



ANNUAL STATEMENT

For the Year Ending December 31, 2006
of the Condition and Affairs of the

BLUE CROSS BLUE SHIELD OF MICHIGAN

NAIC Group Code.....572, 572
(Current Period) (Prior Period)

NAIC Company Code..... 54291

Employer's ID Number..... 38-2069753

Organized under the Laws of Michigan

State of Domicile or Port of Entry Michigan

Country of Domicile US

Licensed as Business Type Hospital, Medical & Dental Service or Indemnity

Is HMO Federally Qualified? Yes [] No [X]

Incorporated/Organized..... February 1, 1975

Commenced Business..... January 1, 1975

Statutory Home Office

600 Lafayette East..... Detroit MI 48226
(Street and Number) (City or Town, State and Zip Code)

Main Administrative Office

600 Lafayette East..... Detroit MI 48226
(Street and Number) (City or Town, State and Zip Code)

313-225-9000
(Area Code) (Telephone Number)

Mail Address

600 Lafayette East..... Detroit MI 48226
(Street and Number or P. O. Box) (City or Town, State and Zip Code)

Primary Location of Books and Records

600 Lafayette East..... Detroit MI 48226
(Street and Number) (City or Town, State and Zip Code)

313-225-9000
(Area Code) (Telephone Number)

Internet Website Address

http://bcbsm.com/

Statutory Statement Contact

Kenneth A. Bluhm
(Name)
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(Area Code) (Telephone Number) (Extension)
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Policyowner Relations Contact

600 Lafayette East..... Detroit MI 48226
(Street and Number) (City or Town, State and Zip Code)

313-225-9000
(Area Code) (Telephone Number) (Extension)

OFFICERS

Name
1. DANIEL J. LOEPP #
3. CAROLYNN WALTON

Title
President and CEO
Vice President and Treasurer

Name
2. MARK R. BARTLETT
4.

Title
Executive Vice President and CFO

OTHER

J. PAUL AUSTIN
ELIZABETH R. HARR
KEVIN L. SEITZ
LESLIE A. VIEGAS
MICHAEL R. SCHWARTZ
KENNETH R. DALLAFIOR #

Chief Actuarial Officer
Senior Vice President
Executive Vice President
Executive Vice President
Senior Vice President
Senior Vice President

LISA S. DEMOSS
GEORGE F. FRANCIS, III
WILLIAM P. SMITH
THOMAS L. SIMMER
JEANNE H. CARLSON #
DARRELL E. MIDDLETON #

General Counsel and Secretary
Chief Administrative Officer
Executive Vice President
Chief Medical Officer
Senior Vice President
Senior Vice President

DIRECTORS OR TRUSTEES

JAMES G. AGEE
ARLENE R. BRENNAN RN
MARK T. GAFFNEY
TEOLA P. HUNTER
MELVIN L. LARSEN
LIVIO MEZZA
CALVIN T. RAPSON
RICHARD SHOEMAKER
GARY H. TORGOW #

JON E. BARFIELD
TERRY BURNS
CHARLES M. GAYNEY
LILA R. JOHNSON
DANIEL J. LOEPP #
PETER T. MULLER MD
JAMES W. RICHARDS RPH
DONALD E. STROUD DDS
JOHN VANDER MOLEN

WILLIAM H. BLACK
BRIAN M. CONNOLLY #
THOMAS J. HADRYCH
SPENCER C. JOHNSON
JOHN M. MACKEIGAN MD
ROBERT A. PATZER
IRIS K. SALTERS
GREGORY A. SUDDERTH
L.L. "WOODY" WILLIAMS

JOHN E. BODELL D.O. #
PATRICK J. DEVLIN
JOHN M. HAMILTON
JOANNE LAFLECHE-GALLAGHER
GARY J. MCINERNEY
RENEE C. PIPIS
JAMES U. SETTLES
S. MARTIN TAYLOR

State of..... Michigan
County of..... Wayne

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.

(Signature)
DANIEL J. LOEPP
1. (Printed Name)
President and CEO

(Title)

(Signature)
MARK R. BARTLETT
2. (Printed Name)
Executive Vice President and CFO

(Title)

(Signature)
CAROLYNN WALTON
3. (Printed Name)
Vice President and Treasurer

(Title)

Subscribed and sworn to before me

a. Is this an original filing?

Yes [X] No []

This _____ day of _____

b. If no: 1. State the amendment number _____
2. Date filed _____
3. Number of pages attached _____

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).....	2,745,071,344		2,745,071,344	2,554,819,960
2. Stocks (Schedule D):				
2.1 Preferred stocks.....	1,778,449		1,778,449	1,701,479
2.2 Common stocks.....	1,640,982,564	157,340,448	1,483,642,116	1,146,860,939
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens.....			0	
3.2 Other than first liens.....			0	
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$.....0 encumbrances).....	201,107,249		201,107,249	181,037,789
4.2 Properties held for the production of income (less \$.....0 encumbrances).....			0	
4.3 Properties held for sale (less \$.....0 encumbrances).....			0	
5. Cash (\$....(196,566,001), Sch. E-Part 1), cash equivalents (\$....79,788,065, Sch. E-Part 2) and short-term investments (\$....21,283,654, Sch. DA).....	(95,494,281)		(95,494,281)	444,467,144
6. Contract loans (including \$.....0 premium notes).....			0	
7. Other invested assets (Schedule BA).....	45,829,954	6,873,175	38,956,779	25,330,582
8. Receivables for securities.....	260,237,898		260,237,898	
9. Aggregate write-ins for invested assets.....	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	4,799,513,177	164,213,623	4,635,299,554	4,354,217,893
11. Title plants less \$.....0 charged off (for Title insurers only).....			0	
12. Investment income due and accrued.....	35,056,680		35,056,680	26,008,942
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in course of collection.....	23,294,768	2,118,971	21,175,797	10,162,567
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....			0	
13.3 Accrued retrospective premiums.....	10,060,677	8,805,263	1,255,414	
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers.....			0	
14.2 Funds held by or deposited with reinsured companies.....			0	
14.3 Other amounts receivable under reinsurance contracts.....			0	
15. Amounts receivable relating to uninsured plans.....	178,038,000		178,038,000	81,751,000
16.1 Current federal and foreign income tax recoverable and interest thereon.....	8,916,223		8,916,223	6,387,874
16.2 Net deferred tax asset.....	111,029,346	68,394,892	42,634,454	56,483,884
17. Guaranty funds receivable or on deposit.....			0	
18. Electronic data processing equipment and software.....	112,120,986	81,416,959	30,704,027	24,933,985
19. Furniture and equipment, including health care delivery assets (\$.....0).....	13,934,235	13,934,235	0	
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
21. Receivables from parent, subsidiaries and affiliates.....	33,218,524		33,218,524	27,743,245
22. Health care (\$....80,778,492) and other amounts receivable.....	104,873,110	2,540,486	102,332,624	87,591,306
23. Aggregate write-ins for other than invested assets.....	276,988,414	127,732,447	149,255,967	170,808,282
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	5,707,044,140	469,156,876	5,237,887,264	4,846,088,978
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	
26. TOTALS (Lines 24 and 25).....	5,707,044,140	469,156,876	5,237,887,264	4,846,088,978

DETAILS OF WRITE-INS

0901.....			0	
0902.....			0	
0903.....			0	
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	0	0	0	0
2301. Miscellaneous Accounts Receivable.....	7,776,181	2,535,548	5,240,633	
2302. Prepaid and Other Assets.....	5,131,501	5,131,501	0	
2303. Advances to Providers.....	158,717,453	40,884,359	117,833,094	108,892,891
2398. Summary of remaining write-ins for Line 23 from overflow page.....	105,363,279	79,181,039	26,182,240	61,915,391
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	276,988,414	127,732,447	149,255,967	170,808,282

LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$.....0 reinsurance ceded).....	608,972,154		608,972,154	547,749,237
2. Accrued medical incentive pool and bonus amounts.....	4,100,495		4,100,495	999,997
3. Unpaid claims adjustment expenses.....	58,886,186		58,886,186	57,328,520
4. Aggregate health policy reserves.....	825,725,330		825,725,330	792,487,656
5. Aggregate life policy reserves.....			0	
6. Property/casualty unearned premium reserve.....			0	
7. Aggregate health claim reserves.....			0	
8. Premiums received in advance.....			0	
9. General expenses due or accrued.....	150,865,694		150,865,694	135,045,730
10.1 Current federal and foreign income tax payable and interest thereon (including \$.....0 on realized capital gains (losses)).....	16,754,762		16,754,762	12,958,355
10.2 Net deferred tax liability.....			0	
11. Ceded reinsurance premiums payable.....			0	
12. Amounts withheld or retained for the account of others.....	12,858,835		12,858,835	11,815,230
13. Remittances and items not allocated.....	4,113,439		4,113,439	11,164,451
14. Borrowed money (including \$.....0 current) and interest thereon \$.....1,069,529 (including \$.....0 current).....	46,118,146		46,118,146	
15. Amounts due to parent, subsidiaries and affiliates.....	14,921,497		14,921,497	13,053,194
16. Payable for securities.....	302,054,376		302,054,376	207,617,240
17. Funds held under reinsurance treaties with (\$.....0 authorized reinsurers and \$.....0 unauthorized reinsurers).....			0	
18. Reinsurance in unauthorized companies.....			0	
19. Net adjustments in assets and liabilities due to foreign exchange rates.....			0	
20. Liability for amounts held under uninsured plans.....	178,813,754		178,813,754	162,011,000
21. Aggregate write-ins for other liabilities (including \$.....0 current).....	512,258,412	0	512,258,412	432,837,499
22. Total liabilities (Lines 1 to 21).....	2,736,443,080	0	2,736,443,080	2,385,068,109
23. Aggregate write-ins for special surplus funds.....	XXX	XXX	0	0
24. Common capital stock.....	XXX	XXX		
25. Preferred capital stock.....	XXX	XXX		
26. Gross paid in and contributed surplus.....	XXX	XXX		
27. Surplus notes.....	XXX	XXX		
28. Aggregate write-ins for other than special surplus funds.....	XXX	XXX	0	0
29. Unassigned funds (surplus).....	XXX	XXX	2,501,444,184	2,461,020,869
30. Less treasury stock at cost:				
30.1 .....0.000 shares common (value included in Line 24 \$.....0).....	XXX	XXX		
30.2 .....0.000 shares preferred (value included in Line 25 \$.....0).....	XXX	XXX		
31. Total capital and surplus (Lines 23 to 29 minus Line 30).....	XXX	XXX	2,501,444,184	2,461,020,869
32. Total liabilities, capital and surplus (Lines 22 and 31).....	XXX	XXX	5,237,887,264	4,846,088,978

DETAILS OF WRITE-INS

2101. Postretirement Liabilities.....	321,626,982		321,626,982	289,834,272
2102. Liability for Uncashed Checks.....	9,754,576		9,754,576	11,519,097
2103. Advances to Providers.....	148,523,258		148,523,258	121,497,562
2198. Summary of remaining write-ins for Line 21 from overflow page.....	32,353,596	0	32,353,596	9,986,568
2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above).....	512,258,412	0	512,258,412	432,837,499
2301.	XXX	XXX		
2302.	XXX	XXX		
2303.	XXX	XXX		
2398. Summary of remaining write-ins for Line 23 from overflow page.....	XXX	XXX	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	XXX	XXX	0	0
2801.	XXX	XXX		
2802.	XXX	XXX		
2803.	XXX	XXX		
2898. Summary of remaining write-ins for Line 28 from overflow page.....	XXX	XXX	0	0
2899. Totals (Lines 2801 thru 2803 plus 2898) (Line 28 above).....	XXX	XXX	0	0

BLUE CROSS BLUE SHIELD OF MICHIGAN STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member months.....	XXX	30,854,629	30,862,149
2. Net premium income (including \$.....0 non-health premium income).....	XXX	5,865,134,213	5,614,912,576
3. Change in unearned premium reserves and reserve for rate credits.....	XXX	(59,714,675)	(91,757,554)
4. Fee-for-service (net of \$.....0 medical expenses).....	XXX		
5. Risk revenue.....	XXX		
6. Aggregate write-ins for other health care related revenues.....	XXX	0	0
7. Aggregate write-ins for other non-health revenues.....	XXX	0	0
8. Total revenues (Lines 2 to 7).....	XXX	5,805,419,538	5,523,155,022
Hospital and Medical:			
9. Hospital/medical benefits.....		4,181,080,256	3,805,194,462
10. Other professional services.....		82,377,429	79,846,036
11. Outside referrals.....			
12. Emergency room and out-of-area.....			
13. Prescription drugs.....		918,626,751	871,019,234
14. Aggregate write-ins for other hospital and medical.....	0	0	0
15. Incentive pool, withhold adjustments and bonus amounts.....		23,137,879	7,964,529
16. Subtotal (Lines 9 to 15).....	0	5,205,222,315	4,764,024,261
Less:			
17. Net reinsurance recoveries.....			
18. Total hospital and medical (Lines 16 minus 17).....	0	5,205,222,315	4,764,024,261
19. Non-health claims (net).....			
20. Claims adjustment expenses, including \$.....62,425,967 cost containment expenses.....		179,680,979	162,363,543
21. General administrative expenses.....		446,184,971	382,867,090
22. Increase in reserves for life and accident and health contracts including \$.....0 increase in reserves for life only).....		(26,477,000)	109,400,000
23. Total underwriting deductions (Lines 18 through 22).....	0	5,804,611,265	5,418,654,894
24. Net underwriting gain or (loss) (Lines 8 minus 23).....	XXX	808,273	104,500,128
25. Net investment income earned (Exhibit of Net Investment Income, Line 17).....		192,139,534	161,997,075
26. Net realized capital gains or (losses) less capital gains tax of \$.....2,576,920.....		(10,307,679)	(16,156,392)
27. Net investment gains or (losses) (Lines 25 plus 26).....	0	181,831,855	145,840,683
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....0) (amount charged off \$.....0)].....			
29. Aggregate write-ins for other income or expenses.....	0	11,930,239	12,790,186
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	194,570,367	263,130,997
31. Federal and foreign income taxes incurred.....	XXX	35,644,246	70,126,685
32. Net income (loss) (Lines 30 minus 31).....	XXX	158,926,121	193,004,312

DETAILS OF WRITE-INS

0601.	XXX		
0602.	XXX		
0603.	XXX		
0698. Summary of remaining write-ins for Line 6 from overflow page.....	XXX	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	XXX	0	0
0701.	XXX		
0702.	XXX		
0703.	XXX		
0798. Summary of remaining write-ins for Line 7 from overflow page.....	XXX	0	0
0799. Totals (Lines 0701 thru 0703 plus 0798) (Line 7 above).....	XXX	0	0
1401.			
1402.			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page.....	0	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	0	0	0
2901. Miscellaneous Income.....		11,930,239	12,790,186
2902.			
2903.			
2998. Summary of remaining write-ins for Line 29 from overflow page.....	0	0	0
2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above).....	0	11,930,239	12,790,186

STATEMENT OF REVENUE AND EXPENSES (Continued)

CAPITAL AND SURPLUS ACCOUNT	1 Current Year	2 Prior Year
33. Capital and surplus prior reporting period.....	2,461,020,869	2,243,707,712
34. Net income or (loss) from Line 32.....	158,926,121	193,004,312
35. Change in valuation basis of aggregate policy and claim reserves.....		
36. Change in net unrealized capital gains and (losses) less capital gains tax of \$.....0.....	72,044,156	72,085,388
37. Change in net unrealized foreign exchange capital gain or (loss).....		
38. Change in net deferred income tax.....	3,476,043	33,396,443
39. Change in nonadmitted assets.....	(195,293,005)	(81,172,986)
40. Change in unauthorized reinsurance.....		
41. Change in treasury stock.....		
42. Change in surplus notes.....		
43. Cumulative effect of changes in accounting principles.....		
44. Capital changes:		
44.1 Paid in.....		
44.2 Transferred from surplus (Stock Dividend).....		
44.3 Transferred to surplus.....		
45. Surplus adjustments:		
45.1 Paid in.....		
45.2 Transferred to capital (Stock Dividend).....		
45.3 Transferred from capital.....		
46. Dividends to stockholders.....		
47. Aggregate write-ins for gains or (losses) in surplus.....	1,270,000	0
48. Net change in capital and surplus (Lines 34 to 47).....	40,423,315	217,313,157
49. Capital and surplus end of reporting period (Line 33 plus 48).....	2,501,444,184	2,461,020,869

DETAILS OF WRITE-INS

4701. Additional Pension Liability.....	1,270,000	
4702.		
4703.		
4798. Summary of remaining write-ins for Line 47 from overflow page.....	0	0
4799. Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above).....	1,270,000	0

CASH FLOW

	1 Current Year	2 Prior Year
CASH FROM OPERATIONS		
1. Premiums collected net of reinsurance.....	5,842,436,189	5,629,377,720
2. Net investment income.....	182,723,802	153,133,368
3. Miscellaneous income.....	80,997,228	73,915,409
4. Total (Lines 1 through 3).....	6,106,157,219	5,856,426,497
5. Benefit and loss related payments.....	5,112,065,670	4,925,724,547
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts.....		
7. Commissions, expenses paid and aggregate write-ins for deductions.....	704,775,320	511,918,964
8. Dividends paid to policyholders.....		
9. Federal and foreign income taxes paid (recovered) \$.....0 net of tax on capital gains (losses).....	31,498,032	119,103,314
10. Total (Lines 5 through 9).....	5,848,339,022	5,556,746,825
11. Net cash from operations (Line 4 minus Line 10).....	257,818,197	299,679,672
CASH FROM INVESTMENTS		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....	4,798,867,854	6,215,160,675
12.2 Stocks.....	187,482,913	95,290,240
12.3 Mortgage loans.....		
12.4 Real estate.....		1,151,280
12.5 Other invested assets.....		
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....		
12.7 Miscellaneous proceeds.....		
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	4,986,350,767	6,311,602,195
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....	5,002,703,978	6,471,151,442
13.2 Stocks.....	559,123,323	128,989,652
13.3 Mortgage loans.....		
13.4 Real estate.....	33,133,485	20,909,936
13.5 Other invested assets.....	11,833,448	1,892,413
13.6 Miscellaneous applications.....	165,800,762	(207,617,240)
13.7 Total investments acquired (Lines 13.1 to 13.6).....	5,772,594,996	6,415,326,203
14. Net increase (decrease) in contract loans and premium notes.....		
15. Net cash from investments (Line 12.8 minus Lines 13.7 and 14).....	(786,244,229)	(103,724,008)
CASH FROM FINANCING AND MISCELLANEOUS SOURCES		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....		
16.2 Capital and paid in surplus, less treasury stock.....		
16.3 Borrowed funds.....	46,118,146	
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....		
16.5 Dividends to stockholders.....		
16.6 Other cash provided (applied).....	(57,653,539)	(36,862,435)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6).....	(11,535,393)	(36,862,435)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....	(539,961,425)	159,093,229
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	444,467,144	285,373,915
19.2 End of year (Line 18 plus Line 19.1).....	(95,494,281)	444,467,144

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001		
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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).....	4,848,901,154			4,848,901,154
2. Medicare supplement.....	220,233,455			220,233,455
3. Dental only.....	78,539,023			78,539,023
4. Vision only.....	14,718,483			14,718,483
5. Federal employees health benefits plan.....	270,742,715			270,742,715
6. Title XVIII - Medicare.....	230,121,742			230,121,742
7. Title XIX - Medicaid.....				0
8. Stop loss.....	134,708,785			134,708,785
9. Disability income.....				0
10. Long-term care.....				0
11. Other health.....	67,168,856			67,168,856
12. Health subtotal (Lines 1 through 11).....	5,865,134,213	0	0	5,865,134,213
13. Life.....				0
14. Property/casualty.....				0
15. Totals (Lines 12 to 14).....	5,865,134,213	0	0	5,865,134,213

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 and 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.....	5,120,861,519	4,089,777,765	373,558,094	67,117,388	12,330,867	246,506,139	168,721,331		112,516,423			50,333,512	
1.2 Reinsurance assumed.....	0												
1.3 Reinsurance ceded.....	0												
1.4 Net.....	5,120,861,519	4,089,777,765	373,558,094	67,117,388	12,330,867	246,506,139	168,721,331	0	112,516,423	0	0	50,333,512	0
2. Paid medical incentive pools and bonuses.....	20,037,381	20,037,381											
3. Claim liability December 31, current year from Part 2A:													
3.1 Direct.....	608,972,154	421,313,091	62,118,436	3,374,693	682,967	30,334,270	57,629,732		24,335,656			9,183,309	
3.2 Reinsurance assumed.....	0												
3.3 Reinsurance ceded.....	0												
3.4 Net.....	608,972,154	421,313,091	62,118,436	3,374,693	682,967	30,334,270	57,629,732	0	24,335,656	0	0	9,183,309	0
4. Claim reserve December 31, current year from Part 2D:													
4.1 Direct.....	0												
4.2 Reinsurance assumed.....	0												
4.3 Reinsurance ceded.....	0												
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.....	4,100,495	4,100,495											
6. Net healthcare receivables (a).....	0												
7. Amounts recoverable from reinsurers December 31, current year.....	0												
8. Claim liability December 31, prior year from Part 2A:													
8.1 Direct.....	547,749,237	430,904,321	57,035,853	3,119,699	749,128	28,182,757	6,015,482		21,741,997				
8.2 Reinsurance assumed.....	0												
8.3 Reinsurance ceded.....	0												
8.4 Net.....	547,749,237	430,904,321	57,035,853	3,119,699	749,128	28,182,757	6,015,482	0	21,741,997	0	0	0	0
9. Claim reserve December 31, prior year from Part 2D:													
9.1 Direct.....	0												
9.2 Reinsurance assumed.....	0												
9.3 Reinsurance ceded.....	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.....	999,997	999,997											
11. Amounts recoverable from reinsurers December 31, prior year.....	0												
12. Incurred benefits:													
12.1 Direct.....	5,182,084,436	4,080,186,535	378,640,677	67,372,382	12,264,706	248,657,652	220,335,581	0	115,110,082	0	0	59,516,821	0
12.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0	0	0	0
12.3 Reinsurance ceded.....	0	0	0	0	0	0	0	0	0	0	0	0	0
12.4 Net.....	5,182,084,436	4,080,186,535	378,640,677	67,372,382	12,264,706	248,657,652	220,335,581	0	115,110,082	0	0	59,516,821	0
13. Incurred medical incentive pools and bonuses.....	23,137,879	23,137,879	0	0	0	0	0	0	0	0	0	0	0

(a) Excludes \$.....0 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Medical and Hospital)	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. Reported in process of adjustment:													
1.1 Direct.....	9,269,744	4,913,708	709,786	186,324	27,613	346,610	2,680,740		107,103			297,860	
1.2 Reinsurance assumed.....	0												
1.3 Reinsurance ceded.....	0												
1.4 Net.....	9,269,744	4,913,708	709,786	186,324	27,613	346,610	2,680,740	0	107,103	0	0	297,860	0
2. Incurred but unreported:													
2.1 Direct.....	599,702,410	416,399,383	61,408,650	3,188,369	655,354	29,987,660	54,948,992		24,228,553			8,885,449	
2.2 Reinsurance assumed.....	0												
2.3 Reinsurance ceded.....	0												
2.4 Net.....	599,702,410	416,399,383	61,408,650	3,188,369	655,354	29,987,660	54,948,992	0	24,228,553	0	0	8,885,449	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.....	608,972,154	421,313,091	62,118,436	3,374,693	682,967	30,334,270	57,629,732	0	24,335,656	0	0	9,183,309	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.....	608,972,154	421,313,091	62,118,436	3,374,693	682,967	30,334,270	57,629,732	0	24,335,656	0	0	9,183,309	0

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 December 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).....	361,515,177	3,728,262,588	3,324,774	417,988,317	364,839,951	430,904,322
2. Medicare supplement.....	50,170,987	323,387,107	1,078,154	61,040,282	51,249,141	57,035,853
3. Dental only.....	3,403,622	63,713,766	25,548	3,349,145	3,429,170	3,119,698
4. Vision only.....	757,585	11,573,282	2,379	680,588	759,964	749,128
5. Federal employees health benefits plan.....	25,729,489	220,776,650	1,306,319	29,027,951	27,035,808	28,182,757
6. Title XVIII - Medicare.....		168,721,331		57,629,732	0	6,015,482
7. Title XIX - Medicaid.....				28,954,710	0	
8. Other health.....	542,607	162,307,328	4,564,255		5,106,862	21,741,997
9. Health subtotal (Lines 1 to 8).....	442,119,467	4,678,742,052	10,301,429	598,670,725	452,420,896	547,749,237
10. Healthcare receivables (a).....	1,708,139	79,070,353			1,708,139	79,668,390
11. Other non-health.....					0	
12. Medical incentive pools and bonus amounts.....		20,037,381		4,100,495	0	999,997
13. Totals (Lines 9 - 10 + 11 + 12).....	440,411,328	4,619,709,080	10,301,429	602,771,220	450,712,757	469,080,844

(a) Excludes \$.....0 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED 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.....	466,227	9,968	2,359	(327)	
2. 2002.....	4,185,474	475,774	6,870	726	(400)
3. 2003.....	XXX	4,289,193	447,442	1,374	626
4. 2004.....	XXX	XXX	4,293,367	431,206	1,448
5. 2005.....	XXX	XXX	XXX	4,350,506	438,737
6. 2006.....	XXX	XXX	XXX	XXX	4,700,487

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.....	514,079	64,831	12,154	974	
2. 2002.....	4,658,227	454,123	76,486	1,967	(572)
3. 2003.....	XXX	4,832,464	393,961	5,916	673
4. 2004.....	XXX	XXX	4,852,568	481,421	17,403
5. 2005.....	XXX	XXX	XXX	4,273,747	443,121
6. 2006.....	XXX	XXX	XXX	XXX	4,744,598

12.GT

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - GRAND TOTAL

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expense	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2002.....	5,287,340	5,146,672	43,208	0.8	5,189,880	98.2			5,189,880	98.2
2. 2003.....	5,554,675	4,738,634	39,783	0.8	4,778,417	86.0	68	6	4,778,491	86.0
3. 2004.....	5,518,401	4,726,023	39,678	0.8	4,765,701	86.4	746	72	4,766,519	86.4
4. 2005.....	5,523,155	4,789,242	40,207	0.8	4,829,449	87.4	9,487	911	4,839,847	87.6
5. 2006.....	5,805,420	4,698,779	39,449	0.8	4,738,228	81.6	602,772	57,896	5,398,896	93.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED 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.....	403,561	6,706	1,799	(533)	
2. 2002.....	3,692,470	401,308	3,565	452	(534)
3. 2003.....	XXX	3,766,782	370,089	(15)	451
4. 2004.....	XXX	XXX	3,696,773	359,904	(15)
5. 2005.....	XXX	XXX	XXX	3,688,185	359,904
6. 2006.....	XXX	XXX	XXX	XXX	3,750,008

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.....	443,492	55,491	11,563	759	
2. 2002.....	4,123,871	377,008	67,818	1,650	(710)
3. 2003.....	XXX	4,197,610	311,797	4,166	485
4. 2004.....	XXX	XXX	4,142,178	403,393	(247)
5. 2005.....	XXX	XXX	XXX	3,625,719	361,007
6. 2006.....	XXX	XXX	XXX	XXX	3,742,790

12.HM

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - HOSPITAL AND MEDICAL

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2002.....	4,755,801	4,508,794	37,853	0.8	4,546,647	95.6			4,546,647	95.6
2. 2003.....	4,955,616	4,137,307	34,734	0.8	4,172,041	84.2	53	5	4,172,099	84.2
3. 2004.....	4,880,275	4,056,662	34,057	0.8	4,090,719	83.8	495	48	4,091,262	83.8
4. 2005.....	4,845,912	4,048,089	33,985	0.8	4,082,074	84.2	2,777	267	4,085,118	84.3
5. 2006.....	4,789,834	3,748,300	31,469	0.8	3,779,769	78.9	422,089	40,542	4,242,400	88.6

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED 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.....	40,739	1,745	213	124	
2. 2002.....	224,497	40,541	1,152	119	42
3. 2003.....	.XXX	245,827	43,357	708	89
4. 2004.....	.XXX	.XXX	285,068	44,131	816
5. 2005.....	.XXX	.XXX	.XXX	310,622	49,224
6. 2006.....	.XXX	.XXX	.XXX	.XXX	323,387

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.....	43,027	5,776	402	116	
2. 2002.....	274,864	38,111	4,747	122	37
3. 2003.....	.XXX	298,997	41,376	776	81
4. 2004.....	.XXX	.XXX	342,284	41,991	799
5. 2005.....	.XXX	.XXX	.XXX	310,716	44,321
6. 2006.....	.XXX	.XXX	.XXX	.XXX	333,402

12.MS

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - MEDICARE SUPPLEMENT

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2002.....	189,427	309,172	2,595	0.8	311,767	164.6			311,767	164.6
2. 2003.....	202,164	289,981	2,435	0.8	292,416	144.6	3		292,419	144.6
3. 2004.....	214,973	330,015	2,771	0.8	332,786	154.8	90	9	332,885	154.8
4. 2005.....	223,683	359,846	3,021	0.8	362,867	162.2	986	95	363,948	162.7
5. 2006.....	221,430	323,387	2,715	0.8	326,102	147.3	61,040	5,863	393,005	177.5

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED 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.....	5,639	48	3		
2. 2002.....	90,446	5,619	90	1	1
3. 2003.....	.XXX	77,331	4,837	41	2
4. 2004.....	.XXX	.XXX	66,512	3,636	70
5. 2005.....	.XXX	.XXX	.XXX	62,409	3,331
6. 2006.....	.XXX	.XXX	.XXX	.XXX	63,714

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.....	5,733	209			
2. 2002.....	95,022	5,527	86	2	1
3. 2003.....	.XXX	85,098	5,002	42	2
4. 2004.....	.XXX	.XXX	70,340	3,761	71
5. 2005.....	.XXX	.XXX	.XXX	61,417	3,432
6. 2006.....	.XXX	.XXX	.XXX	.XXX	63,866

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SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - DENTAL ONLY

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2002.....	107,774	101,847	855	0.8	102,702	95.3			102,702	95.3
2. 2003.....	100,612	82,211	690	0.8	82,901	82.4			82,901	82.4
3. 2004.....	86,229	70,219	590	0.8	70,809	82.1			70,809	82.1
4. 2005.....	81,150	65,739	552	0.8	66,291	81.7	25	2	66,318	81.7
5. 2006.....	78,449	63,714	535	0.8	64,249	81.9	3,349	322	67,920	86.6

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - VISION ONLY

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior.....	1,075	.6	.1		
2. 2002.....	12,572	1,235	.13		
3. 2003.....	.XXX	13,044	1,177	.6	1
4. 2004.....	.XXX	.XXX	11,798	.834	4
5. 2005.....	.XXX	.XXX	.XXX	11,054	753
6. 2006.....	.XXX	.XXX	.XXX	.XXX	11,573

SECTION B - INCURRED HEALTH CLAIMS - VISION 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.....	1,082				
2. 2002.....	14,749	1,247	.22		
3. 2003.....	.XXX	14,186	1,003	.8	
4. 2004.....	.XXX	.XXX	12,747	.684	.13
5. 2005.....	.XXX	.XXX	.XXX	11,168	.625
6. 2006.....	.XXX	.XXX	.XXX	.XXX	11,627

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SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - VISION ONLY

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2002.....	20,791	14,902	.125	.8	15,027	72.3			15,027	72.3
2. 2003.....	18,701	14,227	.119	.8	14,346	76.7			14,346	76.7
3. 2004.....	16,403	12,637	.106	.8	12,743	77.7			12,743	77.7
4. 2005.....	16,032	11,807	.99	.8	11,906	74.3	.2		11,908	74.3
5. 2006.....	15,403	11,573	.97	.8	11,670	75.8	.681	.65	12,416	80.6

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED 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.....	15,213	1,463	343	82	
2. 2002.....	121,219	27,071	2,050	154	91
3. 2003.....	XXX	135,623	27,982	634	83
4. 2004.....	XXX	XXX	169,482	22,168	573
5. 2005.....	XXX	XXX	XXX	197,272	24,982
6. 2006.....	XXX	XXX	XXX	XXX	220,777

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.....	20,745	3,355	189	99	
2. 2002.....	137,031	28,344	3,813	193	100
3. 2003.....	XXX	168,194	30,044	924	105
4. 2004.....	XXX	XXX	202,777	28,174	16,767
5. 2005.....	XXX	XXX	XXX	182,136	28,629
6. 2006.....	XXX	XXX	XXX	XXX	203,057

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2002.....	151,194	167,687	1,408	0.8	169,095	111.8			169,095	111.8
2. 2003.....	194,126	164,322	1,380	0.8	165,702	85.4	12	1	165,715	85.4
3. 2004.....	220,761	192,223	1,614	0.8	193,837	87.8	161	15	194,013	87.9
4. 2005.....	227,348	222,254	1,866	0.8	224,120	98.6	1,133	109	225,362	99.1
5. 2006.....	270,742	220,777	1,854	0.8	222,631	82.2	29,028	2,788	254,447	94.0

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UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XVIII - MEDICARE

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior.....					
2. 2002.....					
3. 2003.....	.XXX				
4. 2004.....	.XXX	.XXX			
5. 2005.....	.XXX	.XXX	.XXX	.246	
6. 2006.....	.XXX	.XXX	.XXX	.XXX	168,721

SECTION B - INCURRED HEALTH CLAIMS - TITLE XVIII - MEDICARE

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.....					
2. 2002.....					
3. 2003.....	.XXX				
4. 2004.....	.XXX	.XXX			
5. 2005.....	.XXX	.XXX	.XXX	.6,262	
6. 2006.....	.XXX	.XXX	.XXX	.XXX	220,336

12.XV

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XVIII - MEDICARE

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2002.....				.00	.0	.00			.0	.00
2. 2003.....				.00	.0	.00			.0	.00
3. 2004.....				.00	.0	.00			.0	.00
4. 2005.....	6,870	.246	.2	.08	.248	.36			.248	.36
5. 2006.....	227,684	168,721	1,416	.08	170,137	.747	57,630	5,535	233,302	102.5

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XIX - MEDICAID

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid									
	1 2002	2 2003	3 2004	4 2005	5 2006					
1. Prior.....	NONE									
2. 2002.....										
3. 2003.....						.XXX				
4. 2004.....						.XXX	.XXX			
5. 2005.....						.XXX	.XXX	.XXX		
6. 2006.....						.XXX	.XXX	.XXX	.XXX	

SECTION B - INCURRED HEALTH CLAIMS - TITLE XIX - MEDICAID

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.....	NONE									
2. 2002.....										
3. 2003.....						.XXX				
4. 2004.....						.XXX	.XXX			
5. 2005.....						.XXX	.XXX	.XXX		
6. 2006.....						.XXX	.XXX	.XXX	.XXX	

12.XI

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XIX - MEDICAID

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2002.....				.00	.0	.00			.0	.00
2. 2003.....				.00	.0	.00			.0	.00
3. 2004.....				.00	.0	.00			.0	.00
4. 2005.....				.00	.0	.00			.0	.00
5. 2006.....				.00	.0	.00			.0	.00

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED 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.....					
2. 2002.....	44,270				
3. 2003.....	.XXX	50,586			
4. 2004.....	.XXX	.XXX	63,734	533	
5. 2005.....	.XXX	.XXX	.XXX	80,718	543
6. 2006.....	.XXX	.XXX	.XXX	.XXX	162,307

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.....					
2. 2002.....	12,690	3,886			
3. 2003.....	.XXX	68,379	4,739		
4. 2004.....	.XXX	.XXX	82,242	3,418	
5. 2005.....	.XXX	.XXX	.XXX	76,329	5,107
6. 2006.....	.XXX	.XXX	.XXX	.XXX	169,520

12.01

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - OTHER

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2002.....	62,353	44,270	372	0.8	44,642	71.6			44,642	71.6
2. 2003.....	83,456	50,586	425	0.8	51,011	61.1			51,011	61.1
3. 2004.....	99,760	64,267	540	0.8	64,807	65.0			64,807	65.0
4. 2005.....	122,160	81,261	682	0.8	81,943	67.1	4,564	438	86,945	71.2
5. 2006.....	201,878	162,307	1,363	0.8	163,670	81.1	28,955	2,781	195,406	96.8

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 and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other
POLICY RESERVE												
1. Unearned premium reserves.....	241,239,550	209,746,656	25,197,590	4,224,474	795,052		1,275,778					
2. Additional policy reserves (a).....	245,423,000	46,437,000	198,200,000	565,000	221,000							
3. Reserve for future contingent benefits.....	0											
4. Reserve for rate credits or experience rating refunds (including \$.....0) for investment income.....	339,062,780	334,496,492		2,489,148	915,558							1,161,582
5. Aggregate write-ins for other policy reserves.....	0	0	0	0	0	0	0	0	0	0	0	0
6. Totals (gross).....	825,725,330	590,680,148	223,397,590	7,278,622	1,931,610	0	1,275,778	0	0	0	0	1,161,582
7. Reinsurance ceded.....	0											
8. Totals (net) (Page 3, Line 4).....	825,725,330	590,680,148	223,397,590	7,278,622	1,931,610	0	1,275,778	0	0	0	0	1,161,582
CLAIM RESERVE												
9. Present value of amounts not yet due on claims.....	0											
10. Reserve for future contingent benefits.....	0											
11. Aggregate write-ins for other claim reserves.....	0	0	0	0	0	0	0	0	0	0	0	0
12. Totals (gross).....	0	0	0	0	0	0	0	0	0	0	0	0
13. Reinsurance ceded.....	0											
14. Totals (net) (Page 3, Line 7).....	0	0	0	0	0	0	0	0	0	0	0	0
DETAILS OF WRITE-INS												
0501.	0											
0502.	0											
0503.	0											
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0	0	0	0	0	0	0	0	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	0	0	0	0	0	0	0	0	0	0	0	0
1101.	0											
1102.	0											
1103.	0											
1198. Summary of remaining write-ins for Line 11 from overflow page.....	0	0	0	0	0	0	0	0	0	0	0	0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....	0	0	0	0	0	0	0	0	0	0	0	0

13

(a) Includes \$.....245,423,000 premium deficiency reserve.

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 (\$.....31,419,430 for occupancy of own building).....	3,657,041	7,253,903	22,539,795	32,391	33,483,130
2. Salaries, wages and other benefits.....	75,524,139	156,639,325	343,818,074	687,217	576,668,755
3. Commissions (less \$.....0 ceded plus \$.....0 assumed).....			188,226,328		188,226,328
4. Legal fees and expenses.....			1,675,020		1,675,020
5. Certifications and accreditation fees.....					0
6. Auditing, actuarial and other consulting services.....	3,719,052	1,132,270	49,886,766	36,829	54,774,917
7. Traveling expenses.....	1,363,196	686,499	10,974,153	20,380	13,044,228
8. Marketing and advertising.....			16,514,494		16,514,494
9. Postage, express and telephone.....	1,632,824	9,421,535	11,846,249	4,891	22,905,499
10. Printing and office supplies.....	973,899	1,439,658	6,293,471	4,152	8,711,180
11. Occupancy, depreciation and amortization.....	878,411	1,656,171	6,606,384	9,150	9,150,116
12. Equipment.....					0
13. Cost or depreciation of EDP equipment and software.....	1,526,995	1,091,623	58,523,170	132,917	61,274,705
14. Outsourced services including EDP, claims, and other services.....	36,190,874	55,692,933	117,262,352	36,442	209,182,601
15. Boards, bureaus and association fees.....	384,167	57,698	7,239,352	1,637	7,682,854
16. Insurance, except on real estate.....	3,099		1,815,544		1,818,643
17. Collection and bank service charges.....				44,311	44,311
18. Group service and administration fees.....			88,960,005		88,960,005
19. Reimbursements by uninsured plans.....	(67,503,507)	(126,595,363)	(506,872,130)		(700,971,000)
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.....					0
23.3 Regulator authority licenses and fees.....			963,375		963,375
23.4 Payroll taxes.....	4,075,777	8,778,760	19,912,569	32,205	32,799,311
23.5 Other (excluding federal income and real estate taxes).....					0
24. Investment expenses not included elsewhere.....					0
25. Aggregate write-ins for expenses.....	0	0	0	0	0
26. Total expenses incurred (Lines 1 to 25).....	62,425,967	117,255,012	446,184,971	1,042,522	(a) 626,908,472
27. Less expenses unpaid December 31, current year.....		58,886,186	150,865,694		209,751,880
28. Add expenses unpaid December 31, prior year.....		57,328,520	135,045,730		192,374,250
29. Amounts receivable relating to uninsured plans, prior year.....		25,097,557	56,653,443		81,751,000
30. Amounts receivable relating to uninsured plans, current year.....		49,298,722	128,739,278		178,038,000
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30).....	62,425,967	139,898,511	502,450,842	1,042,522	705,817,842

DETAILS OF WRITE-INS

2501.					0
2502.					0
2503.					0
2598. Summary of remaining write-ins for Line 25 from overflow page.....	0	0	0	0	0
2599. TOTALS (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	0	0	0	0	0

(a) Includes management fees of \$....48,830,417 to affiliates and \$....62,751,187 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. government bonds.....	(a).....29,405,190	.....35,003,396
1.1 Bonds exempt from U.S. tax.....	(a).....	.....
1.2 Other bonds (unaffiliated).....	(a).....102,396,494	.....106,281,164
1.3 Bonds of affiliates.....	(a).....	.....
2.1 Preferred stocks (unaffiliated).....	(b).....24,635	.....24,635
2.11 Preferred stocks of affiliates.....	(b).....	.....
2.2 Common stocks (unaffiliated).....	.....6,869,344	.....7,159,293
2.21 Common stocks of affiliates.....	.....	.....13,002,150
3. Mortgage loans.....	(c).....	.....
4. Real estate.....	(d).....	.....
5. Contract loans.....	.....	.....
6. Cash, cash equivalents and short-term investments.....	(e).....13,557,456	.....12,832,348
7. Derivative instruments.....	(f).....	.....
8. Other invested assets.....	.....	.....
9. Aggregate write-ins for investment income.....	.....949,726	.....31,917,656
10. Total gross investment income.....	.....153,202,845	.....206,220,642
11. Investment expenses.....	.....	(g).....1,010,317
12. Investment taxes, licenses and fees, excluding federal income taxes.....	.....	(g).....32,205
13. Interest expense.....	.....	(h).....
14. Depreciation on real estate and other invested assets.....	.....	(i).....13,038,586
15. Aggregate write-ins for deductions from investment income.....	.....	.....0
16. Total deductions (Lines 11 through 15).....	.....	.....14,081,108
17. Net investment income (Line 10 minus Line 16).....	.....	.....192,139,534

DETAILS OF WRITE-INS

0901. SECURITY LENDING INCOME.....	.....949,726	.....949,726
0902. HOME OFFICE RENT.....	.....	.....31,419,430
0903. INVESTMENT MANAGEMENT FEES.....	.....	.....(451,500)
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....949,726	.....31,917,656
1501. ....	.....	.....
1502. ....	.....	.....
1503. ....	.....	.....
1598. Summary of remaining write-ins for Line 15 from overflow page.....	.....	.....0
1599. Totals (Lines 1501 thru 1503 plus 1598) (Line 15 above).....	.....	.....0

- (a) Includes \$.....3,946,164 accrual of discount less \$.....4,227,420 amortization of premium and less \$.....30,589,416 paid for accrued interest on purchases.
- (b) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued dividends on purchases.
- (c) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.
- (d) Includes \$.....31,419,430 for company's occupancy of its own buildings; and excludes \$.....0 interest on encumbrances.
- (e) Includes \$.....6,380,725 accrual of discount less \$.....168,324 amortization of premium and less \$.....192,014 paid for accrued interest on purchases.
- (f) Includes \$.....0 accrual of discount less \$.....0 amortization of premium.
- (g) Includes \$.....1,010,317 investment expenses and \$.....32,205 investment taxes, licenses and fees, excluding federal income taxes, attributable to Segregated and Separate Accounts.
- (h) Includes \$.....0 interest on surplus notes and \$.....0 interest on capital notes.
- (i) Includes \$.....13,038,586 depreciation on real estate and \$.....0 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.....	.....(3,401,445)	.....	.....	.....(3,401,445)
1.1 Bonds exempt from U.S. tax.....	.....	.....	.....	.....0
1.2 Other bonds (unaffiliated).....	.....(24,406,211)	.....(312,370)	.....	.....(24,718,581)
1.3 Bonds of affiliates.....	.....	.....	.....	.....0
2.1 Preferred stocks (unaffiliated).....	.....2,152	.....	.....	.....2,152
2.11 Preferred stocks of affiliates.....	.....	.....	.....	.....0
2.2 Common stocks (unaffiliated).....	.....16,805,488	.....(1,533,225)	.....	.....15,272,263
2.21 Common stocks of affiliates.....	.....	.....	.....	.....0
3. Mortgage loans.....	.....	.....	.....	.....0
4. Real estate.....	.....	.....	.....	.....0
5. Contract loans.....	.....	.....	.....	.....0
6. Cash, cash equivalents and short-term investments.....	.....(38,987)	.....	.....	.....(38,987)
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).....	.....(11,039,003)	.....(1,845,595)	.....0	.....(12,884,598)

DETAILS OF WRITE-INS

0901. ....	.....	.....	.....	.....0
0902. ....	.....	.....	.....	.....0
0903. ....	.....	.....	.....	.....0
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.....0	.....0	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0	.....0	.....0

EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Total Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D).....			.0
2. Stocks (Schedule D):			
2.1 Preferred stocks.....			.0
2.2 Common stocks.....	157,340,448	39,522,623	(117,817,825)
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens.....			.0
3.2 Other than first liens.....			.0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company.....			.0
4.2 Properties held for the production of income.....			.0
4.3 Properties held for sale.....			.0
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA).....			.0
6. Contract loans.....			.0
7. Other invested assets (Schedule BA).....	6,873,175	8,665,924	1,792,749
8. Receivables for securities.....			.0
9. Aggregate write-ins for invested assets.....	0	0	.0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	164,213,623	48,188,547	(116,025,076)
11. Title plants (for Title insurers only).....			.0
12. Investment income due and accrued.....			.0
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection.....	2,118,971		(2,118,971)
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....			.0
13.3 Accrued retrospective premiums.....	8,805,263	494,855	(8,310,408)
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers.....			.0
14.2 Funds held by or deposited with reinsured companies.....			.0
14.3 Other amounts receivable under reinsurance contracts.....			.0
15. Amounts receivable relating to uninsured plans.....			.0
16.1 Current federal and foreign income tax recoverable and interest thereon.....			.0
16.2 Net deferred tax asset.....	68,394,892	57,423,618	(10,971,274)
17. Guaranty funds receivable or on deposit.....			.0
18. Electronic data processing equipment and software.....	81,416,959	50,864,535	(30,552,424)
19. Furniture and equipment, including health care delivery assets.....	13,934,235	11,859,014	(2,075,221)
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			.0
21. Receivable from parent, subsidiaries and affiliates.....			.0
22. Health care and other amounts receivable.....	2,540,486	2,602,181	.61,695
23. Aggregate write-ins for other than invested assets.....	127,732,447	102,431,121	(25,301,326)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 through 23).....	469,156,876	273,863,871	(195,293,005)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			.0
26. TOTALS (Lines 24 and 25).....	469,156,876	273,863,871	(195,293,005)

DETAILS OF WRITE-INS

0901.....			.0
0902.....			.0
0903.....			.0
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.0	.0	.0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.0	.0	.0
2301. Miscellaneous Accounts Receivable.....	2,535,548	4,279,882	1,744,334
2302. Prepaid and Other Assets.....	5,131,501	2,260,649	(2,870,852)
2303. Company Owned Automobile.....	634,318	753,390	.119,072
2398. Summary of remaining write-ins for Line 23 from overflow page.....	119,431,080	95,137,200	(24,293,880)
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	127,732,447	102,431,121	(25,301,326)

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.....						
2. Provider service organizations.....						
3. Preferred provider organizations.....	1,060,477	1,090,159	1,106,375	1,128,785	1,149,446	13,391,819
4. Point of service.....	57,983	56,684	57,484	57,016	56,805	685,717
5. Indemnity only.....	528,135	524,794	520,770	497,298	483,059	6,135,608
6. Aggregate write-ins for other lines of business.....	893,706	897,000	887,291	887,374	880,138	10,641,485
7. Total.....	2,540,301	2,568,637	2,571,920	2,570,473	2,569,448	30,854,629

DETAILS OF WRITE-INS

0601. National Stoploss.....	250,390	250,948	238,399	234,531	234,319	2,895,441
0602. Local Stoploss.....	643,316	646,052	648,892	652,843	645,819	7,746,044
0603.						
0698. Summary of remaining write-ins for Line 6 from overflow page.....	0	0	0	0	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	893,706	897,000	887,291	887,374	880,138	10,641,485

NOTES TO FINANCIAL STATEMENTS

NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS

FOR PERIOD ENDED DECEMBER 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Accounting Practices**

In accordance with Michigan Public Act 350 of 1980 and amended by Act 59 of 2003, the financial statements of Blue Cross Blue Shield of Michigan (BCBSM or the "Company") are presented on the basis of accounting practices prescribed or permitted by the Michigan Office of Financial and Insurance Services ("OFIS"). Prior to Act 59, BCBSM was required to prepare its Annual Statement in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The final year of reporting statutory basis financial statements in accordance with GAAP was 2003. As described below, effective March 31, 2004, all quarterly statements filed with the OFIS were prepared using prescribed and permitted Statutory Statement of Accounting Principles ("SSAP").

OFIS recognizes only statutory accounting practices prescribed or permitted by the State of Michigan for determining and reporting the financial condition and results of operations of an insurance company. OFIS adopted the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* ("NAIC SAP") as the basis for its statutory accounting practices without exception. Also, the Commissioner of OFIS has the right to permit other specific practices that may deviate from prescribed practices. In accordance with Act 59, the Company, in agreement with OFIS, adopted a three-year plan allowing transition of its reporting from GAAP to NAIC SAP. Implementation of the transition plan began with the statutory filing for the first quarter ended March 31, 2004. All statutory requirements under the transition plan will be fully adopted by and phased in by January 1, 2007. The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by OFIS.

The significant elements of the transition plan, as set forth in State Order No. 06-054-M are as follows:

- 1. Bonds**—The Company has reported any security purchased on or before December 31, 2003, on a GAAP basis and any new securities purchased after December 31, 2003, has been and will be reported in accordance with NAIC SAP. Approximately 33% of the Company's portfolio will be valued on a SAP basis after year one, 66% after year two, and the entire balance after year three.

As of December 31, 2006, \$1.79 billion of the \$1.80 billion of bonds held at December 31, 2003 have been disposed of, representing a 99% cumulative churn rate as of the third year of transition.

- 2. Investment in subsidiaries**—The Company uses the equity method and follows NAIC SAP in valuing its subsidiaries. The Company has three years to record the statutory impact to surplus for investment in subsidiaries based on the following percentages: first year 25%, second year 50% and third year 75%.

In accordance with SSAP No. 68, *Business Combinations and Goodwill*, the Company reports its investments in subsidiaries inclusive of related goodwill balances. Included in the Company's common stock balance are the investments in Blue Care Network of Michigan, The Accident Fund Insurance Company of America, DenteMax, and Michigan Health Insurance Company (MHIC). As of December 31, 2006 the breakdown between goodwill and investments in subsidiaries is shown on the following page.

NOTES TO FINANCIAL STATEMENTS

	Statement Value
Common Stock Investments in Subsidiaries:	
Investment in BCNM*	\$ 267,779,259
Investment in AFICA	499,126,344
AFICA goodwill	46,647,300
Investment in DenteMax	648,056
DenteMax goodwill	965,300
Investment in Lifesecure	23,457,000
Investment in MHIC	5,108,773
MHIC goodwill	23,259,473
Amount included in common stock	<u>\$ 866,991,505</u>
Summary:	
Investment in Subsidiaries	\$ 796,119,432
Goodwill	70,872,073
Total	<u>\$ 866,991,505</u>

* Includes investments in BCNM, Blue Care of Michigan, Blue Care Network Medical Malpractice Self-Insurance Trust, Blue Care Network Stop-Loss, and Casualty Self-Insurance Trust

As of December 31, 2006 the Company's goodwill balances were fully admissible based on the calculation set forth in the transition plan. The goodwill limitation calculated based on the transition plan was \$285.6 million and the Company's actual goodwill balance was \$70.9 million, resulting in a fully admitted asset.

The investment balances shown above for the Company's investments in insurance SCA entities, BCN and AFICA, are reported based on the underlying statutory equity of these entities adjusted by the phase-in percentage allowed under the transition plan.

	A	B	C	D	A + D
	GAAP Equity	SAP Equity	100% Adjustment	75% Transition Phase-In	Statement Value
Investment in BCN	362,529,009	236,196,009	(126,333,000)	(94,749,750)	267,779,259
Investment in AFICA*	547,267,344	483,079,344	(64,188,000)	(48,141,000)	499,126,344

* Excludes goodwill

The remaining entities, DenteMax, LifeSecure, and MHIC were acquired or organized subsequent to the effective date of the transition plan; and therefore, are not subject to the phase-in requirements.

- Goodwill**—The Company has applied NAIC SAP guidelines. However, beginning January 1, 2004, the percentage of surplus limitation was as follows: first year 16%, second year 14%, and third year 12%.
- Regulatory asset**—The regulatory asset (which was fully collected in 2005) was nonadmitted based on the following percentages: first year 25%, second year 50%, and third year 75%.
- Furniture, equipment and automobiles**—The Company has nonadmitted balances in accordance with SSAP No. 19, *Furniture and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements* and SSAP No. 20, *Nonadmitted Assets*.
- Retiree health obligation**—The Company discontinued reporting an obligation for nonvested employees. The statutory impact will be reported in the first year of the transition.
- Retiree pension asset**—The Company has nonadmitted the balance based on the following minimum percentages: first year 25%, second year 50% and third year 75%.
- Prepaid expenses and other assets**- The Company has nonadmitted balances in accordance with NAIC SAP.

A reconciliation of the Company's net income and surplus between GAAP, NAIC-SAP and practices prescribed and permitted by the OFIS is shown below (in thousands):

NOTES TO FINANCIAL STATEMENTS

	Michigan OFIS Transition SAP	NAIC Full SAP
GAAP net income, December 31, 2006	\$ 210,191	\$ 210,191
Add (Deduct) GAAP to NAIC SAP differences:		
Sale-leaseback adjustments	10,999	10,999
Reduction of nonvested pension expense	2,909	2,909
Deferred implementation premiums expensed	(3,164)	(3,164)
Affiliates' earnings reclassified to change in unrealized capital gain	(56,332)	(56,332)
Deferred tax expense reclassified to equity section	(5,676)	(5,676)
Statutory net income, December 31, 2006	<u>\$ 158,927</u>	<u>\$ 158,927</u>
GAAP surplus, December 31, 2006	\$ 2,840,230	\$ 2,840,230
Sale-leaseback adjustments	66,752	66,752
Deferred tax asset on sale-leaseback	(13,351)	(13,351)
Goodwill amortization	(20,406)	(20,406)
Preferred stock and bonds market value adjustment	(1,902)	(1,902)
Bond adjustment, net of tax	(7,370)	(7,697)
Accrued retrospective premiums	(10,925)	(10,925)
Investment in subsidiaries	(157,341)	(204,971)
Other invested assets	(6,873)	(6,873)
Furniture, fixtures and automobiles	(14,569)	(14,569)
Retiree health obligation	139,275	139,275
Retiree pension asset	(78,547)	(104,729)
Implementation premium	(32,622)	(32,622)
Nonadmitted portion of advances to providers	(40,885)	(40,885)
Nonadmitted deferred tax asset	(68,395)	(68,395)
Electronic data processing equipment and software	(81,417)	(81,417)
Health care receivables	(2,541)	(2,541)
Prepaid and other assets	(5,132)	(5,132)
Miscellaneous receivables	(2,536)	(2,536)
Total adjustments	<u>(338,785)</u>	<u>(412,924)</u>
Statutory surplus, December 31, 2006	<u>\$ 2,501,445</u>	<u>\$ 2,427,306</u>
Risk based capital percentage	787%	773%

NOTES TO FINANCIAL STATEMENTS

	Michigan OFIS Transition SAP	NAIC Full SAP
GAAP net income—December 31, 2005	\$ 336,888	\$ 336,888
Add (deduct) GAAP to NAIC SAP differences:		
Sale-leaseback adjustments	15,292	15,292
Reduction of nonvested pension expense	13,002	13,002
Deferred implementation premiums expensed	(29,458)	(29,458)
Affiliates' earnings reclassified to change in unrealized capital gain	(106,264)	(106,264)
Deferred tax expense reclassified to equity section	<u>(36,456)</u>	<u>(36,456)</u>
Statutory net income—December 31, 2005	<u>\$ 193,004</u>	<u>\$ 193,004</u>
GAAP surplus—December 31, 2005	\$2,597,192	\$2,597,192
Sale-leaseback adjustments	55,753	55,753
Deferred tax asset on sale-leaseback	(11,151)	(11,151)
Goodwill amortization	(13,604)	(13,604)
Preferred stock and bonds market value adjustment	(3,614)	(3,614)
Bond adjustment—net of tax	3,406	(574)
Accrued retrospective premiums	(495)	(495)
Investment in subsidiaries	(39,523)	(69,618)
Other invested assets	(8,666)	(8,666)
Furniture, fixtures, and automobiles	(12,613)	(12,613)
Retiree health obligation	136,365	136,365
Retiree pension asset	(61,916)	(123,831)
Implementation premium	(29,458)	(29,458)
Nonadmitted portion of advances to providers	(33,222)	(33,222)
Nonadmitted deferred tax asset	(57,424)	(57,424)
Electronic data processing equipment and software	(50,865)	(50,865)
Health care receivables	(2,603)	(2,603)
Prepaid and other assets	(2,261)	(2,261)
Miscellaneous receivables	<u>(4,280)</u>	<u>(4,280)</u>
Total adjustments	■ <u>(136,171)</u>	■ <u>(232,161)</u>
Statutory surplus—December 31, 2005	<u>\$2,461,021</u>	<u>\$2,365,031</u>
Risk based capital percentage	892%	850%

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of statutory-basis financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the statutory-basis financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policy

- Short-term investments and cash equivalents are recorded at amortized cost, which approximates market value, and include commercial paper, certificates of deposits, and other readily marketable investments with initial maturities less than one year for short-term investments and three months or less for cash equivalents.
- Bonds not backed by other loans that have an NAIC designation of one or two are stated at amortized cost using the interest method. Bonds with an NAIC designation of three or higher are carried at the lower of amortized cost or fair market value. Bonds that were purchased on or before December 31, 2003, are stated at fair market value pursuant to the transition plan.
- Common stocks are valued as prescribed by the Securities Valuation Office ("SVO") of the NAIC. Changes in unrealized appreciation and depreciation in the value of common stocks are reflected as direct increases or decreases in surplus.
- Preferred Stocks are stated at book value for NAIC classes one and two and lower of book value or market for NAIC classes three through six.

Mortgage loans on real estate – NOT APPLICABLE

Loan-backed securities are stated at either amortized cost or the lower of amortized cost or fair value.

NOTES TO FINANCIAL STATEMENTS

Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker dealer survey values or internal estimates. Changes in estimated cash flows from the original purchases assumptions are accounted for using the retrospective method.

Investment in subsidiaries and goodwill- The Company uses the equity method and follows NAIC SAP in valuing its subsidiaries. The Company has three years to record the statutory impact to surplus for investment in subsidiaries based on the following percentages: first year 25%, second year 50%, and third year 75%. The Company will follow NAIC SAP guidelines for goodwill using the following percentage of surplus limitation: first year 16%, second year 14%, and third year 12%.

5. Investments in joint ventures, partnerships and limited liability companies- The Company has minor ownership interests in partnerships or limited liability companies. The company carries the investment in partnership based on the underlying audited GAAP equity of the partnership.

6. Derivatives – NOT APPLICABLE

A liability for premium deficiency losses is recognized when it is probable that expected claim losses and allocable administrative expenses will exceed future premiums on existing health and other contracts without consideration of investment income. For purposes of premium deficiency losses, contracts are grouped in a manner consistent with the Company's method of acquiring, servicing and measuring the profitability of such contracts. Premium deficiency losses are generally released over the period that the contract is in a loss position. The Company did not consider investment income as a factor in the premium deficiency calculation.

The liability for incurred but unpaid and unreported medical and hospital claims is accrued in the period during which the services are provided, and includes actuarial estimates of services performed which have not been reported by providers to BCBSM. Such estimates are based on historical claims experience modified for current trends and changes in benefits provided. Revisions in actuarial estimates are reported in the period in which they arise

7. Real Estate – Real property occupied by the Company is stated at cost and is depreciated using the straight-line method over estimated useful lives ranging from 30 to 40 years for buildings.

8. Long-Lived Assets - Long-lived assets held and used by the Company are reviewed for impairment based on market factors and operational considerations whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Premium and Fee Revenues - Premiums, which generally are billed in advance, are recognized as revenue during the respective periods of coverage. Premiums applicable to the unexpired portion of coverage are reported as unearned revenue. Fee revenue primarily consists of administrative fees for services provided under administrative service contracts ("ASC"), including management of medical services, claims processing and access to provider networks. Under ASC arrangements, self-funded groups retain the full risk of paying claims. Amounts due from ASC groups are equal to the amounts required to pay claims and administrative fees. Administrative fees are earned as services are performed and are calculated based on the number of members in a group or the group's claim experience. Since benefit expenses for ASC arrangements are not the responsibility of the Company, claims paid by the Company and the corresponding reimbursement of claims are not reported in the accompanying statutory basis financial statements. Administrative fee revenues related to ASC arrangements are included as a reduction in operating expenses, cost containment expenses, and other claim adjustment expenses.

2. ACCOUNTING CHANGES AND CORRECTIONS OF ERRORS

A. Under the provisions of Act 59, the Company is required to prepare statutory financial statements in accordance with NAIC SAP prescribed or permitted by OFIS. Prior to the enactment of the new law, the Company was required to prepare its statutory statements in accordance with GAAP.

B. The Company and OFIS have agreed to a three-year plan that will allow the Company to transition its statutory reporting from GAAP to SAP in a non-disruptive manner. Implementation of the transition plan began with the statutory filing for the first quarter ended March 31, 2004.

3. BUSINESS COMBINATIONS – NOT APPLICABLE

4. DISCONTINUED OPERATIONS – NOT APPLICABLE

INVESTMENTS

A. Mortgage Loans – NOT APPLICABLE

NOTES TO FINANCIAL STATEMENTS

B. Debt Restructuring – NOT APPLICABLE

C. Reverse Mortgages – NOT APPLICABLE

D. Loan-Backed Securities - Loan-backed securities are stated at either amortized cost or the lower of amortized cost or fair value. Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker dealer survey values or internal estimates. Changes in estimated cash flows from the original purchases assumptions are accounted for using the retrospective method.

E. Repurchase Agreements – NOT APPLICABLE

F. Real Estate – NOT APPLICABLE

5. JOINT VENTURES, PARTNERSHIPS, AND LIMITED LIABILITY COMPANIES

A. The Company has no investments in partnerships or limited liability companies that exceed 10 percent of its admitted assets.

B. The Company did not recognize any impairment for its investments in partnerships or limited liability companies during the statement period.

6. INVESTMENT INCOME

A. Investment income due and accrued with amounts that are over 90 days past due will be nonadmitted.

No investment income due and accrued was nonadmitted at December 31, 2006.

7. DERIVATIVE INSTRUMENTS – NOT APPLICABLE

NOTES TO FINANCIAL STATEMENTS

INCOME TAXES

A. The components of the net deferred tax assets at December 31 are as follows:

	<u>2006</u>	<u>2005</u>
Total of all gross deferred tax assets (admitted and nonadmitted)	\$ 172,383	\$ 168,755
Total of all gross deferred liabilities	<u>(61,354)</u>	<u>(54,847)</u>
Net deferred tax asset	111,029	113,908
Deferred tax asset nonadmitted in accordance with SSAP No. 10	<u>(68,395)</u>	<u>(57,424)</u>
Net admitted deferred tax asset	<u>\$ 42,634</u>	<u>\$ 56,484</u>
(Increase) in nonadmitted asset	<u>\$ (10,971)</u>	<u>\$ (26,735)</u>

B. Unrecognized Deferred Tax Liabilities – Not Applicable

C. Current income taxes incurred at December 31 consist of the following:

	<u>2006</u>	<u>2005</u>
Federal income tax on earnings other than net capital gains	\$ 47,406	\$ 92,806
Amounts incurred relating to prior years	<u>(11,762)</u>	<u>(22,679)</u>
Total federal income taxes incurred	<u>\$ 35,644</u>	<u>\$ 70,127</u>

The main components of the deferred tax amounts at December 31 are as follows:

	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Amounts accrued for postretirement benefits	\$ 88,434	\$ 79,436
Amounts accrued for premium deficiency	49,085	54,380
Discount of claim reserves	7,035	8,000
Amounts accrued to groups	400	400
Accrued expenses and bad debts	<u>27,429</u>	<u>26,539</u>
Total deferred tax assets	172,383	168,755
Nonadmitted deferred tax assets	<u>(68,395)</u>	<u>(57,424)</u>
Admitted deferred tax assets	103,988	111,331
Deferred tax liabilities:		
Unrealized capital gains on investments	11,441	4,902
Rate recovery from area rated groups	1,630	1,344
Amounts prepaid for pension benefits	15,105	18,312
Depreciation, amortization and other	<u>33,178</u>	<u>30,289</u>
Total deferred tax liabilities	<u>61,354</u>	<u>54,847</u>
Net admitted deferred tax assets	<u>\$ 42,634</u>	<u>\$ 56,484</u>

D. The actual effective tax rate differs from the expected AMT rate of 20 percent primarily due to the tax impact recognized on the tax adjustments attributable to prior years.

E. At December 31, 2006, the Company does not have any unused operating loss carryforwards available to offset against future taxable income.

F. The Company and two of its taxable subsidiaries, Accident Fund and DenteMax, file a consolidated federal income tax return. Further, the Company has tax sharing agreements with these taxable subsidiaries to provide that each taxable subsidiary is responsible for its own federal tax liability. A third subsidiary, LifeSecure, is also taxable, but existing tax legislation does not permit consolidation with non-life entities for the first five years of existence.

8. INFORMATION CONCERNING PARENT, SUBSIDIARIES AND AFFILIATES

The Company is incorporated as a nonprofit corporation under the provisions of Public Act 350 ("P.A. 350") of the State of Michigan. Hospital, medical and other health benefits are provided under contracts with subscribers. The Company owns 100% of Blue Care Network of Michigan ("BCNM") and 100% of Michigan Health Insurance Corporation ("MHIC"), two health maintenance organization ("HMO") subsidiaries that provides health care services to subscribers and contracts with various physician groups, hospitals and other health care providers to provide such services. The Company also owns 100% of Accident Fund Insurance Company of America ("AFICA"), a provider of workers' compensation insurance, and DenteMax, providers of network services. The Company also formed and owns 100% of LifeSecure Insurance Company, a long-term care insurance subsidiary. LifeSecure received final certificate of authority on July 7, 2006 from OFIS.

NOTES TO FINANCIAL STATEMENTS

BCBSM conducts business transactions with its wholly owned subsidiaries on a routine basis. The Company uses the equity method and follow NAIC SAP in valuing the subsidiaries. The Company will have three years to record the statutory impact to surplus for investment in subsidiaries based on the following percentages: first year 25%, second year 50%, and third year 75%.

At December 31, 2006 and 2005, BCBSM had receivables from subsidiaries amounting to \$33,218,524 and \$27,743,245, respectively. Beginning in 2004, BCN became part of the BCBSM hospital settlement process. As related to that process, BCN's portion of underpayments due to hospitals or overpayment recoveries from hospitals will be accrued to or paid by BCBSM as applicable. As of December 31, 2006 and 2005, settlements owed to BCNM of \$5,409,452 and \$5,249,298, respectively, are included in the Company's inter-company payable of \$14,921,497 and \$13,053,194, respectively.

Dividends from subsidiaries were \$14,300,000 and \$16,300,000 in 2006 and 2005, respectively. The Company also performs various claims processing and management services. As of December 31, 2006 and 2005, these services totaled \$561,178,911 and \$486,708,956, respectively.

9. DEBT – NOT APPLICABLE

10. RETIREMENT PLANS, DEFERRED COMPENSATION, POST EMPLOYMENT BENEFITS AND COMPENSATED ABSCENCES AND OTHER POSTRETIREMENT BENEFIT PLANS

A. Defined Benefit Plan

Substantially all employees who meet certain requirements of age and length of service are covered by the Company's defined benefit retirement income plans. Benefits paid to retirees are based on age at retirement, years of credited service and highest monthly average earnings over 60 consecutive months.

Under the Company's amended retirement account plan for non-represented employees, each participant has an account balance to which interest and earnings credits are added. Interest is credited quarterly based on the prior August one-year Treasury bill rate. Annual earnings credits of 6% to 10% are credited to participants' account balances on a monthly basis and monthly 2% annual transition credits are made through 2008. Employees can elect to receive the lump-sum value of their vested account balance or monthly payments at retirement or termination.

The Company provides certain health care and selected other benefits to all employees and their dependents. Prior to January 1, 2004, represented and non-represented employees who have at least ten years of service after age 45 and retire from active employment or who become disabled and meet certain benefit and service requirements are eligible. Non-represented employees hired on or after January 1, 2004 are required to have 15 years of service after age 45 to be eligible for retiree health care benefits and selected other benefits. Non-represented employees hired on or after January 1, 2007 will be provided access to retiree health care coverage but will be responsible for 100 percent of the cost of such benefit. Certain revisions to the represented employees' postretirement benefits other than pensions took effect January 1, 2006. Represented employees eligible to retire after December 31, 2016 are required to have 15 years of service after age 45 to be eligible for retiree health care benefits and selected other benefits.

This benefit is subject to revision at the discretion of the Board of Directors for non-represented employees and for represented employees, subject to collective bargaining agreements. These plans are noncontributory plans.

A summary of assets, obligations and assumptions of the pension and other postretirement benefit plans at plan measurement dates of September 30, 2006 and 2005, and as recorded at December 31, 2006 and 2005 are as follows (dollars in thousands):

1) Change in benefit obligation

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Benefits obligation—beginning of year	\$ 837,105	\$ 780,518	\$ 385,634	\$ 342,678
Service cost	36,638	31,559	26,297	22,568
Interest cost	47,306	44,792	20,644	21,541
Actuarial loss (gain)	(11,593)	16,637	(28,867)	14,227
Benefits and administrative expenses paid	(51,077)	(36,401)	(16,003)	(15,380)
Amendments	7,118	-	(3,113)	-
Benefits obligation—end of year	<u>\$ 865,497</u>	<u>\$ 837,105</u>	<u>\$ 384,592</u>	<u>\$ 385,634</u>

2) Change in plan assets

NOTES TO FINANCIAL STATEMENTS

	Pension Benefits		Postretirement Benefits	
	2006	2005	2006	2005
Fair value of plan assets—beginning of year	\$ 795,367	\$ 732,610	\$ -	\$ -
Actual return on plan assets	82,636	99,042	-	-
Contributions received	781	1,561	-	-
Inter-plan transfer	(900)	(2,500)	-	-
Benefits and administrative expenses paid	<u>(44,476)</u>	<u>(35,346)</u>	-	-
Fair value of plan assets—end of year	<u>\$ 833,408</u>	<u>\$ 795,367</u>	<u>\$ -</u>	<u>\$ -</u>

3) Funded Status

	Pension Benefits		Postretirement Benefits	
	2006	2005	2006	2005
Unamortized prior service cost	\$ (8,766)	\$ (2,197)	\$ 9,209	\$ 8,047
Unrecognized net (loss) gain	\$ (101,738)	\$ (139,689)	\$ (98,253)	\$ (131,683)
Remaining net obligation or (net asset) at initial date of application	\$ (104,729)	\$ (123,831)	\$ 295,548	\$ 261,999
(Prepaid non-admitted assets)	\$ (78,547)	\$ (61,916)	\$ -	\$ -
Accrued pension expense included in other liabilities	\$ 26,079	\$ 27,836	\$ -	\$ -

Information for pension plans with a projected benefit obligation in excess of plan assets:

Projected benefit obligation	\$ 23,214	\$ 24,920	\$ -	\$ -
Fair value of plan assets	\$ -	\$ -	\$ -	\$ -

4) Projected benefit obligation for nonvested employees

	Pension Benefits		Postretirement Benefits	
	2006	2005	2006	2005
Projected benefit obligation for nonvested employees	\$ 11,342	\$ 14,258	\$ 172,495	\$ 168,419

5) Components of net periodic benefit cost

	Pension Benefits		Postretirement Benefits	
	2006	2005	2006	2005
Service cost	\$ 36,638	\$ 31,559	\$ 26,297	\$ 22,568
Interest cost	47,306	44,792	20,644	21,541
Expected return on plan assets	(66,957)	(67,347)	-	-
Amortization of unrecognized transition obligation or transition asset	<u>10,120</u>	<u>5,030</u>	<u>2,612</u>	<u>3,279</u>
Total net periodic benefit cost	<u>\$ 27,107</u>	<u>\$ 14,034</u>	<u>\$ 49,553</u>	<u>\$ 47,388</u>

6) Minimum pension liability adjustment – Not Applicable

7) Weighted-average assumptions as of December 31:

	Pension Benefits		Postretirement Benefits	
	2006	2005	2006	2005
Discount rate	5.90%	5.60%	6.00%	5.75%
Rate of compensation increase	4.75%	4.75%		
Expected long-term rate of return on plan assets	9.00%	9.00%		

NOTES TO FINANCIAL STATEMENTS

For 2007, the expected long-term rate of return on assets will be 9.00%.

For 2006 measurement purposes, the health care trend rate on covered postretirement benefits is assumed to be 8.14% for 2007, ratably downgrading to 5.00% by 2015 and all years thereafter.

- 8) Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in thousands):

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components	\$ 7,506	\$ 6,135
Effect on postretirement benefit obligation	\$51,266	\$42,767

- 9) On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("Act") was signed into law. The Act provides 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 equivalent to the Medicare Part D benefit. In 2004, the Company adopted FASB Staff Position ("FSP") 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, which provided specific guidance on the accounting for the federal subsidies under the program. The Company determined that the prescription drug benefits provided by the Company's postretirement health care plan are actuarially equivalent to the benefits provided under the Medicare Part D program, which entitles the Company to the federal subsidies described in the Act.

B. Defined Contribution Plan

Substantially all employees of the Company who have attained the age of 21 years and have completed three months of continuous service may elect to participate in one of two employee savings plans, which are qualified under Section 401(k) of the Internal Revenue Code. For both non-represented and represented employees, the Company matches 50% of employee contributions up to 10% of bi-weekly adjusted W-2 wages for employees with one year of continuous service. The Company's contribution on a consolidated basis was \$15.8 million and \$15.0 million for 2006 and 2005, respectively. At December 31, 2006, the fair value of the plan assets was \$611.7 million.

B. Multi-employer Plans – NOT APPLICABLE

C. Consolidated/Holding Company Plans – NOT APPLICABLE

D. Post employment Benefits and Compensated Absences – NOT APPLICABLE

13. CAPITAL AND SURPLUS, SHAREHOLDERS' DIVIDEND RESTRICTIONS AND QUASI-REORGANIZATIONS.

- A. Under the provisions of Public Act No. 59 of 2003 ("Act 59") of the State of Michigan, the Company must maintain adequate subscriber reserves to comply with Section 403 of the Michigan Insurance Code, which requires authorized insurers to be safe, reliable and entitled to public confidence. As a result, the Company is required to file with OFIS, on an annual basis, its risk-based capital ("RBC") calculation based on the National Association of Insurance Commissioners ("NAIC") model. Act 59 requires the Company to maintain a RBC ratio of at least 200% but not to exceed 1,000% of subscriber reserves. At December 31, 2006 and 2005, the Company was in compliance with the RBC requirement under both OFIS transition SAP practices as well as the full NAIC SAP practices.

- B. BCBSM has no preferred stock outstanding.

- C. Under the provisions of The Nonprofit Health Care Corporation Act of 1980, the Company is deemed a charitable and benevolent institution whose primary purpose is to promote the distribution of health care services for all residence of the state of Michigan. As such, the Company has no investors or contributed capital. The unimpaired surplus belongs to the residents of the state of Michigan.

A. Dividend payment restriction – NOT APPLICABLE

B. Surplus Restriction – NOT APPLICABLE

C. The total amount of advances to surplus not repaid – NOT APPLICABLE

D. The amount of stock held by BCBSM for special purposes – NOT APPLICABLE

NOTES TO FINANCIAL STATEMENTS

E. Special surplus funds changes – NOT APPLICABLE

F. The portion of unassigned funds (surplus) represented or reduced by each item below

		(in thousands)
a. Unrealized gains and losses	\$	72,044
b. Nonadmitted asset values	\$	(195,293)
c. Provision for reinsurance	\$	-

G. Surplus debentures of similar obligations – NOT APPLICABLE

H. Impact of any restatement due to quasi-reorganization – NOT APPLICABLE

I. Effective dates of all quasi-reorganizations in the prior 10 years – NOT APPLICABLE

14. CONTINGENCIES

A. Contingent Commitments – NOT APPLICABLE

B. Assessments – NOT APPLICABLE

C. Gain Contingencies – NOT APPLICABLE

D. All Other Contingencies

The Company has been included as a defendant in two potential national class action lawsuits filed against the Blue Cross Blue Shield Association and several Blue Cross Blue Shield plans, alleging unfair pricing of medical claims for a multiple year period. Due to the cost of defense in protracted litigation, the Company is working jointly with the other defendants to develop common defense strategies and evaluating settlement options. Late in 2005, the collective Plans made an initial settlement offer that included cash and certain business process changes desired by the plaintiffs. At December 31, 2006, no final agreement has been reached. The Company has accrued its share of the cash offer pursuant to SSAP No. 5 *Liabilities, Contingencies, and Impairment of Assets*. In spite of the settlement offer, if either case were to go to trial, it would not be possible to make an assessment regarding the probability of an adverse outcome, nor estimate the range of potential loss. If a settlement can not be reached, the Company believes it has meritorious defenses against both lawsuits and intends to defend the actions vigorously. In addition, the Company is the defendant in numerous other lawsuits arising in the normal course of business primarily related to subscriber benefits and provider reimbursement issues such as incentive payments and participation arrangements.

While the ultimate outcome of the aforementioned lawsuits cannot be determined at this time, it is the opinion of management and outside counsel, that the outcome of such lawsuits will not have a material adverse effect on the Company's financial statements – statutory-basis.

Under the terms of self-funded administrative service contracts with its customers, the Company is subject to audits of claims processed by the Company as well as those processed by its related participating plans in other states. Such audits encompass the accuracy of claims payments made on behalf of customers and the administrative expenses charged to the customer. The Company records an estimated amount for the resolution of customer disputes. Settlements of such disputes are not expected to have a material effect on the Company's consolidated financial statements - statutory-basis.

Management believes any probable contingencies are appropriately recorded in other liabilities.

15. LEASES

The Company entered into a sale and leaseback agreement with RBS Lombard (Lombard) on September 25, 2003. Under the transaction, the Company sold Lombard substantially all of its computer hardware and software at a net book value of approximately \$101 million and subsequently leased the assets back. No gain or loss was recorded on this transaction.

A second sale and leaseback transaction was entered into on November 25, 2003 under which the Company sold Lombard \$53.2 million of work-in-process capitalized software. No gain or loss was recorded on this transaction.

The initial lease terms are five years, and monthly lease payments are based on a ten-year amortization period with a balloon payment at the end of five years. In lieu of payment of the balance at the end of year five, the Company will have the option to enter into another lease for an additional five years.

As part of the financing agreement, the Company is required to maintain a letter of credit to collateralize the transaction. The current letter of credit is with Comerica Bank. The amount of the letter of credit is equal to 50

NOTES TO FINANCIAL STATEMENTS

percent of the financed amount of the sale-leaseback transaction. The term of the letter of credit is for one year and will renew annually

The sale-leaseback transaction has been accounted for under SSAP No. 22, *Leases*, which requires a sale of equipment that is accompanied by a leaseback of all or part of the equipment be accounted for as an operating lease. The rent expense incurred through December 31, 2006 related to the sale-leaseback transactions was \$19.7 million.

Future minimum lease payments as of December 31, 2006 in connection with the sale-leaseback transactions are as follows:

In addition, the Company leases certain computer equipment and office space under various noncancelable operating leases. Rental expense was \$6,217 for 2006. At December 31, 2006, future minimum lease payments are as follows:

2007	\$ 3,229
2008	3,196
2009	3,267
2010	3,331
2011	3,028
2012 and thereafter	<u>3,069</u>
Total	<u>\$ 19,120</u>

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

BCBSM, in the normal course of business, enters into security lending agreements with various other counterparties. Under these agreements, BCBSM lends U.S. Treasury securities in exchange for collateral consisting primarily of cash. The collateral pledged from counterparties is not available for BCBSM's general use, and therefore, is restricted. At December 31, 2006 and 2005, securities lending cash collateral totaled \$1,137,880,643 and \$550,844,151, respectively, and non-cash collateral totaled \$324,364,616 and \$6,569,145, respectively.

18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED A&H PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS

A. ASO Plans – NOT APPLICABLE

B. ASC Plans - The gain from operations from ASC uninsured plans and the uninsured portion of partially insured plans (ASC plans with stop loss coverage) as of December, 31, 2006 are as follows (in thousands):

NOTES TO FINANCIAL STATEMENTS

	<u>ASC Plans without stoploss</u>	<u>ASC Plans with stoploss</u>	<u>Total</u>
Gross reimbursement for medical cost incurred	\$ 3,078,033	\$ 4,566,245	\$ 7,644,278
Gross administrative fees accrued	244,981	455,990	700,971
Subsidy transfer	(695)	(50,042)	(50,737)
Gross expenses incurred (claims and administrative)	<u>3,338,413</u>	<u>4,979,567</u>	<u>8,317,980</u>
Total net gain from operations	<u>\$ (16,094)</u>	<u>\$ (7,374)</u>	<u>\$ (23,468)</u>

	<u>Insured</u>	<u>ASC</u>	<u>Total</u>
Premium fees and reimbursements	<u>\$ 5,805,419</u>	<u>\$ 8,345,249</u>	<u>\$ 14,150,668</u>
Claims Incurred	5,205,222	7,644,278	12,849,500
Premium deficiency charge	(26,477)	-	(26,477)
Administrative Expenses	<u>653,135</u>	<u>673,702</u>	<u>1,326,837</u>
Total Operating Expenses	5,831,880	8,317,980	14,149,860
Senior Cost Transfer	<u>50,737</u>	<u>(50,737)</u>	<u>-</u>
Underwriting Gain/(Loss)	<u>\$ 24,276</u>	<u>\$ (23,468)</u>	<u>\$ 808</u>

A. Medicare or Similarly Structured Cost Based Reimbursement Contract – NOT APPLICABLE

19. DIRECT PREMIUM WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS/THIRD PARTY ADMINISTRATORS NOT APPLICABLE

SEPTEMBER 11 EVENTS – NOT APPLICABLE

OTHER ITEMS

A. Extraordinary Items – NOT APPLICABLE

B. Troubled Debt Restructuring – NOT APPLICABLE

C. Other Disclosures:

Blue Cross Blue Shield Association ("BCBSA") Deposit - As part of its Blue Cross Blue Shield Association ("BCBSA") license requirements, the Company is required to maintain a custodial bank account to assure the payment of claims in the event of the Company's insolvency. The account balance is calculated as a percentage of the Company's unpaid claim liability and consists primarily of marketable securities. The funds in the account are included in the Company's investment portfolio. The Company has the ability to trade and transfer securities within the account as long as the balance in the account is at or above the required minimum. The required balance for the period April 1, 2006 through March 31, 2007, is \$114.3 million. At December 31, 2006, the balance in this custodial account was \$164.8 million.

Industry Concentration— The Company primarily conducts business within the State of Michigan. A significant portion of the Company's customer base is concentrated in companies that are part of the automobile manufacturing industry. Receivables from these customers of \$118.1 million and \$103.6 million at December 31, 2006 and 2005, respectively, primarily represent reimbursable claims and administrative fees for services provided to them as part of their ASC arrangements with the Company. The Company held cash advances from these customers of \$20.8 million and \$19.7 million at December 31, 2006 and 2005, respectively, to partially offset these receivables. In addition, the Company holds investments in these customers' equity securities, corporate bonds, commercial paper, and medium-term notes with a total fair value of \$12.5 million and \$84.5 million at December 31, 2006 and 2005, respectively.

D. Uncollectible Assets on Uninsured plans – NOT APPLICABLE

E. Noncash Transactions – NOT APPLICABLE

F. Business Interruption Insurance Recoveries – NOT APPLICABLE

20. EVENTS SUBSEQUENT – NONE

NOTES TO FINANCIAL STATEMENTS

REINSURANCE – NOT APPLICABLE

RETROSPECTIVELY RATED CONTRACTS AND CONTRACTS SUBJECT TO REDETERMINATION

- A. A liability is established for experience rated group contracts as a result of favorable experience based on an actuarial estimate of underwriting gains which will be returned to groups, either as cash refunds or future rate reductions. Under terms of most of the experience rated group contracts, recovery, if any, of underwriting losses through future rate increases is not recognized until received. The off-balance sheet receivables arising from underwriting losses for experience rated groups are \$36,480,181 and \$36,933,001 as of December 31, 2005 and 2004, respectively.
- B. During 2006 and 2005, net premiums written that are subject to retrospective rating features were \$2,073,981,182 and \$3,557,588,000, respectively, which represents 36% and 63%, respectively, of total net premiums written.

21. CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES -

This estimate is based upon historical claims experience modified for current trends and changes in benefit coverage, which could vary as the claims are ultimately settled. Processing expense related to claims is accrued based on an estimate of expenses to process such claims. Revisions in actuarial estimates are reported in the period in which they arise.

26. INTER-COMPANY POOLING ARRANGEMENTS – NOT APPLICABLE

27. STRUCTURED SETTLEMENTS – NOT APPLICABLE

28. HEALTH CARE RECEIVABLES – The Company receives pharmaceutical rebates from third-party pharmacy benefit managers. These rebates are calculated using estimates based on guaranteed rebate rates, drug benefit trends and membership. Activity for 2006 and 2005 is summarized as follows (in thousands):

Quarter	Estimated	Pharmacy Rebates	Actual Rebates	Actual Rebates	
	Pharmacy Rebates	as Billed	Received	Received	
	as Reported on	or Otherwise	Within 91 to 180	More Than 180 Days	
	Financial Statements	Confirmed	90 Days of Billing	Days of Billing	After Billing
12/31/2006	\$ 25,840	\$ 13,429	\$ 13,429	\$ -	\$ -
9/30/2006	\$ 32,946	\$ 28,552	\$ 28,552	\$ -	\$ -
6/30/2006	\$ 30,948	\$ 37,904	\$ 37,904	\$ -	\$ -
3/31/2006	\$ 37,539	\$ 33,767	\$ 33,767	\$ -	\$ -
12/31/2005	\$ 37,696	\$ 36,029	\$ 36,029	\$ -	\$ 5,266
9/30/2005	\$ 23,828	\$ 26,623	\$ 26,623	\$ 368	\$ 5,266
6/30/2005	\$ 23,890	\$ 31,919	\$ 31,919	\$ -	\$ 5,664
3/31/2005	\$ 24,148	\$ 35,062	\$ 35,062	\$ -	\$ 5,664

29. PARTICIPATING POLICIES – NOT APPLICABLE

30. PREMIUM DEFICIENCY RESERVES

A liability for premium deficiency losses is recognized when it is probable that expected claim losses and allocable administrative expenses will exceed future premiums on existing health and other contracts without consideration of investment income. For purposes of premium deficiency losses, contracts are grouped in a manner consistent with the Company's method of acquiring, servicing and measuring the profitability of such contracts. The anticipated losses are reported as an increase in reserves for life and accident and health contracts. Once established, premium deficiency losses are released over the period that the contract is in a loss position. Premium deficiency reserves consist of the following:

NOTES TO FINANCIAL STATEMENTS

	Balance 12/31/2005	Additional Provision	Amortization	Balance 12/31/2006
MICchild	\$ 15,700	\$ 15,500	\$ 20,577	\$ 10,623
Individual	61,200	12,000	36,600	36,600
Medicare Complementary	195,000	88,400	85,200	198,200
Total	<u>\$271,900</u>	<u>\$ 115,900</u>	<u>\$ 142,377</u>	<u>\$ 245,423</u>
			Medicare	
Projected Loss by Year	MICchild	Individual	Comp	Total
2007 year	\$ 10,623	\$ 25,050	\$ 88,149	\$ 123,822
2008 year		10,060	68,449	78,509
2009 year		1,490	41,602	43,092
	<u>\$ 10,623</u>	<u>\$ 36,600</u>	<u>\$ 198,200</u>	<u>\$ 245,423</u>

The MICchild premium deficiency reserve ("PDR") was established for the anticipated losses on the state sponsored insurance program, which provides health and dental benefits for uninsured children of Michigan's working families. The \$15,700,000 balance at December 31, 2005, was the estimated loss for the contract period in effect ending September 30, 2006. At October 1, 2006, the Company established a new premium deficiency reserve of \$15,500,000 based on a current valuation of anticipated losses for the new contract period ending September 30, 2007. At December 31, 2006 the outstanding balance of \$10,623,000 represents anticipated losses for the current contract period. In 2006 the Company obtained a letter of understanding from the State of Michigan that limited underwriting losses from the MICchild program for the contract years ending in both 2006 and 2007 to \$15,500,000, as such a receivable for excess losses of \$3,871,000 was established at December 31, 2006.

The premium deficiency reserve for the Company's Individual business line was established for anticipated losses for the contract years 2007 through 2009 primarily due to the likelihood of lower than expected future premium rate increases and higher than anticipated benefit trends.

The premium deficiency reserve established at December 31, 2005 for the Medicare complimentary line of business was for anticipated losses for the contract years 2006 through 2008. The additional provision for losses through 2009 in the amount of \$88,400 was based on revised premium rate increase assumptions. The revised estimates assume rate increases of 20% in 2007 and 15% in years 2008 through 2009 with a July effective date compared to a January effective date assumed at December 31, 2005.

31. ANTICIPATED SALVAGE AND SUBROGATION - Anticipated salvage and subrogation is included as a reduction to claims unpaid as reported on line 1, page 3 as follows.

	2006	2005
2000 Accident Year	-	-
2001 Accident Year	-	511
2002 Accident Year	-	1,455
2003 Accident Year	3,016	2,556
2004 Accident Year	9,466	366,224
2005 Accident Year	1,364,548	2,842,758
2006 Accident Year	10,820,156	

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.....	543,964,665	11.3	543,964,665	11.7
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies.....	260,341,383	5.4	260,341,383	5.6
1.22 Issued by U.S. government sponsored agencies.....	100,000	0.0	100,000	0.0
1.3 Foreign government (including Canada, excluding mortgage-backed securities).....		0.0		0.0
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations.....		0.0		0.0
1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations.....		0.0		0.0
1.43 Revenue and assessment obligations.....		0.0		0.0
1.44 Industrial development and similar obligations.....		0.0		0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA.....	879,359,922	18.3	879,359,922	19.0
1.512 Issued or guaranteed by FNMA and FHLMC.....	155,602,988	3.2	155,602,988	3.4
1.513 All other.....		0.0		0.0
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA.....	60,444,090	1.3	60,444,090	1.3
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.....		0.0		0.0
1.523 All other.....		0.0		0.0
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO).....	845,258,448	17.6	845,258,448	18.2
2.2 Unaffiliated foreign securities.....		0.0		0.0
2.3 Affiliated securities.....		0.0		0.0
3. Equity interests:				
3.1 Investments in mutual funds.....	121,179,410	2.5	121,179,410	2.6
3.2 Preferred stocks:				
3.21 Affiliated.....		0.0		0.0
3.22 Unaffiliated.....	1,778,449	0.0	1,778,449	0.0
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated.....		0.0		0.0
3.32 Unaffiliated.....	495,471,049	10.3	495,471,049	10.7
3.4 Other equity securities:				
3.41 Affiliated.....	1,024,331,953	21.3	866,991,505	18.7
3.42 Unaffiliated.....		0.0		0.0
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated.....		0.0		0.0
3.52 Unaffiliated.....		0.0		0.0
4. Mortgage loans:				
4.1 Construction and land development.....		0.0		0.0
4.2 Agricultural.....		0.0		0.0
4.3 Single family residential properties.....		0.0		0.0
4.4 Multifamily residential properties.....		0.0		0.0
4.5 Commercial loans.....		0.0		0.0
4.6 Mezzanine real estate loans.....		0.0		0.0
5. Real estate investments:				
5.1 Property occupied by company.....	201,107,249	4.2	201,107,249	4.3
5.2 Property held for production of income (including \$.....0 of property acquired in satisfaction of debt).....		0.0		0.0
5.3 Property held for sale (including \$.....0 property acquired in satisfaction of debt).....		0.0		0.0
6. Contract loans.....		0.0		0.0
7. Receivables for securities.....	260,237,898	5.4	260,237,898	5.6
8. Cash, cash equivalents and short-term investments.....	(95,494,281)	(2.0)	(95,494,281)	(2.1)
9. Other invested assets.....	45,829,954	1.0	38,956,779	0.8
10. Total invested assets.....	4,799,513,177	100.0	4,635,299,554	100.0

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 [] N/A []

1.3 State regulating? Michigan

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [] No [X]

2.2 If yes, date of change: _____

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). 06/16/2005

3.4 By what department or departments? Office of Financial and Insurances Services

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 a 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 Co. 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(ies) of the foreign person(s) or entity(ies); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(ies) (e.g., individual, corporation, government, manager or attorney-in-fact)

1 Nationality	2 Type of Entity

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?
Deloitte & Touche, Suite 900, 600 Renaissance Center, Detroit, Michigan 48243-1704

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?
John Dunn FSA MAAA Vice President and Corporate Actuary
Blue Cross Blue Shield of Michigan, 600 E.Lafayette, MC 1850, Detroit, Michigan 48226

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. _____

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

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 [] N/A []

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 is 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 the 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 assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the 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 parent, subsidiaries or affiliates on Page 2 of this statement? Yes [X] No []
 19.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount. \$.....32,846,675

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.
 Certain securities are subject to a security lending agreement with State Street 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 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 \$.....1,137,880,643
 21.22 Subject to repurchase agreements \$.....0
 21.23 Subject to reverse repurchase agreements \$.....0
 21.24 Subject to dollar repurchase agreements \$.....0
 21.25 Subject to reverse dollar repurchase agreements \$.....0
 21.26 Pledged as collateral \$.....293,205,718
 21.27 Placed under option agreements \$.....0
 21.28 Letter stock or securities restricted as to sale \$.....0
 21.29 Other \$.....0

21.3 For category (21.28) provide the following:

1	2	3
Nature of Restriction	Description	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 [] N/A [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 [] No [X]
 23.2 If yes, state the amount thereof at December 31 of the current year:

GENERAL INTERROGATORIES

PART 1 - COMMON 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
State Street Insurance Services	801 Pennsylvania Kansas City MI 64105
Federal Home Loan Bank of Indianapolis	8250 Woodfield Crossing, Indianapolis IN 46240
Comerica Bank	Institutional Trust, P.O Box 75000, Detroit, MI 48275

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)	3 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	3 Address

25.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5(b)(1)])? Yes [X] No []

25.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adj. Carrying Value
78462F 10 3	Spy Exchange Traded Funds	218,119,428
921913 30 7	Vanguard Structured L/C	111,790,924
595635 10 3	SPDR Midcap Trust	28,408,588
464287 65 5	Russell 2000 Index	26,083,529
722005 62 6	PIMCO All Asset Fund	14,398,160
25.2999. TOTAL		398,800,629

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

1 Name of Mutual Fund (from the above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to Holding	4 Date of Valuation
SPY Exchange Traded Funds	Exxon Mobil	7,239,384	12/31/2006
Vanguard Structured L/C	Exxon Mobil	4,024,473	12/31/2006
SPDR Midcap Trust	Precision Castparts CORP	258,518	12/31/2006
Russell 2000 Index	Veritas DGC,INC	31,676	12/31/2006

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.....	2,766,354,998	2,768,244,495	1,889,497
26.2 Preferred stocks.....	1,778,449	1,790,929	12,480
26.3 Totals.....	2,768,133,447	2,770,035,424	1,901,977

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

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 exceptions:

OTHER

28.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? \$.....5,576,526

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
Blue Cross blue Shield Association	5,409,689

29.1 Amount of payments for legal expenses, if any? \$.....2,675,000

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
Dickonson Wright	1,376,000

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

- 30.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? \$.....335,591
- 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

BLUE CROSS BLUE SHIELD OF MICHIGAN GENERAL INTERROGATORIES (continued)

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 \$.....221,429,713
- 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. \$.....378,640,677
- 1.6 Individual policies:
- Most current three years:
- 1.61 Total premium earned \$.....221,429,713
- 1.62 Total incurred claims \$.....378,640,677
- 1.63 Number of covered lives214,937
- All years prior to most current three years:
- 1.64 Total premium earned \$.....0
- 1.65 Total incurred claims \$.....0
- 1.66 Number of covered lives0
- 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 lives0
- 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 lives0

2. Health test:

	1 Current Year	2 Prior Year
2.1 Premium Numerator.....	5,797,965,357	5,614,912,576
2.2 Premium Denominator.....	5,865,134,213	5,614,912,576
2.3 Premium Ratio (2.1/2.2).....	98.9	100.0
2.4 Reserve Numerator.....	1,437,636,397	1,420,908,165
2.5 Reserve Denominator.....	1,438,797,979	1,341,236,890
2.6 Reserve Ratio (2.4/2.5).....	99.9	105.9

- 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 departments 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 [X] No []
- 5.1 Does the reporting entity have stop-loss reinsurance? Yes [] No [X]
- 5.2 If no, explain:
Blue Cross Blue Shield of Michigan does not utilize stop-loss reinsurance due to the size and stability of the business and sufficient levels of capitalization

- 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:
Maintain a restricted custodial bank account determined on the basis of a formula set by BCBSA and continuation insurance coverage with Collins and Associates.

- 7.1 Does the reporting entity set up its claim liability for provider services on a service date base? Yes [] No [X]
- 7.2 If no, give details:
Claims liabilities are based on paid/incurred claims triangulation

8. Provide the following information regarding participating providers:
- 8.1 Number of providers at start of reporting year38,020
- 8.2 Number of providers at end of reporting year38,751

- 9.1 Does the reporting entity have business subject to premium rate guarantees? Yes [X] No []
- 9.2 If yes, direct premium earned:
- 9.21 Business with the rate guarantees between 15-36 months \$.....0
- 9.22 Business with rate guarantees over 36 months \$.....0

- 10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus arrangements in its provider contracts? Yes [X] No []
- 10.2 If yes:
- 10.21 Maximum amount payable bonuses \$.....0
- 10.22 Amount actually paid for year bonuses \$.....20,037,381
- 10.23 Maximum amount payable withholds \$.....23,137,879
- 10.24 Amount actually paid for year withholds \$.....0

GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

- 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 [] No [X]
- 11.3 If yes, show the name of the state requiring such net worth. _____
- 11.4 If yes, show the amount required. _____
- 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:

12. List service areas in which reporting entity is licensed to operate:

1 Name of Service Area
Michigan

FIVE-YEAR HISTORICAL DATA

	1 2006	2 2005	3 2004	4 2003	5 2002
Balance Sheet Items (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 26).....	5,237,887,264	4,846,088,978	4,323,733,105	4,256,344,275	3,823,581,501
2. Total liabilities (Page 3, Line 22).....	2,736,443,080	2,385,068,109	2,080,025,393	2,358,220,996	2,291,231,819
3. Statutory surplus.....	2,501,444,184	2,461,020,869	2,243,707,712	1,898,123,279	1,532,349,682
4. Total capital and surplus (Page 3, Line 31).....	2,501,444,184	2,461,020,869	2,243,707,712	1,898,123,279	1,532,349,682
Income Statement Items (Page 4)					
5. Total revenues (Line 8).....	5,805,419,538	5,523,155,022	5,518,400,812	5,554,674,204	5,287,341,438
6. Total medical and hospital expenses (Line 18).....	5,205,222,315	4,764,024,261	4,741,767,141	4,784,056,750	4,603,132,705
7. Claims adjustment expenses (Line 20).....	179,680,979	162,363,543	146,094,381	140,978,497	143,276,612
8. Total administrative expenses (Line 21).....	446,184,971	382,867,090	334,178,455	362,475,685	455,198,242
9. Net underwriting gain (loss) (Line 24).....	808,273	104,500,128	168,860,835	232,163,272	85,733,879
10. Net investment gain (loss) (Line 27).....	181,831,855	145,840,683	169,584,382	91,865,207	85,222,156
11. Total other income (Lines 28 plus 29).....	11,930,239	12,790,186	37,392,858	118,792,295	37,774,108
12. Net income or (loss) (Line 32).....	158,926,121	193,004,312	238,811,712	374,497,394	161,382,896
Risk-Based Capital Analysis					
13. Total adjusted capital.....	2,501,444,184	2,461,020,869	2,243,707,712	1,898,123,279	1,532,349,682
14. Authorized control level risk-based capital.....	317,971,740	276,012,909	282,994,740	299,806,439	267,570,296
Enrollment (Exhibit 1)					
15. Total members at end of period (Column 5, Line 7).....	2,569,448	2,540,301	2,621,892	2,698,830	2,659,983
16. Total member months (Column 6, Line 7).....	30,854,629	30,862,149	31,590,818	35,468,309	32,511,278
Operating Percentage (Page 4) (Item divided by Page 4, sum of Lines 2, 3, and 5) x 100					
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 (Line 18 plus Line 19).....	89.7	86.3	85.9	86.1	87.1
19. Cost containment expenses.....	1.1	0.8	0.9	XXX	XXX
20. Other claims adjustment expenses.....	2.0	2.1	2.6		
21. Total underwriting deductions (Line 23).....	100.0	98.1	96.9	95.8	98.4
22. Total underwriting gain (loss) (Line 24).....	0.0	1.9	3.1	4.2	1.6
Unpaid Claims Analysis (U&I Exhibit, Part 2B)					
23. Total claims incurred for prior years (Line 13 Col. 5).....	450,712,757	458,613,882	482,601,216	518,953,914	533,853,556
24. Estimated liability of unpaid claims - [prior year (Line 13, Col. 6)]	469,080,844	481,433,976	576,481,245	567,360,979	637,430,199
Investments in Parent, Subsidiaries and Affiliates					
25. Affiliated bonds (Sch. D Summary, Line 25, Col. 1).....					
26. Affiliated preferred stocks (Sch D. Summary, Line 39, Col. 1).....					
27. Affiliated common stocks (Sch D. Summary, Line 53, Col. 2).....	1,024,332,105	920,545,469	839,255,522	695,666,322	593,825,933
28. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Col. 5, Line 11).....					
29. Affiliated mortgage loans on real estate.....					
30. All other affiliated.....					
31. Total of above Lines 25 to 30.....	1,024,332,105	920,545,469	839,255,522	695,666,322	593,825,933

SCHEDULE D - SUMMARY BY COUNTRY

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

Description	1 Book/Adjusted Carrying Value	2 Fair Value	3 Actual Cost	4 Par Value of Bonds
BONDS				
Governments (Including all obligations guaranteed by governments)	1. United States.....804,306,048	.....805,636,435	.....804,135,786	.....790,100,000
	2. Canada.....	.....	.....	.....
	3. Other Countries.....100,000	.....100,000	.....100,000	.....100,000
	4. Totals.....804,406,048	.....805,736,435	.....804,235,786	.....790,200,000
States, Territories and Possessions (Direct and guaranteed)	5. United States.....	.....	.....	.....
	6. Canada.....	.....	.....	.....
	7. Other Countries.....	.....	.....	.....
	8. Totals.....0	.....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	.....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.....939,804,010	.....941,735,446	.....939,203,372	.....947,320,190
	14. Canada.....	.....	.....	.....
	15. Other Countries.....	.....	.....	.....
	16. Totals.....939,804,010	.....941,735,446	.....939,203,372	.....947,320,190
Public Utilities (Unaffiliated)	17. United States.....	.....	.....	.....
	18. Canada.....	.....	.....	.....
	19. Other Countries.....	.....	.....	.....
	20. Totals.....0	.....0	.....0	.....0
Industrial and Miscellaneous and Credit Tenant Loans (Unaffiliated)	21. United States.....983,127,884	.....990,683,342	.....985,065,306	.....985,027,460
	22. Canada.....154,751	.....158,286	.....155,938	.....150,000
	23. Other Countries.....17,578,654	.....18,431,688	.....17,559,635	.....18,085,000
	24. Totals.....1,000,861,289	.....1,009,273,316	.....1,002,780,879	.....1,003,262,460
Parent, Subsidiaries and Affiliates	25. Totals.....	.....	.....	.....
	26. Total Bonds.....2,745,071,347	.....2,756,745,197	.....2,746,220,037	.....2,740,782,650
PREFERRED STOCKS				
Public Utilities (Unaffiliated)	27. United States.....	.....	.....	.....
	28. Canada.....	.....	.....	.....
	29. Other Countries.....	.....	.....	.....
	30. Totals.....0	.....0	.....0	.....0
Banks, Trust and Insurance Companies (Unaffiliated)	31. United States.....1,426,000	.....1,426,000	.....1,426,000	.....
	32. Canada.....	.....	.....	.....
	33. Other Countries.....	.....	.....	.....
	34. Totals.....1,426,000	.....1,426,000	.....1,426,000	.....
Industrial and Miscellaneous (Unaffiliated)	35. United States.....352,449	.....364,929	.....352,626	.....
	36. Canada.....	.....	.....	.....
	37. Other Countries.....	.....	.....	.....
	38. Totals.....352,449	.....364,929	.....352,626	.....
Parent, Subsidiaries and Affiliates	39. Totals.....	.....	.....	.....
	40. Total Preferred Stocks.....1,778,449	.....1,790,929	.....1,778,626	.....
COMMON STOCKS				
Public Utilities (Unaffiliated)	41. United States.....	.....	.....	.....
	42. Canada.....	.....	.....	.....
	43. Other Countries.....	.....	.....	.....
	44. Totals.....0	.....0	.....0	.....0
Banks, Trust and Insurance Companies (Unaffiliated)	45. United States.....	.....	.....	.....
	46. Canada.....	.....	.....	.....
	47. Other Countries.....	.....	.....	.....
	48. Totals.....0	.....0	.....0	.....0
Industrial and Miscellaneous (Unaffiliated)	49. United States.....616,650,459	.....616,650,459	.....561,129,921	.....
	50. Canada.....	.....	.....	.....
	51. Other Countries.....	.....	.....	.....
	52. Totals.....616,650,459	.....616,650,459	.....561,129,921	.....
Parent, Subsidiaries and Affiliates	53. Totals.....1,024,332,105	.....1,024,332,105	.....360,510,218	.....
	54. Total Common Stocks.....1,640,982,564	.....1,640,982,564	.....921,640,139	.....
	55. Total Stocks.....1,642,761,013	.....1,642,773,493	.....923,418,765	.....
	56. Total Bonds and Stocks.....4,387,832,360	.....4,399,518,690	.....3,669,638,802	.....

SCHEDULE D - VERIFICATION BETWEEN YEARS

Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year.....	3,742,905,001	7. Amortization of premium.....	4,227,419
2. Cost of bonds and stocks acquired, Column 7, Part 3.....	5,496,713,734	8. Foreign exchange adjustment:	
3. Accrual of discount.....	3,946,164	8.1 Column 15, Part 1.....	
4. Increase (decrease) by adjustment:		8.2 Column 19, Part 2, Section 1.....	
4.1 Columns 12 - 14, Part 1.....	(2,201,867)	8.3 Column 16, Part 2, Section 2.....	
4.2 Columns 15 - 17, Part 2, Section 1.....	2,136	8.4 Column 15, Part 4.....	0
4.3 Column 15, Part 2, Section 2.....	159,250,115	9. Book/adjusted carrying value at end of current period.....	4,387,832,360
4.4 Columns 11 - 13, Part 4.....	(11,204,713)	10. Total valuation allowance.....	
5. Total gain (loss), Column 19, Part 4.....	(11,000,024)	11. Subtotal (Lines 9 plus 10).....	4,387,832,360
6. Deduct consideration for bonds and stocks disposed of, Column 7, Part 4....	4,986,350,767	12. Total nonadmitted amounts.....	157,340,448
		13. Statement value of bonds and stocks, current year.....	4,230,491,912

BLUE CROSS BLUE SHIELD OF MICHIGAN SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

State, Etc.	1	2	Direct Business Only					
			3	4	5	6	7	8
	Guaranty Fund (YES or NO)	Is Insurer Licensed? (YES or NO)	Accident & Health Premiums	Medicare Title XVIII	Medicaid Title XIX	Federal Employees Health Benefits Program Premiums	Life & Annuity Premiums and Deposit-Type Contract Funds	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	NO	NO						
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	NO	NO						
22. Massachusetts.....MA	NO	NO						
23. Michigan.....MI	NO	YES	5,364,269,756	230,121,742		270,742,715		
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	NO						
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	NO	NO						
57. Canada.....CN	NO	NO						
58. Aggregate Other alien.....OT	XXX	XXX	.0	.0	.0	.0	.0	.0
59. Subtotal.....	XXX	XXX	5,364,269,756	230,121,742	.0	270,742,715	.0	.0
60. Reporting entity contributions for Employee Benefit Plans.....	XXX	XXX						
61. Total (Direct Business).....	XXX	(a).....1	5,364,269,756	230,121,742	.0	270,742,715	.0	.0

DETAILS OF WRITE-INS

5801.								
5802.								
5803.								
5898. Summary of remaining write-ins for line 58 from overflow page.....			.0	.0	.0	.0	.0	.0
5899. Total (Lines 5801 thru 5803 plus 5898) (Line 58 above).....			.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.

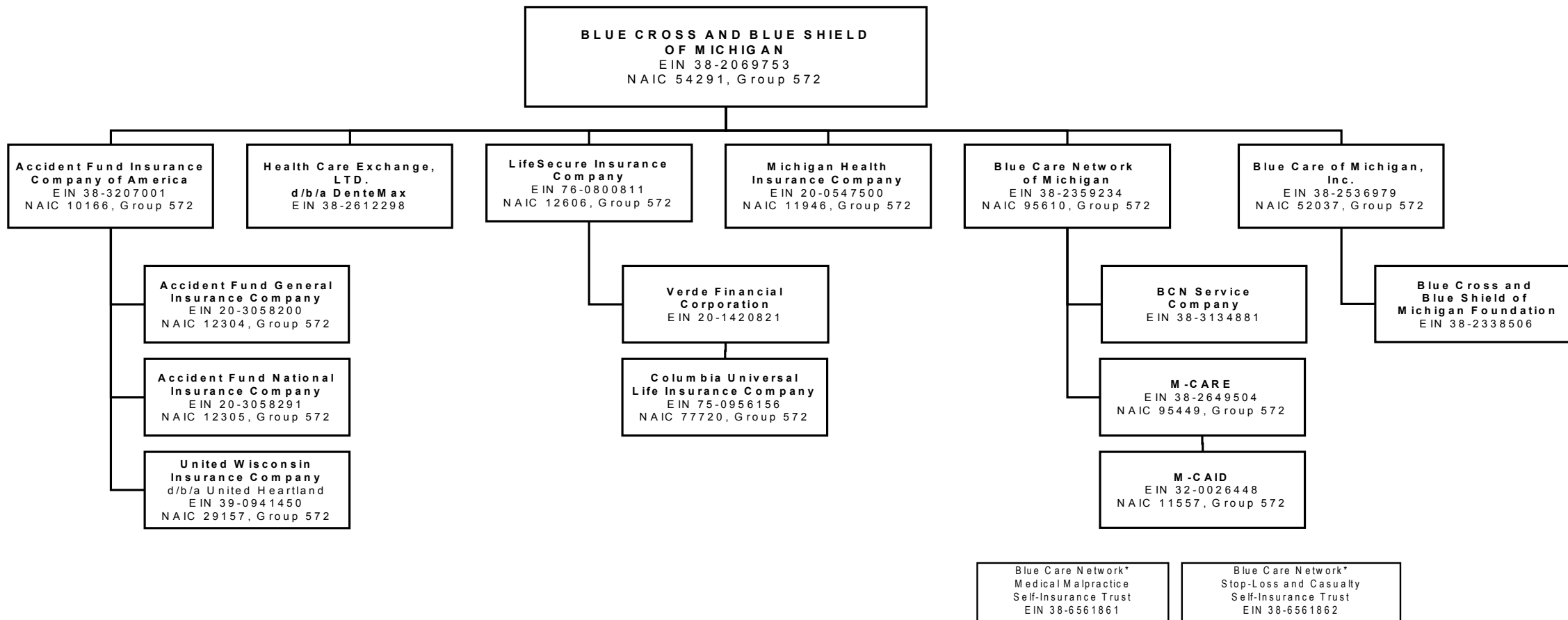
SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART



A nonprofit corporation and independent licensee of the Blue Cross and Blue Shield Association

SUBSIDIARY & AFFILIATE ORGANIZATION CHART



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* Blue Care Network of Michigan participates in these Trusts for self-insurance purposes.