ accrual of discount less \$ amortization of premium and less \$ paid for accrued interest on purchases.  
 (d) Includes \$ for company's occupancy of its own buildings; and excludes \$ interest on encumbrances.  
 (e) Includes \$ 827 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 \$ 904,293 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 Unrealized Increases (Decreases) by Adjustment	4 Total
1. U.S. Government bonds	(194,302)		(4,679)	(198,981)
1.1 Bonds exempt from U.S. tax				0
1.2 Other bonds (unaffiliated)	(3,831,791)	819,650	811,280	(2,200,862)
1.3 Bonds of affiliates	0	0	0	0
2.1 Preferred stocks (unaffiliated)	176,743		91,431	268,174
2.11 Preferred stocks of affiliates	0	0	0	0
2.2 Common stocks (unaffiliated)	1,524,337		12,531,790	14,056,127
2.21 Common stocks of affiliates	0	0	26,449,904	26,449,904
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)	(2,325,014)	819,650	39,879,726	38,374,362
<b>DETAILS OF WRITE-INS</b>				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 9, above)	0	0	0	0

**EXHIBIT OF NONADMITTED ASSETS**

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D).....	0	0	0
2. Stocks (Schedule D):			
2.1 Preferred stocks .....	0	0	0
2.2 Common stocks .....	0	0	0
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens .....	0	0	0
3.2 Other than first liens .....	0	0	0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company .....	0	0	0
4.2 Properties held for the production of income.....	0	0	0
4.3 Properties held for sale .....	0	0	0
5. Cash, (Schedule-E, Part 1), cash equivalents (Schedule-E, Part 2) and short-term investments (Schedule DA).....	0	0	0
6. Contract loans .....	0	0	0
7. Other invested assets (Schedule BA) .....	166,667	168,794	2,127
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) .....	166,667	168,794	2,127
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	0	0
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 .....	744,026	1,066,392	322,366
16.1 Current federal and foreign income tax recoverable and interest thereon .....	0	0	0
16.2 Net deferred tax asset.....	3,723,841	6,161,557	2,437,716
17. Guaranty funds receivable or on deposit .....	0	0	0
18. Electronic data processing equipment and software.....	51,578,738	46,831,733	(4,747,005)
19. Furniture and equipment, including health care delivery assets.....	7,075,217	8,579,928	1,504,711
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.....	2,571,543	5,428,334	2,856,791
23. Aggregate write-ins for other than invested assets .....	23,055,363	22,404,722	(650,641)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	88,923,232	90,649,297	1,726,065
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	0	0	0
26. Total (Lines 24 and 25)	88,923,232	90,649,297	1,726,065
<b>DETAILS OF WRITE-INS</b>			
0901. ....			
0902. ....			
0903. ....			
0998. Summary of remaining write-ins for Line 9 from overflow page .....	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998)(Line 9 above)	0	0	0
2301. Other Assets.....	0	0	0
2302. Other Assets non admitted.....	23,055,363	21,489,029	(1,566,334)
2303. Intangible Assets.....	0	915,693	915,693
2398. Summary of remaining write-ins for Line 23 from overflow page .....	0	0	0
2399. Totals (Lines 2301 through 2303 plus 2398)(Line 23 above)	23,055,363	22,404,722	(650,641)

**ANNUAL STATEMENT FOR THE YEAR 2006 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.....	33,887	34,502	34,837	40,248	40,688	448,588
2. Provider Service Organizations.....	0					
3. Preferred Provider Organizations.....	638,033	636,914	645,359	662,918	677,543	7,823,004
4. Point of Service.....	69,095	71,083	63,697	63,264	64,608	785,151
5. Indemnity Only.....	15,904	34,815	26,387	26,774	27,311	342,926
6. Aggregate write-ins for other lines of business	0	0	0	0	0	0
7. Total	756,919	777,314	770,280	793,204	810,150	9,399,669
<b>DETAILS OF WRITE-INS</b>						
0601. ....						
0602. ....						
0603. ....						
0698. Summary of remaining write-ins for Line 6 from overflow page.....	0	0	0	0	0	0
0699. Totals (Lines 0601 through 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. The Company does not utilize any permitted practices.

#### 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 \$243,000 and \$1,412,000 for the years ended December 31, 2006 and 2005, respectively.

##### Bonds

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

##### Preferred Stocks

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

##### Common Stocks

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

##### Advances to Providers

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

## NOTES TO FINANCIAL STATEMENTS

### Property and Equipment Admitted

Property and equipment admitted were recorded at cost and are depreciated on the straight-line method over a useful life of three years. 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 \$483,505,000 and \$458,810,000 as of December 31, 2006 and 2005, 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 \$1,296,820,000 and \$1,250,939,000 for the years ended December 31, 2005 and 2004, respectively.

### FEP Operations Center

Effective January 1, 2005, a new subsidiary of GHMSI was created to operate the FEP operations center, which had previously been operated by GHMSI under a contract with the BCBSA. The newly created subsidiary, Service Benefit Plan Administrative Services Corporation (SBP), is 90% owned by GHMSI and 10% owned by BCBSA.

SBP performs certain administrative functions as the national operations center for the Federal Employee Program (FEP) under its 10-year 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 \$72,505,000 and \$68,309,000 for the years ended December 31, 2006 and 2005, respectively. 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 prospective 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 asset recognized in the Company's Assets, Liabilities, and Capital and Surplus are as follows:

	Dec. 31, 2006	Dec. 31, 2005
Total of gross deferred tax assets	\$16,519,679	\$16,885,106
Total of deferred tax liabilities	(5,979,740)	(3,471,607)
Net defrred tax asset	10,539,939	13,413,499
Deferred tax asset nonadmitted	(3,723,841)	(6,161,557)
Net admitted deferred tax asset	6,816,098	7,251,942
(Increase) decrease in nonadmitted asset	\$2,437,716	\$133,292

The provisions for incurred taxes on earnings:

	Dec. 31, 2006	Dec. 31, 2005
Federal provision	\$18,780,899	\$13,194,734
Federal income tax on net capital gains	(301,072)	926,181
Federal income taxes incurred	<u>\$18,479,827</u>	<u>\$14,120,915</u>

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, 2006	Dec. 31, 2005
Deferred tax assets:		
Allowance for Bad Debt	\$707,069	\$680,923
Accrued Vacation	370,749	262,327
Contingent Liability	2,441,174	1,978,322
Depreciation	1,835,730	2,206,975
Discounted Unpaid Losses	1,399,168	1,483,559
FAS 106	3,037,141	2,742,739
FAS 115 Impairment	1,499,701	1,923,690
Pension Liability	386,872	195,783

## NOTES TO FINANCIAL STATEMENTS

Nonadmitted deferred tax assets	2,755,656	2,927,105
Other	2,086,419	2,483,682
Total deferred tax assets	16,519,679	16,885,106
Nonadmitted deferred tax assets	(3,723,841)	(6,161,557)
Admitted deferred tax assets	12,795,838	10,723,548
Deferred tax liabilities:		
FAS 115	(5,967,514)	(3,465,597)
Other	(12,225)	(6,009)
Total deferred tax liabilities	(5,979,740)	(3,471,607)
Net Admitted deferred tax assets	\$6,816,098	\$7,251,942

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

	Dec. 31, 2006	Dec. 31, 2005	Change
Total deferred tax assets	\$16,519,679	\$16,885,105	(\$365,426)
Total deferred tax liabilities	5,979,740	3,471,607	(2,508,133)
Net deferred tax asset(liability)	\$10,539,939	\$13,413,498	(2,873,559)
Tax effect of unrealized gains(losses)			2,501,917
Change in net deferred income tax			(\$371,641)

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, 2006	Effective Tax Rate
Provision computed at statutory rate	\$16,620,548	20.00%
Nondeductible expenses	(40,220)	-0.05%
Change in prior years' estimate	(319,838)	-0.38%
Investments	(2,501,917)	-3.01%
Accrued expenses	571,275	0.69%
Benefit Obligations	485,491	0.58%
Unpaid claims	(84,391)	-0.10%
Accounts receivable	26,146	0.03%
Nonadmitted assets and other	3,722,733	4.48%
Total	18,479,827	22.24%
Federal income taxes incurred	18,479,827	22.24%
Change in net deferred income taxes	371,641	0.45%
Total statutory income taxes	\$18,851,468	22.68%

The Company has accumulated Alternative Minimum Tax (AMT) credits of approximately \$89,015,000 at December 31, 2006. The credits can be used, in certain circumstances, to offset future regular tax.

The Company is included in a consolidated federal income tax return of CareFirst, Inc. The Company has a written agreement, which sets forth the manner in which the total combined federal income tax is allocated to each entity, which is a party to the consolidation. The agreement calls for an allocation based on the Company's pre-tax income after affecting for permanent differences at the alternative minimum tax rates. The federal tax allocation for both 2006 and 2005 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 –statutory basis.

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

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

The Company and CareFirst of Maryland, Inc. (CFMI) are both affiliates of a not-for-profit parent company, CareFirst, Inc. (CFI). These affiliates do business as CareFirst BlueCross BlueShield. On March 22, 2000, CFI also entered into a business affiliation with BCBSD, Inc. (BCBSD) whereby CFI maintained the sole membership interest in BCBSD. This business affiliation terminated on September 21, 2006.

On October 10, 2002, one of CFMI's wholly-owned subsidiaries, CFS Health Group, Inc. (CFS), transferred all of its interests in certain of its wholly-owned subsidiaries to CareFirst BlueChoice, Inc. (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. Since control

## NOTES TO FINANCIAL STATEMENTS

over the CareFirst BlueChoice operations is vested in CFI, the Company has determined that neither the Company nor CFMI exercise control over CareFirst BlueChoice.

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. Effective September 21, 2006, as a result of various legal and regulatory actions, CFI ceased to be the sole member of BCBSD thus effecting the formal structural disaffiliation of BCBSD from CFI, GHMSI, CFMI and their related companies. Although a formal contractual relationship has not been established with BCBSD subsequent to the disaffiliation, such a relationship is being contemplated and administrative services continue to be provided to BCBSD on a fee for service basis.

In 2005, the CFI Board also approved certain proposed changes regarding the governance structure of CFI, CFMI and GHMSI. In 2006, all required regulatory and BlueCross BlueShield Association (BCBSA) approvals were obtained to permit the restructuring that creates parity between CFMI and GHMSI, as to their representation on CFI's Board. Management believes the proposed changes did not materially impact CFI's control over CFMI or GHMSI.

Effective January 1, 2005, a new subsidiary of GHMSI was created to operate the Federal Employee Program (FEP) operations center, which had previously been operated by GHMSI under a contract with the BCBSA. The newly created subsidiary, Service Benefit Plan Administrative Services Corporation (SBP), is 90% owned by GHMSI and 10% owned by BCBSA.

During 2006 and 2005, 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 \$55,524,000 and \$48,306,000 during the years ended December 31, 2006 and 2005, 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 \$31,742,000 and \$44,695,000 during the years ended December 31, 2006 and 2005, 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, 2006 the Company reported \$609,805 and \$14,272,802 as amounts due from and due to 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, 2006 and contracts as of December 31, 2006 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	\$77,916,000	\$242,429,000	\$0	\$0
Impact to surplus	\$7,340,000	\$7,725,000	\$1,679,000	\$1,658,000
Contracts	24,520	34,723	19,864	19,810

In 2006, the Boards of CFI, CFMI and GHMSI approved redistribution of earnings between CFMI and GHMSI related to cross-jurisdictional sales. The underwriting gains and losses from this cross-jurisdictional business would be distributed from the company that earned them to the company in whose service area they were earned. Implementation of such earnings redistributions is pending regulatory approval.

Also in 2006, the Boards of CFI, CFMI and GHMSI approved earnings redistributions to evenly share changes in the statutory surplus of CFBC effective January 1, 2005. Using this approach, cash transfers would be made between CFMI and GHMSI such that each company would record 50% of the CFBC surplus change. Implementation of such earnings redistribution is pending regulatory approval.

### 11. Debt

Not applicable.

### 12. Retirement Plans and Other Post-retirement Benefit Plans

Prior to December 31, 2002, the Company had a qualified noncontributory defined benefit retirement plan covering substantially all full-time employees (GHMSI Plan). Effective on this date, the GHMSI Plan merged with a qualified noncontributory defined benefit retirement

## NOTES TO FINANCIAL STATEMENTS

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.

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 \$2,541,000. 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 1, 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".

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, 2006:

(in Thousands)

	Qualified Pension Benefits	Other Pension Benefits	Post-Retirement Benefits
Accumulated Benefit Obligation	\$ 221,565	\$ 2,895	\$ 15,033
Change in benefit obligation:			
Benefit obligation at beginning of year	\$ 228,736	\$ 1,416	\$ 13,575
Service cost	6,342	928	1,613
Interest cost	12,854	115	841
Actuarial (gain) loss	(15,137)	598	1,788
Settlements	-	(132)	-
Benefits paid	(9,667)	(30)	(1,290)
Benefit obligation at end of year	\$ 223,128	\$ 2,895	\$ 16,527
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ 228,933	\$ -	\$ -
Actual return on plan assets	29,314	-	-
Employer contribution	1,510	162	1,290
Settlements	-	(132)	-
Benefits paid	(9,668)	(30)	(1,290)
Fair value of plan assets at end of year	\$ 250,089	\$ -	\$ -

## NOTES TO FINANCIAL STATEMENTS

	Qualified Pension Benefits	Other Pension Benefits	Post-Retirement Benefits
Funded status	\$ 26,962	\$ (2,895)	\$ (16,527)
Unrecognized net loss (gain)	27,840	98	(1,126)
Transition liability (asset) not yet recognized	(45,894)	940	2,541
Unamortized prior service cost (asset)	<u>223</u>	<u>(77)</u>	<u>14</u>
Prepaid pension asset – nonadmitted or (accrued benefit cost in accompanying financial statements)	\$ 9,131	\$ (1,934)	\$ (15,098)
Components of net periodic benefit cost:			
Service cost	\$ 6,342	\$ 928	\$ 1,613
Interest cost	12,854	116	841
Expected return on plan assets	(18,355)	–	–
Amortization of prior service cost (asset)	25	(10)	2
Amortization of unrecognized transition obligation	(2,717)	67	424
Settlements	–	16	
Amount of recognized losses (gains)	<u>3,378</u>	<u>—</u>	<u>(–)</u>
Total net periodic benefit cost	\$ 1,527	\$ 1,117	\$ 2,880

Weighted average assumptions as of December 31, 2006:

	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, 2006, pension benefit obligations and postretirement benefit obligations for nonvested employees were \$2,361,000 and \$11,733,000 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	\$ 36,563	\$ (31,713)
Effect on postretirement benefit obligation	\$ 674,986	\$ (585,674)

The Company sponsors 401(k) plans for the benefit of all eligible employees. The Company contributes to this plan and recognized expenses of \$1,255,000 and \$1,318,000 for 2006 and 2005, 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: \$ 115,409,000

### 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

## NOTES TO FINANCIAL STATEMENTS

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 a third party. The subpoena covers the time period from January 1, 1998 to August 1, 2003. The companies have produced the documents specified in the subpoena and provided them to the U.S. Attorneys Office in Baltimore.

Beginning in 1999, a series of class action lawsuits were filed against virtually all major entities in the health benefits business, including BCBSA and the BCBSA licensees. The suits allege that over a course of years the defendants have conspired to use criteria and standards for adjudication of provider claims that result in underpayment of provider claims. They allege that the defendants have been involved in a conspiracy to make false representations to providers and to conceal material information from providers about the manner in which claims are adjudicated. The plaintiffs assert that the alleged misconduct violates the Racketeer Influenced and Corrupt Organizations Act (RICO). Plaintiffs seek treble damages and injunctive relief under RICO. The Company 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 statutory-basis 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. Such acceleration occurs upon termination of employment without cause or for "good reason" as defined in the contract. Additional acceleration occurs if said termination occurs "in connection with a change of control". Potential incremental payments related to sums owed for a termination in connection with a change of control have not been accrued as of December 31, 2006 or 2005, as management believes that the relevant 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 associations.

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

Effective March 22, 2000, CFMI and GHMSI entered into an intercompany agreement that requires CFMI or GHMSI, or their respective subsidiaries, to provide the financial resources necessary to satisfy the respective statutory or regulatory reserve requirement, subject to specific limitations, if either CFMI or GHMSI or their respective subsidiaries fail to meet or maintain their respective statutory or regulatory reserve requirement as required by law, or if such transfer of financial resources is needed to satisfy any other legally enforceable obligation. The agreement also provides that certain functions may be performed by CFMI or GHMSI or their respective subsidiaries on behalf of another party to this agreement. Any costs incurred by one party in this connection are reimbursed to the party performing those functions.

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 November 1, 2007.

CFI has a commitment for a credit facility with a commercial bank under which certain of its affiliates, including the Company, may borrow up to a maximum amount of \$60,000. There have been no draws made on this line of credit during 2006 or 2005.

Effective November 2, 2006, the contract of the President and Chief Executive Officer of CFI, CFMI and GHMSI was terminated by mutual agreement with the Boards of those various entities. The amount to be paid in severance, pension and other payments resulting from his separation, has been recognized in the accompanying statutory-basis financial statements based upon the contractual obligations as outlined in the related employment agreement. Payment of these obligations may be subject to review and approval by the MIA and District of Columbia Department of Insurance, Securities and Banking (DISB).

### 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, 2006:

2007	\$ 9,476,000
2008	9,264,000
2009	9,448,000
2010	9,020,000
2011	9,280,000

## NOTES TO FINANCIAL STATEMENTS

Thereafter	14,663,000
Total minimum payments	\$ 61,151,000

Rent expense for the years ended December 31, 2006 and 2005, net of allocations to affiliates, was approximately \$10,832,000 and \$10,505,000 respectively.

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

Not applicable.

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

Not applicable.

### 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, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
Gross reimbursement for medical costs incurred	\$ 823,489,000	\$ 795,608,000
Gross administrative fees accrued	62,427,000	65,417,000
Gross expenses incurred	<u>(892,357,000)</u>	<u>(857,606,000)</u>
Operating (loss) gain, before stop loss	(6,441,000)	3,419,000
Stop loss	<u>6,536,000</u>	<u>2,962,000</u>
Proforma operating gain (loss)	\$ 95,000	\$ 6,381,000

### 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

Effective January 1, 2006, FirstCare, Inc., a wholly-owned subsidiary of CFS Health Group, Inc. (CFS), which in turn is a wholly-owned subsidiary of CFMI, began serving as a plan sponsor offering Medicare Part D prescription drug insurance coverage under a contract with the Centers for Medicare & Medicaid Services (CMS). Effective January 1, 2006, the Company and GHMSI entered into a reinsurance contract with FirstCare, Inc. (FirstCare). The agreement relates to all Medicare Part D insurance policies written by FirstCare for individuals living in the Company's and GHMSI's service areas. Under the terms of the agreement, the Company and GHMSI assumes the underwriting risk on the business written in their service area. As of December 31, 2006, the Company had assumed underwriting losses in the amount of \$(603,000) as a result of this reinsurance contract.

### 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. Accrued retrospective premiums are recorded through written premium.

### 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 \$45,310,000 from \$250,653,000 in 2005 to \$205,343,000 in 2006 as a result of reestimation of unpaid claims and claim adjustment expenses, principally on group contracts, based on lower cost trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

## NOTES TO FINANCIAL STATEMENTS

### 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
12/31/2006	\$ 4,853,623	\$ -	\$ -	\$ -	\$ -
9/30/2006	4,853,623	4,853,623	353,787	-	-
6/30/2006	4,690,639	4,690,639	4,317,993	1,922	-
3/31/2006	4,510,240	4,510,240	4,065,881	390,926	18,599
12/31/2005	\$ 3,832,471	\$ 4,373,946	\$ 3,936,456	\$ 406,268	\$ 620
9/30/2005	3,782,748	3,951,398	3,749,573	187,500	-
6/30/2005	3,782,748	3,943,398	2,420,822	1,519,210	-
3/31/2005	1,989,707	1,989,707	1,989,707	-	-
12/31/2004	\$ 750,000	882,687	\$ 294,229	\$ 588,458	\$ -
9/30/2004	900,000	802,608	267,536	535,072	-
6/30/2004	963,000	805,779	268,593	537,186	-
3/31/2004	972,000	868,183	331,385	536,798	-

### 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	
2005	\$ 3,163,000
2006	3,491,000

## 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	101,529,521	11.137	101,529,521	11.137
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	50,816,151	5.574	50,816,151	5.574
1.22 Issued by U.S. government sponsored agencies		0.000		0.000
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		0.000		0.000
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations		0.000		0.000
1.43 Revenue and assessment obligations	1,309,895	0.144	1,309,895	0.144
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	15,677,527	1.720	15,677,527	1.720
1.512 Issued or guaranteed by FNMA and FHLMC	109,501,809	12.012	109,501,809	12.012
1.513 All other		0.000		0.000
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	21,041,213	2.308	21,041,213	2.308
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	139,240,357	15.274	139,240,357	15.274
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)	197,818,232	21.700	197,818,232	21.700
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	114,125,471	12.519	114,125,471	12.519
3.2 Preferred stocks:				
3.21 Affiliated		0.000		0.000
3.22 Unaffiliated	13,728,587	1.506	13,728,587	1.506
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated		0.000		0.000
3.32 Unaffiliated	54,507,366	5.979	54,507,366	5.979
3.4 Other equity securities:				
3.41 Affiliated	140,973,989	15.464	140,973,989	15.464
3.42 Unaffiliated	3,287,045	0.361	3,287,045	0.361
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		0.000	0	0.000
8. Cash, cash equivalents and short-term investments	(51,944,161)	(5.698)	(51,944,161)	(5.698)
9. Other invested assets	0	0.000	0	0.000
10. Total invested assets	911,613,002	100.000	911,613,002	100.000

# GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

### GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? ..... Yes [ X ] No [ ]
- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent, or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? ..... Yes [ X ] No [ ] NA [ ]
- 1.3 State Regulating? ..... District of Columbia.....
- 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 [ X ] No [ ]
- 2.2 If yes, date of change: .....09/21/2006
- 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 [ X ]
- 4.12 renewals? ..... Yes [ ] No [ X ]
- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:
- 4.21 sales of new business? ..... Yes [ ] No [ X ]
- 4.22 renewals? ..... Yes [ ] No [ X ]
- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? ..... Yes [ ] No [ X ]
- 5.2 If yes, provide the name of the entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

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

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? ..... Yes [ ] No [ X ]
- 6.2 If yes, give full information .....
- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? ..... Yes [ ] No [ X ]
- 7.2 If yes,
- 7.21 State the percentage of foreign control; .....
- 7.22 State the nationality(s) of the foreign person(s) or entity(s) or if the entity is a mutual or reciprocal, the nationality of its manager or attorney in fact; and identify the type of entity(s) (e.g., individual, corporation or government, manager or attorney in fact).

1 Nationality	2 Type of Entity

**GENERAL INTERROGATORIES**

- 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 STREET, 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
- 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:  
 Securities are held at 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 ..... \$ .....104,964,878
  - 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 ..... \$ .....
  - 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 [ X ]  
 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 [ X ] No [ ]
- 23.2 If yes, state the amount thereof at December 31 of the current year. .... \$ .....14,404,566

## 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 [ X ] 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
SUNTRUST BANK.....	1445 NEW YORK AVENUE NW, WASHINGTON, DC 20005.....

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 [ X ]

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
104596.....	DODGE & COX.....	55 CALIFORNIA STREET, SAN FRANCISCO, CA 94104.....
118827.....	BYRAM INVESTMENT ADVISORS.....	41 WEST PUTNAM AVE., GREENWICH, CT 06830.....
105758.....	CALAMOSS ASSET MANAGEMENT.....	111 EAST WARRENVILLE ROAD, NAPERVILLE, IL 60653-1493.....
107105.....	BLACKROCK INVESTMENT ADVISORS.....	100 BELLEVUE PARKWAY, WILMINGTON, DE 19809.....

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 [ X ] 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.....	63,462,940
25.2999 TOTAL		63,462,940

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.....	EXXON MOBIL CORP.....	2,221,203	12/31/2006.....
VANGUARD INSTITUTIONAL INDEX FUND.....	GENERAL ELECTRIC CORP.....	1,903,888	12/31/2006.....
VANGUARD INSTITUTIONAL INDEX FUND.....	C.I.T. GROUP INC.....	1,332,722	12/31/2006.....
VANGUARD INSTITUTIONAL INDEX FUND.....	MICROSOFT CORP.....	1,269,259	12/31/2006.....
VANGUARD INSTITUTIONAL INDEX FUND.....	BANK OF AMERICA CORP.....	1,205,796	12/31/2006.....

## 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.....	687,597,237	692,669,424	5,072,187
26.2 Preferred stocks.....	13,728,587	14,412,986	684,399
26.3 Totals	701,325,824	707,082,410	5,756,586

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

Obtained values from custody bank reports.....

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?.....\$ .....1,191,842

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.....	904,108

29.1 Amount of payments for legal expenses, if any?.....\$ .....1,766,101

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
.....	

30.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any?.....\$ .....250,184

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.....	240,084

# 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 ..... \$ ..... 15,171,932  
 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. .... \$ ..... 11,789,424  
 1.6 Individual policies:

Most current three years:  
 1.61 Total premium earned ..... \$ ..... 1,148,241  
 1.62 Total incurred claims ..... \$ ..... 1,842,972  
 1.63 Number of covered lives ..... 669  
 All years prior to most current three years:  
 1.64 Total premium earned ..... \$ ..... 14,023,691  
 1.65 Total incurred claims ..... \$ ..... 9,946,452  
 1.66 Number of covered lives ..... 5,638

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	\$	2,456,358,252	\$	2,258,187,726
2.2 Premium Denominator	\$	2,461,317,955	\$	2,258,296,721
2.3 Premium Ratio (2.1/2.2)		0.998		1.000
2.4 Reserve Numerator	\$	274,737,241	\$	256,533,339
2.5 Reserve Denominator	\$	274,737,240	\$	256,533,339
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 ..... \$ ..... 0  
 5.32 Medical Only ..... \$ ..... 0  
 5.33 Medicare Supplement ..... \$ ..... 0  
 5.34 Dental ..... \$ ..... 0  
 5.35 Other Limited Benefit Plan ..... \$ ..... 0  
 5.36 Other ..... \$ ..... 0

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 Support Agreement from CareFirst of Maryland  
 7.1 Does the reporting entity set up its claim liability for provider services on a service date 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 ..... 30,090  
 8.2 Number of providers at end of reporting year ..... 30,044

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. .... \$ .....80,588,629
- 11.5 Is this amount included as part of a contingency reserve in stockholder's 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 (Northern 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

\$2,258,296,720	Prior Year's Premiums Earned
1,250,938,856	Less: FEP Premiums Earned
1,007,357,864	Prior Year's Risk Premiums
8%	Applicable Rate for the District of Columbia
\$80,588,629	Minimum Statutory Reserve Requirement

Maryland \$80,588,629, 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	\$2,177,416,444	\$231,140,630
Less: FEP	1,231,447,413	53,146,300
Incurred	945,969,031	177,994,330
Divided by	365 days	365 days
Times	45 days	45 days
	\$ 116,626,319 plus \$ 21,944,506 (claims) (O/E)	Total=\$138,570,825

**FIVE-YEAR HISTORICAL DATA**

	1 2006	2 2005	3 2004	4 2003	5 2002
<b>Balance Sheet</b> (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 26) .....	1,690,628,372	1,528,767,661	1,418,674,490	1,292,577,769	1,087,727,010
2. Total liabilities (Page 3, Line 22) .....	1,027,621,966	967,800,516	917,660,025	900,569,609	796,953,985
3. Statutory surplus .....	80,588,629	69,641,210	67,448,771	58,683,808	0
4. Total capital and surplus (Page 3, Line 31) .....	663,006,406	560,967,145	501,014,465	392,008,160	290,773,025
<b>Income Statement</b> (Page 4)					
5. Total revenues (Line 8) .....	2,457,593,879	2,257,444,351	2,032,740,253	1,891,194,684	1,719,875,820
6. Total medical and hospital expenses (Line 18) .....	2,177,416,445	2,015,011,301	1,770,492,676	1,674,794,207	1,542,955,898
7. Claims adjustment expenses (Line 20) .....	73,978,438	68,696,090	63,143,405	66,080,866	0
8. Total administrative expenses (Line 21) .....	157,162,197	138,372,112	120,558,205	97,393,255	83,549,487
9. Net underwriting gain (loss) (Line 24) .....	49,036,799	35,364,848	78,545,967	52,926,355	32,327,567
10. Net investment gain (loss) (Line 27) .....	34,165,096	31,127,098	34,724,817	27,080,125	14,843,238
11. Total other income (Lines 28 plus 29) .....	201,917	2,026,458	338,720	(112,064)	660,546
12. Net income (loss) (Line 32) .....	64,622,913	54,397,489	93,527,673	72,530,062	38,909,010
<b>Risk - Based Capital Analysis</b>					
13. Total adjusted capital.....	663,006,406	560,967,145	501,014,465	392,008,160	290,773,025
14. Authorized control level risk-based capital.....	69,443,956	62,787,823	52,666,787	49,799,523	45,255,447
<b>Enrollment</b> (Exhibit 1)					
15. Total members at end of period (Column 5, Line 7) .....	810,150	756,919	737,769	710,923	748,266
16. Total member months (Column 6, Line 7) .....	9,399,669	8,876,205	8,659,572	8,643,336	8,857,516
<b>Operating Percentage</b> (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) .....	88.6	89.3	0.0	0.0	0.0
19. Cost containment expenses .....	0.7	0.6	0.0	XXX	XXX
20. Other claims adjustment expenses .....	2.3	2.4	0.0	0.0	0.0
21. Total underwriting deductions (Line 23) .....	98.0	98.5	96.2	97.2	98.1
22. Total underwriting gain (loss) (Line 24) .....	2.0	1.6	3.9	2.8	1.9
<b>Unpaid Claims Analysis</b>					
(U&I Exhibit, Part 2B)					
23. Total claims incurred for prior years (Line 13, Col. 5) .....	205,342,625	198,890,746	224,856,148	210,210,732	198,269,793
24. Estimated liability of unpaid claims – [prior year (Line 13, Col. 6)] .....	250,652,812	230,548,146	244,289,500	237,430,531	203,554,394
<b>Investments In Parent, Subsidiaries And Affiliates</b>					
25. Affiliated bonds (Sch. D Summary, Line 25, Col. 1) .....	0	0	0	0	0
26. Affiliated preferred stocks (Sch. D Summary, Line 39, Col. 1) .....	0	0	0	0	0
27. Affiliated common stocks (Sch. D Summary, Line 53, Col. 2) .....	140,973,988	114,524,084	102,040,196	85,107,160	71,590,117
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 .....	140,973,988	114,524,084	102,040,196	85,107,160	71,590,117

**ANNUAL STATEMENT FOR THE YEAR 2006 OF THE Group Hospitalization and Medical Services, Inc.**

**SCHEDULE D - SUMMARY BY COUNTRY**

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

Description	1 Book/Adjusted Carrying Value	2 Fair Value	3 Actual Cost	4 Par Value of Bonds
<b>BONDS</b>				
Governments (Including all obligations guaranteed by governments)	1. United States ..... 2. Canada ..... 3. Other Countries .....	156,432,056 ..... .....	155,773,056 ..... .....	156,344,477 ..... .....
	4. Totals	156,432,056	155,773,056	156,344,477
States, Territories and Possessions (Direct and guaranteed)	5. United States ..... 6. Canada ..... 7. Other Countries .....	..... ..... .....	..... ..... .....	..... ..... .....
	8. Totals	0	0	0
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 .....	147,350,619 ..... .....	147,518,226 ..... .....	147,426,993 ..... .....
	16. Totals	147,350,619	147,518,226	147,426,993
Public Utilities (unaffiliated)	17. United States ..... 18. Canada ..... 19. Other Countries .....	..... ..... .....	..... ..... .....	..... ..... .....
	20. Totals	0	0	0
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States ..... 22. Canada ..... 23. Other Countries .....	333,152,030 ..... .....	338,715,612 ..... .....	333,167,438 ..... .....
	24. Totals	333,152,030	338,715,612	333,167,438
Parent, Subsidiaries and Affiliates	25. Totals	0	0	0
	26. <b>Total Bonds</b>	636,934,705	642,006,894	636,938,908
<b>PREFERRED STOCKS</b>				
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 .....	8,180,891 ..... .....	8,764,870 ..... .....	8,272,810 ..... .....
	34. Totals	8,180,891	8,764,870	8,272,810
Industrial and Miscellaneous (unaffiliated)	35. United States ..... 36. Canada ..... 37. Other Countries .....	5,547,696 ..... .....	5,639,696 ..... .....	5,388,105 ..... .....
	38. Totals	5,547,696	5,639,696	5,388,105
Parent, Subsidiaries and Affiliates	39. Totals	0	0	0
	40. <b>Total Preferred Stocks</b>	13,728,587	14,404,566	13,660,915
<b>COMMON STOCKS</b>				
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 .....	4,354,881 ..... .....	4,354,881 ..... .....	2,618,333 ..... .....
	48. Totals	4,354,881	4,354,881	2,618,333
Industrial and Miscellaneous (unaffiliated)	49. United States ..... 50. Canada ..... 51. Other Countries .....	116,889,452 ..... .....	116,889,452 ..... .....	96,573,817 ..... .....
	52. Totals	116,889,452	116,889,452	96,573,817
Parent, Subsidiaries and Affiliates	53. Totals	140,973,988	140,973,988	39,097,325
	54. <b>Total Common Stocks</b>	262,218,321	262,218,321	138,289,475
	55. <b>Total Stocks</b>	275,946,908	276,622,887	151,950,390
	56. <b>Total Bonds and Stocks</b>	912,881,613	918,629,781	788,889,298

**SCHEDULE D - VERIFICATION BETWEEN YEARS**

**Bonds and Stocks**

1. Book/adjusted carrying value of bonds and stocks, prior year.....	738,946,224	7. Amortization of premium.....	3,306,885
2. Cost of bonds and stocks acquired, Column 7, Part 3.....	806,428,597	8. Foreign Exchange Adjustment:	
3. Accrual of discount.....	1,149,603	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.....	(4,679)	8.3 Column 16, Part 2, Sec. 2.....	0
4.2 Columns 15 - 17, Part 2, Sec. 1.....	326,339	8.4 Column 15, Part 4.....	0
4.3 Column 15, Part 2, Sec. 2.....	39,778,454	9. Book/adjusted carrying value at end of current period.....	912,881,611
4.4 Columns 11 - 13, Part 4.....	(463,402)	10. Total valuation allowance.....	0
5. Total gain (loss), Column 19, Part 4.....	(2,325,015)	11. Subtotal (Lines 9 plus 10).....	912,881,611
6. Deduct consideration for bonds and stocks disposed of Column 7, Part 4.....	667,647,625	12. Total nonadmitted amounts.....	
		13. Statement value of bonds and stocks, current period.....	912,881,611

**SCHEDULE T PREMIUMS AND OTHER CONSIDERATIONS**

Allocated by States and Territories

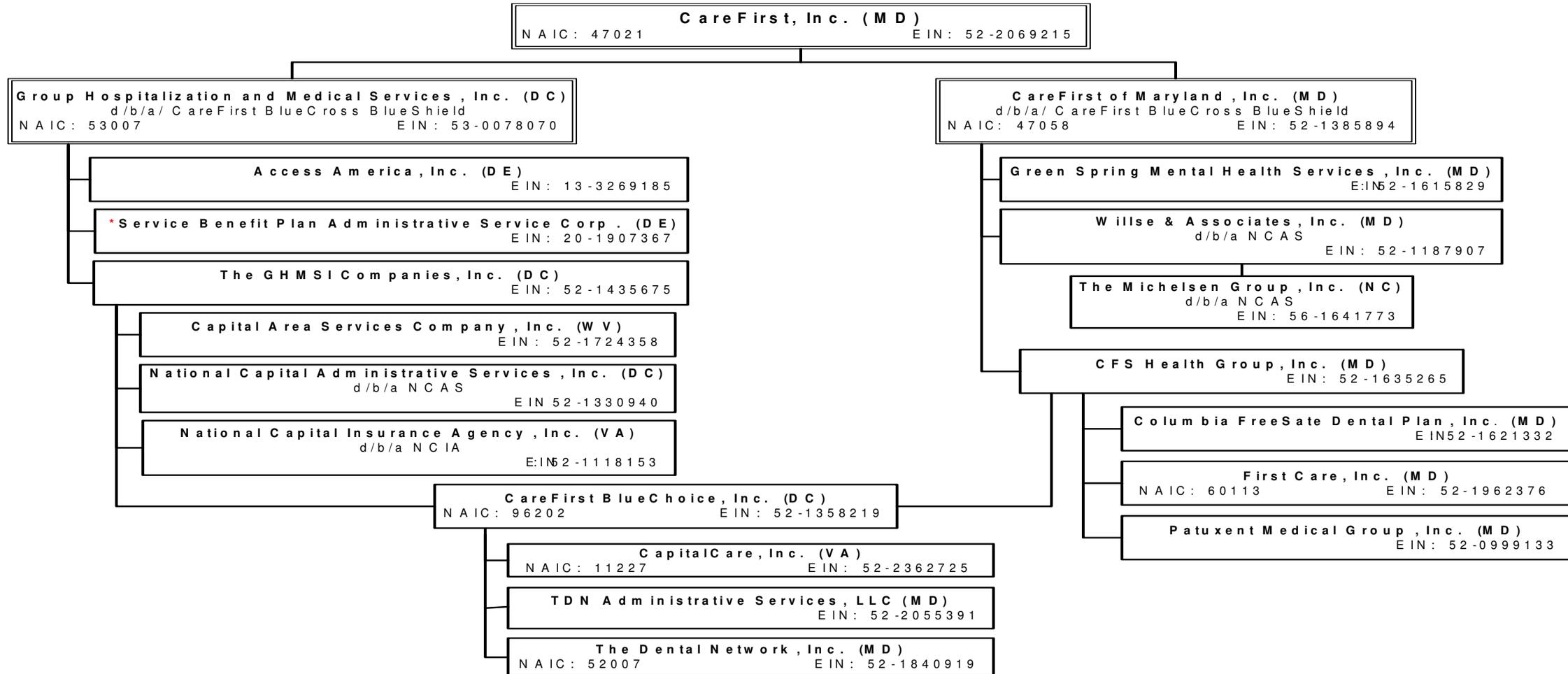
State, Etc.	1 Guaranty Fund (Yes or No)	2 Is Insurer Licensed (Yes or No)	Direct Business Only					
			3 Accident & Health Premiums	4 Medicare Title XVIII	5 Medicaid Title XIX	6 Federal Employees Health Benefits Program Premiums	7 Life & Annuity Premiums & Deposit Type Contract Funds	8 Property/ Casualty 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	321,702,051			1,295,757,388		
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	496,440,116					
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	342,619,427					
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. Northern Mariana Islands MP								
57. Canada CN	No	No						
58. Aggregate other alien OT	XXX	XXX	0	0	0	0	0	0
59. Subtotal	XXX	XXX	1,160,761,594	0	0	1,295,757,388	0	0
60. Reporting entity contributions for Employee Benefit Plans	XXX	XXX						
61. Total (Direct Business)	XXX	(a) 3	1,160,761,594	0	0	1,295,757,388	0	0
<b>DETAILS OF WRITE-INS</b>								
5801.	XXX	XXX						
5802.	XXX	XXX						
5803.	XXX	XXX						
5898. Summary of remaining write-ins for Line 58 from overflow page	XXX	XXX	0	0	0	0	0	0
5899. Totals (Lines 5801 through 5803 plus 5898) (Line 58 above)	XXX	XXX	0	0	0	0	0	0

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

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

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

**PART 1 - ORGANIZATIONAL CHART**



\*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.

52