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ANNUAL STATEMENT

For the Year Ending December 31, 2006

of the Condition and Affairs of the

Physicians Health Plan of Mid-Michigan

NAIC Group Code.....3408, 3408 (Current Period) (Prior Period) NAIC Company Code..... 95849 Employer's ID Number..... 38-2356288

Organized under the Laws of Michigan State of Domicile or Port of Entry Michigan Country of Domicile US

Licensed as Business Type..... Is HMO Federally Qualified? Yes [ ] No [X]

Incorporated/Organized..... December 18, 1980 Commenced Business..... October 1, 1981

Statutory Home Office	1400 E. Michigan Avenue….. Lansing ..... MI ..... 48912 *(Street and Number) (City, State and Zip Code)*	
Main Administrative Office	1400 E. Michigan Avenue….. Lansing ..... MI ..... 48912 *(Street and Number) (City, State and Zip Code)*	517-364-8400 *(Area Code) (Telephone Number)*
Mail Address	PO Box 30377….. Lansing ..... MI ..... 48909 *(Street and Number or P. O. Box) (City, State and Zip Code)*	
Primary Location of Books and Records	1400 E. Michigan Avenue….. Lansing ..... MI ..... 48912 *(Street and Number) (City, State and Zip Code)*	517-364-8400 *(Area Code) (Telephone Number)*
Internet Website Address	www.phpmm.org	
Statutory Statement Contact	Jackie Eddy *(Name)*	517-364-8400 *(Area Code) (Telephone Number) (Extension)*
	jackie.eddy@phpmm.org *(E-Mail Address)*	517-364-8407 *(Fax Number)*
Policyowner Relations Contact	1400 E. Michigan Avenue….. Lansing ..... MI ..... 48912 *(Street and Number) (City, State and Zip Code)*	517-364-8400 *(Area Code) (Telephone Number) (Extension)*

OFFICERS

Name	Title	Name	Title
1. Scott Wilkerson #	President	2. Chris Bergman #	Treasurer
3. David Vis #	Assistant Secretary	4. Randy Rifkin	Secretary

OTHER

Chairperson Marylee Davis

DIRECTORS OR TRUSTEES

Wendell Barron	Larry Rawsthorne MD	Dawn Springer MD	Martha Bibbs
Dennis Swan	Virginia Hilbert	Randolph Rifkin	Dennis Muchmore
Richard Bruner	Marylee Davis Ph.D.	Donald Knickerbocker MD	Patrick Gribben Jr
Chris Bergman #	Scott Wilkerson #	Brian McCardel MD	

State of..... Michigan
County of..... Ingham

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)	(Signature)	(Signature)
Scott Wilkerson #	Chris Bergman #	David Vis #
1. (Printed Name)	2. (Printed Name)	3. (Printed Name)
President	Treasurer	Assistant Secretary
(Title)	(Title)	(Title)

Subscribed and sworn to before me

This _____ day of _____

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

b. If no 1. State the amendment number _____

2. Date filed _____

3. Number of pages attached _____

ASSETS

	Current Year 1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	Prior Year 4 Net Admitted Assets
1. Bonds (Schedule D)			0	
2. Stocks (Schedule D):				
2.1 Preferred stocks			0	
2.2 Common stocks	22,480,212		22,480,212	24,141,329
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)	2,615,485		2,615,485	3,015,729
4.2 Properties held for the production of income (less $.....0 encumbrances)			0	
4.3 Properties held for sale (less $.....0 encumbrances)			0	
5. Cash ($.....(5,314,928), Sch. E-Part 1), cash equivalents ($.....0, Sch. E-Part 2) and short-term investments ($.....40,312,142, Sch. DA)	34,997,214		34,997,214	39,617,486
6. Contract loans (including $.....0 premium notes)			0	
7. Other invested assets (Schedule BA)	7,294,899	692,567	6,602,332	6,106,778
8. Receivables for securities			0	8,249
9. Aggregate write-ins for invested assets	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	67,387,810	692,567	66,695,243	72,889,571
11. Title plants less $.....0 charged off (for Title insurers only)			0	
12. Investment income due and accrued	193,829		193,829	154,205
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in course of collection	449,412	33,938	415,474	385,286
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $.....0 earned but unbilled premiums)			0	
13.3 Accrued retrospective premiums			0	
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers	1,339,346	586,141	753,205	
14.2 Funds held by or deposited with reinsured companies			0	
14.3 Other amounts receivable under reinsurance contracts			0	
15. Amounts receivable relating to uninsured plans			0	
16.1 Current federal and foreign income tax recoverable and interest thereon			0	
16.2 Net deferred tax asset			0	
17. Guaranty funds receivable or on deposit			0	
18. Electronic data processing equipment and software	10,710,997	10,710,997	0	293,556
19. Furniture and equipment, including health care delivery assets ($.....0)	350,817	350,817	0	110,308
20. Net adjustment in assets and liabilities due to foreign exchange rates			0	
21. Receivables from parent, subsidiaries and affiliates	2,700,589	36,786	2,663,803	568,232
22. Health care ($.....1,437,409) and other amounts receivable	1,886,885	84,828	1,802,057	3,185,453
23. Aggregate write-ins for other than invested assets	844,987	844,987	0	0
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	85,864,672	13,341,061	72,523,611	77,586,611
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0	
26. TOTALS (Lines 24 and 25)	85,864,672	13,341,061	72,523,611	77,586,611

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. Prepaids	844,987	844,987	0	
2302.			0	
2303.			0	
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above)	844,987	844,987	0	0

LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less $.....0 reinsurance ceded)	22,502,361	1,693,726	24,196,087	20,709,494
2. Accrued medical incentive pool and bonus amounts	12,900,856		12,900,856	11,524,362
3. Unpaid claims adjustment expenses	518,416		518,416	508,409
4. Aggregate health policy reserves			0	
5. Aggregate life policy reserves			0	
6. Property/casualty unearned premium reserve			0	
7. Aggregate health claim reserves			0	
8. Premiums received in advance	452,848		452,848	2,094,348
9. General expenses due or accrued	1,635,303		1,635,303	1,455,568
10.1 Current federal and foreign income tax payable and interest thereon (including $.....0 on realized capital gains (losses))			0	
10.2 Net deferred tax liability			0	
11. Ceded reinsurance premiums payable			0	
12. Amounts withheld or retained for the account of others	153,569		153,569	100,384
13. Remittances and items not allocated	1,216		1,216	
14. Borrowed money (including $.....0 current) and interest thereon $.....0 (including $.....0 current)			0	
15. Amounts due to parent, subsidiaries and affiliates	2,025,681		2,025,681	6,447,808
16. Payable for securities			0	7,751
17. Funds held under reinsurance treaties with ($.....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			0	
21. Aggregate write-ins for other liabilities (including $.....0 current)	0	0	0	0
22. Total liabilities (Lines 1 to 21)	40,190,250	1,693,726	41,883,976	42,848,124
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	2,000,000
29. Unassigned funds (surplus)	XXX	XXX	30,639,635	32,738,487
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	30,639,635	34,738,487
32. Total liabilities, capital and surplus (Lines 22 and 31)	XXX	XXX	72,523,611	77,586,611

DETAILS OF WRITE-INS

2101.			0	
2102.			0	
2103.			0	
2198. Summary of remaining write-ins for Line 21 from overflow page	0	0	0	0
2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above)	0	0	0	0
2301.	XXX	XXX		
2302.	XXX	XXX		
2303.	XXX	XXX		
2398. Summary of remaining write-ins for Line 23 from overflow page	XXX	XXX	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above)	XXX	XXX	0	0
2801. Statutory Contingency Reserve	XXX	XXX		2,000,000
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	2,000,000

STATEMENT OF REVENUE AND EXPENSES

	Current Year 1 Uncovered	Current Year 2 Total	Prior Year 3 Total
1. Member months	XXX	820,075	835,340
2. Net premium income (including $.....0 non-health premium income)	XXX	230,417,691	214,379,719
3. Change in unearned premium reserves and reserve for rate credits	XXX		
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	230,417,691	214,379,719
Hospital and Medical:			
9. Hospital/medical benefits	9,590,317	137,004,525	129,028,011
10. Other professional services	1,204,452	17,206,451	14,422,106
11. Outside referrals			
12. Emergency room and out-of-area	632,630	9,037,578	8,042,534
13. Prescription drugs	2,170,878	31,012,548	29,492,568
14. Aggregate write-ins for other hospital and medical	0	253,771	(220,788)
15. Incentive pool, withhold adjustments and bonus amounts		12,582,897	11,158,709
16. Subtotal (Lines 9 to 15)	13,598,277	207,097,770	191,923,140
Less:			
17. Net reinsurance recoveries		1,408,063	473,941
18. Total hospital and medical (Lines 16 minus 17)	13,598,277	205,689,707	191,449,199
19. Non-health claims (net)			
20. Claims adjustment expenses, including $.....149,173 cost containment expenses		4,897,343	4,911,305
21. General administrative expenses		15,448,303	14,060,997
22. Increase in reserves for life and accident and health contracts including $.....0 increase in reserves for life only)			
23. Total underwriting deductions (Lines 18 through 22)	13,598,277	226,035,353	210,421,501
24. Net underwriting gain or (loss) (Lines 8 minus 23)	XXX	4,382,338	3,958,218
25. Net investment income earned (Exhibit of Net Investment Income, Line 17)		2,880,161	1,863,355
26. Net realized capital gains or (losses) less capital gains tax of $.....0		299,936	163,977
27. Net investment gains or (losses) (Lines 25 plus 26)	0	3,180,097	2,027,332
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	0	3,849,824
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	7,562,435	9,835,374
31. Federal and foreign income taxes incurred	XXX		
32. Net income (loss) (Lines 30 minus 31)	XXX	7,562,435	9,835,374

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. Other Medical Costs		253,771	
1402. Other Medical Costs			(220,788)
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	253,771	(220,788)
2901. Arbitration Settlement			3,850,000
2902. Other Settlements			(176)
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	0	3,849,824

STATEMENT OF REVENUE AND EXPENSES (Continued)

CAPITAL AND SURPLUS ACCOUNT	1 Current Year	2 Prior Year
33. Capital and surplus prior reporting period	34,738,487	32,681,980
34. Net income or (loss) from Line 32	7,562,435	9,835,374
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	95,793	(1,217,435)
37. Change in net unrealized foreign exchange capital gain or (loss)		
38. Change in net deferred income tax		
39. Change in nonadmitted assets	(8,757,080)	(3,661,432)
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	(3,000,000)	(2,900,000)
47. Aggregate write-ins for gains or (losses) in surplus	0	0
48. Net change in capital and surplus (Lines 34 to 47)	(4,098,852)	2,056,507
49. Capital and surplus end of reporting period (Line 33 plus 48)	30,639,635	34,738,487

DETAILS OF WRITE-INS

4701.		
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)	0	0

CASH FLOW

	1 Current Year	2 Prior Year
CASH FROM OPERATIONS		
1. Premiums collected net of reinsurance	228,746,003	214,165,278
2. Net investment income	4,422,423	2,131,125
3. Miscellaneous income		4,171,784
4. Total (Lines 1 through 3)	233,168,426	220,468,187
5. Benefit and loss related payments	206,467,161	190,294,052
6. Net transfers to Separate, Segregated Accounts and Protected Cell Accounts		
7. Commissions, expenses paid and aggregate write-ins for deductions	15,268,568	14,039,695
8. Dividends paid to policyholders		
9. Federal and foreign income taxes paid (recovered) $.....0 net of tax on capital gains (losses)		
10. Total (Lines 5 through 9)	221,735,729	204,333,747
11. Net cash from operations (Line 4 minus Line 10)	11,432,697	16,134,440
CASH FROM INVESTMENTS		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds		
12.2 Stocks	14,531,408	5,789,461
12.3 Mortgage loans		
12.4 Real estate		
12.5 Other invested assets	109,550	
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments		
12.7 Miscellaneous proceeds	(144,010)	1,306,751
12.8 Total investment proceeds (Lines 12.1 to 12.7)	14,496,948	7,096,212
13. Cost of investments acquired (long-term only):		
13.1 Bonds		
13.2 Stocks	12,797,956	10,346,521
13.3 Mortgage loans		
13.4 Real estate		
13.5 Other invested assets	650,000	340,000
13.6 Miscellaneous applications	360,773	232,699
13.7 Total investments acquired (Lines 13.1 to 13.6)	13,808,729	10,919,220
14. Net increase (decrease) in contract loans and premium notes		
15. Net cash from investments (Line 12.8 minus Lines 13.7 and 14)	688,219	(3,823,008)
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		
16.4 Net deposits on deposit-type contracts and other insurance liabilities		
16.5 Dividends to stockholders	3,000,000	2,900,000
16.6 Other cash provided (applied)	(13,741,188)	(5,816,351)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	(16,741,188)	(8,716,351)
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)	(4,620,272)	3,595,081
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	39,617,486	36,022,405
19.2 End of year (Line 18 plus Line 19.1)	34,997,214	39,617,486

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

20.0001		

ANALYSIS OF OPERATION BY LINES OF BUSINESS

	1 Total	2 Comprehensive (Hospital and Medical)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefit Plans	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Stop Loss	10 Disability Income	11 Long-Term Care	12 Other Health	13 Other Non-Health
1. Net premium income	230,417,691	230,421,090						(3,399)					
2. Change in unearned premium reserves and reserve for rate credit	0												
3. Fee-for-service (net of $.....0 medical expenses)	0												XXX
4. Risk revenue	0												XXX
5. Aggregate write-ins for other health care related revenues	0	0	0	0	0	0	0	0	0	0	0	0	XXX
6. Aggregate write-ins for other non-health care related revenues	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
7. Total revenues (Lines 1 to 6)	230,417,691	230,421,090	0	0	0	0	0	(3,399)	0	0	0	0	0
8. Hospital/medical benefits	137,004,525	137,001,339						3,186					XXX
9. Other professional services	17,206,451	17,206,451											XXX
10. Outside referrals	0												XXX
11. Emergency room and out-of-area	9,037,578	9,037,882						(304)					XXX
12. Prescription drugs	31,012,548	31,012,548											XXX
13. Aggregate write-ins for other hospital and medical	253,771	249,268	0	0	0	0	0	4,503	0	0	0	0	XXX
14. Incentive pool, withhold adjustments and bonus amounts	12,582,897	12,582,897											XXX
15. Subtotal (Lines 8 to 14)	207,097,770	207,090,385	0	0	0	0	0	7,385	0	0	0	0	XXX
16. Net reinsurance recoveries	1,408,063	1,408,063											XXX
17. Total hospital and medical (Lines 15 minus 16)	205,689,707	205,682,322	0	0	0	0	0	7,385	0	0	0	0	XXX
18. Non-health claims (net)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
19. Claims adjustment expenses including $.....149,173 cost containment expenses	4,897,343	4,897,343											
20. General administrative expenses	15,448,303	15,448,303											
21. Increase in reserves for accident and health contracts	0												XXX
22. Increase in reserve for life contracts	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
23. Total underwriting deductions (Lines 17 to 22)	226,035,353	226,027,968	0	0	0	0	0	7,385	0	0	0	0	0
24. Net underwriting gain or (loss) (Line 7 minus Line 23)	4,382,338	4,393,122	0	0	0	0	0	(10,784)	0	0	0	0	0

DETAILS OF WRITE-INS

0501.	0												XXX
0502.	0												XXX
0503.	0												XXX
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0	0	0	0	0	0	0	0	0	0	0	XXX
0599. Total (Lines 0501 thru 0503 plus 0598) (Line 5 above)	0	0	0	0	0	0	0	0	0	0	0	0	XXX
0601.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0602.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0603.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0698. Summary of remaining write-ins for Line 6 from overflow page	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0699. Total (Lines 0601 thru 0603 plus 0698) (Line 6 above)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
1301. Other Medical Costs	253,771	249,268						4,503					XXX
1302.	0												XXX
1303.	0												XXX
1398. Summary of remaining write-ins for Line 13 from overflow page	0	0	0	0	0	0	0	0	0	0	0	0	XXX
1399. Total (Lines 1301 thru 1303 plus 1398) (Line 13 above)	253,771	249,268	0	0	0	0	0	4,503	0	0	0	0	XXX

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)	231,299,110		878,020	230,421,090
2. Medicare supplement				0
3. Dental only				0
4. Vision only				0
5. Federal employees health benefits plan				0
6. Title XVIII - Medicare				0
7. Title XIX - Medicaid	(3,399)			(3,399)
8. Stop loss				0
9. Disability income				0
10. Long-term care				0
11. Other health				0
12. Health subtotal (Lines 1 through 11)	231,295,711	0	878,020	230,417,691
13. Life				0
14. Property/casualty				0
15. Totals (Lines 12 to 14)	231,295,711	0	878,020	230,417,691

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - CLAIMS INCURRED DURING THE YEAR

	1 Total	2 Comprehensive (Hospital and Medical)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefits Plan	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Stop Loss	10 Disability Income	11 Long-Term Care	12 Other Health	13 Other Non-Health
1. Payments during the year:													
1.1 Direct	190,274,309	190,266,924						7,385					
1.2 Reinsurance assumed	0												
1.3 Reinsurance ceded	654,858	654,858											
1.4 Net	189,619,451	189,612,066	0	0	0	0	0	7,385	0	0	0	0	0
2. Paid medical incentive pools and bonuses	11,206,402	11,206,335						67					
3. Claim liability December 31, current year from Part 2A:													
3.1 Direct	24,196,087	24,196,087											
3.2 Reinsurance assumed	0												
3.3 Reinsurance ceded	0												
3.4 Net	24,196,087	24,196,087	0	0	0	0	0	0	0	0	0	0	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	12,900,856	12,900,856											
6. Net healthcare receivables (a)	(753,972)	(753,972)											
7. Amounts recoverable from reinsurers December 31, current year	753,205	753,205											
8. Claim liability December 31, prior year from Part 2A:													
8.1 Direct	20,709,494	20,709,494											
8.2 Reinsurance assumed	0												
8.3 Reinsurance ceded	0												
8.4 Net	20,709,494	20,709,494	0	0	0	0	0	0	0	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	11,524,362	11,524,295						67					
11. Amounts recoverable from reinsurers December 31, prior year	0												
12. Incurred benefits:													
12.1 Direct	194,514,874	194,507,489	0	0	0	0	0	7,385	0	0	0	0	0
12.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0	0	0	0
12.3 Reinsurance ceded	1,408,063	1,408,063	0	0	0	0	0	0	0	0	0	0	0
12.4 Net	193,106,811	193,099,426	0	0	0	0	0	7,385	0	0	0	0	0
13. Incurred medical incentive pools and bonuses	12,582,896	12,582,896	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 Total	2 Comprehensive (Medical and Hospital)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefits Plan	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Stop Loss	10 Disability Income	11 Long-Term Care	12 Other Health	13 Other Non-Health
1. Reported in process of adjustment:													
1.1 Direct	5,606,595	5,606,595											
1.2 Reinsurance assumed	0												
1.3 Reinsurance ceded	0												
1.4 Net	5,606,595	5,606,595	0	0	0	0	0	0	0	0	0	0	0
2. Incurred but unreported:													
2.1 Direct	18,589,492	18,589,492											
2.2 Reinsurance assumed	0												
2.3 Reinsurance ceded	0												
2.4 Net	18,589,492	18,589,492	0	0	0	0	0	0	0	0	0	0	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	24,196,087	24,196,087	0	0	0	0	0	0	0	0	0	0	0
4.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0	0	0	0
4.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0	0	0	0
4.4 Net	24,196,087	24,196,087	0	0	0	0	0	0	0	0	0	0	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	6
	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	Claims Incurred in Prior Years (Columns 1 + 3)	Estimated Claim Reserve and Claim Liability December 31 of Prior Year
1. Comprehensive (hospital and medical)	15,094,824	173,764,034	53,993	24,142,094	15,148,817	20,709,494
2. Medicare supplement					0	
3. Dental only					0	
4. Vision only					0	
5. Federal employees health benefits plan					0	
6. Title XVIII - Medicare					0	
7. Title XIX - Medicaid	7,388				7,388	
8. Other health					0	
9. Health subtotal (Lines 1 to 8)	15,102,212	173,764,034	53,993	24,142,094	15,156,205	20,709,494
10. Healthcare receivables (a)	1,191	1,521,046			1,191	2,276,209
11. Other non-health					0	
12. Medical incentive pools and bonus amounts	11,572,619	(366,216)	1,062,893	11,837,963	12,635,512	11,524,362
13. Totals (Lines 9 - 10 + 11 + 12)	26,673,640	171,876,772	1,116,886	35,980,057	27,790,526	29,957,647

(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	25,379	415			
2. 2002	181,702	19,419	348		
3. 2003	XXX	121,482	8,886	51	
4. 2004	XXX	XXX	156,209	12,042	7
5. 2005	XXX	XXX	XXX	164,292	15,095
6. 2006	XXX	XXX	XXX	XXX	173,764

SECTION B - INCURRED HEALTH CLAIMS - GRAND TOTAL

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior	1,287,743	1,286,141	1,286,141	1,286,141	1,286,141
2. 2002	206,884	201,776	200,981	201,468	201,468
3. 2003	XXX	136,525	130,784	130,419	130,419
4. 2004	XXX	XXX	169,777	168,431	168,259
5. 2005	XXX	XXX	XXX	184,821	179,441
6. 2006	XXX	XXX	XXX	XXX	197,906

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	244,136	201,468	10,982	5.5	212,450	87.0			212,450	87.0
2. 2003	190,456	130,419	7,114	5.5	137,533	72.2			137,533	72.2
3. 2004	199,529	168,259	7,496	4.5	175,755	88.1			175,755	88.1
4. 2005	214,380	179,387	5,217	2.9	184,604	86.1	1,117		185,721	86.6
5. 2006	230,417	173,764	4,887	2.8	178,651	77.5	35,980	518	215,149	93.4

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	20,207	402			
2. 2002	144,672	18,826	348		
3. 2003	XXX	117,774	8,886	(19)	
4. 2004	XXX	XXX	156,208	12,042	
5. 2005	XXX	XXX	XXX	164,292	15,095
6. 2006	XXX	XXX	XXX	XXX	173,764

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	1,055,523	1,054,392	1,054,392	1,054,392	1,054,392
2. 2002	163,814	164,157	163,763	163,846	163,846
3. 2003	XXX	132,908	127,076	126,640	126,641
4. 2004	XXX	XXX	169,776	168,431	168,250
5. 2005	XXX	XXX	XXX	184,821	179,441
6. 2006	XXX	XXX	XXX	XXX	197,906

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	197,889	163,846	8,893	5.4	172,739	87.3			172,739	87.3
2. 2003	190,449	126,641	7,114	5.6	133,755	70.2			133,755	70.2
3. 2004	199,533	168,250	7,496	4.5	175,746	88.1			175,746	88.1
4. 2005	214,377	179,387	5,217	2.9	184,604	86.1	1,117		185,721	86.6
5. 2006	230,421	173,764	4,887	2.8	178,651	77.5	35,980	518	215,149	93.4

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - MEDICARE SUPPLEMENT

NONE

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		
6. 2006	XXX	XXX	XXX	XXX	

SECTION B - INCURRED HEALTH CLAIMS - MEDICARE SUPPLEMENT

NONE

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. 2006	XXX	XXX	XXX	XXX	

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

NONE

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				0.0	0	0.0			0	0.0
2. 2003				0.0	0	0.0			0	0.0
3. 2004				0.0	0	0.0			0	0.0
4. 2005				0.0	0	0.0			0	0.0
5. 2006				0.0	0	0.0			0	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - DENTAL ONLY

NONE

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		
6. 2006	XXX	XXX	XXX	XXX	

SECTION B - INCURRED HEALTH CLAIMS - DENTAL ONLY

NONE

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. 2006	XXX	XXX	XXX	XXX	

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

NONE

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				0.0	0	0.0			0	0.0
2. 2003				0.0	0	0.0			0	0.0
3. 2004				0.0	0	0.0			0	0.0
4. 2005				0.0	0	0.0			0	0.0
5. 2006				0.0	0	0.0			0	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - VISION ONLY

NONE

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		
6. 2006	XXX	XXX	XXX	XXX	

SECTION B - INCURRED HEALTH CLAIMS - VISION ONLY

NONE

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. 2006	XXX	XXX	XXX	XXX	

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

NONE

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				0.0	0	0.0			0	0.0
2. 2003				0.0	0	0.0			0	0.0
3. 2004				0.0	0	0.0			0	0.0
4. 2005				0.0	0	0.0			0	0.0
5. 2006				0.0	0	0.0			0	0.0

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

NONE

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		
6. 2006	XXX	XXX	XXX	XXX	

SECTION B - INCURRED HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

NONE

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. 2006	XXX	XXX	XXX	XXX	

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

NONE

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				0.0	0	0.0			0	0.0
2. 2003				0.0	0	0.0			0	0.0
3. 2004				0.0	0	0.0			0	0.0
4. 2005				0.0	0	0.0			0	0.0
5. 2006				0.0	0	0.0			0	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XVIII - MEDICARE

NONE

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		
6. 2006	XXX	XXX	XXX	XXX	

SECTION B - INCURRED HEALTH CLAIMS - TITLE XVIII - MEDICARE

NONE

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. 2006	XXX	XXX	XXX	XXX	

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

NONE

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				0.0	0	0.0			0	0.0
2. 2003				0.0	0	0.0			0	0.0
3. 2004				0.0	0	0.0			0	0.0
4. 2005				0.0	0	0.0			0	0.0
5. 2006				0.0	0	0.0			0	0.0

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	5,172	13			
2. 2002	37,030	593			
3. 2003	XXX	3,708		70	
4. 2004	XXX	XXX	1		7
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	232,220	231,749	231,749	231,749	231,749
2. 2002	43,070	37,619	37,218	37,622	37,622
3. 2003	XXX	3,617	3,708	3,779	3,778
4. 2004	XXX	XXX	1		9
5. 2005	XXX	XXX	XXX		
6. 2006	XXX	XXX	XXX	XXX	

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	46,247	37,622	2,089	5.6	39,711	85.9			39,711	85.9
2. 2003	7	3,778		0.0	3,778	53,971.4			3,778	53,971.4
3. 2004	(4)	9		0.0	9	(225.0)			9	(225.0)
4. 2005	3			0.0	0	0.0			0	0.0
5. 2006	(4)			0.0	0	0.0			0	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - OTHER

NONE

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		
6. 2006	XXX	XXX	XXX	XXX	

SECTION B - INCURRED HEALTH CLAIMS - OTHER

NONE

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. 2006	XXX	XXX	XXX	XXX	

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

NONE

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				0.0	0	0.0			0	0.0
2. 2003				0.0	0	0.0			0	0.0
3. 2004				0.0	0	0.0			0	0.0
4. 2005				0.0	0	0.0			0	0.0
5. 2006				0.0	0	0.0			0	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

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

	1 Total	2 Comprehensive (Hospital and Medical)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefit Plan	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Stop Loss	10 Disability Income	11 Long-Term Care	12 Other
POLICY RESERVE												
1. Unearned premium reserves	0											
2. Additional policy reserves (a)	0											
3. Reserve for future contingent benefits	0											
4. Reserve for rate credits or experience rating refunds (including $.....0) for investment income	0											
5. Aggregate write-ins for other policy reserves	0	0	0	0	0	0	0	0	0	0	0	0
6. Totals (gross)	0	0	0	0	0	0	0	0	0	0	0	0
7. Reinsurance ceded	0											
8. Totals (net) (Page 3, Line 4)	0	0	0	0	0	0	0	0	0	0	0	0
CLAIM RESERVE												
9. Present value of amounts not yet due on claims	0											
10. Reserve for future contingent benefits	0											
11. Aggregate write-ins for other claim reserves	0	0	0	0	0	0	0	0	0	0	0	0
12. Totals (gross)	0	0	0	0	0	0	0	0	0	0	0	0
13. Reinsurance ceded	0											
14. Totals (net) (Page 3, Line 7)	0	0	0	0	0	0	0	0	0	0	0	0
DETAILS OF WRITE-INS												
0501.	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

NONE

(a) Includes $.....0 premium deficiency reserve.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

	Claim Adjustment Expenses		3	4	5
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses	General Administrative Expenses	Investment Expenses	Total
1. Rent ($.....0 for occupancy of own building)	694	18,566	36,067		55,327
2. Salaries, wages and other benefits	66,449	2,027,506	5,029,722		7,123,677
3. Commissions (less $.....0 ceded plus $.....0 assumed)	3,758	536,841	2,953,370		3,493,969
4. Legal fees and expenses		17,868	112,960		130,828
5. Certifications and accreditation fees					0
6. Auditing, actuarial and other consulting services			2,132,263		2,132,263
7. Traveling expenses		4,672	29,533		34,205
8. Marketing and advertising			554,649		554,649
9. Postage, express and telephone	29,657	746,006	1,240,309		2,015,972
10. Printing and office supplies	920	2,487	135,169		138,576
11. Occupancy, depreciation and amortization	2,398	147,696	652,653		802,747
12. Equipment					0
13. Cost or depreciation of EDP equipment and software	452	45,264	233,223		278,939
14. Outsourced services including EDP, claims, and other services	27,666	712,885	1,264,322		2,004,873
15. Boards, bureaus and association fees		3,634	22,973		26,607
16. Insurance, except on real estate		28,608	180,856		209,464
17. Collection and bank service charges		1,612	10,189		11,801
18. Group service and administration fees					0
19. Reimbursements by uninsured plans					0
20. Reimbursements from fiscal intermediaries					0
21. Real estate expenses		8,841	55,890		64,731
22. Real estate taxes					0
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes					0
23.2 State premium taxes	1,309	31,417	45,193		77,919
23.3 Regulator authority licenses and fees					0
23.4 Payroll taxes		25,526	161,373		186,899
23.5 Other (excluding federal income and real estate taxes)	2	5,938	37,352		43,292
24. Investment expenses not included elsewhere	181	4,354	6,263		10,798
25. Aggregate write-ins for expenses	15,687	378,451	553,974	0	948,112
26. Total expenses incurred (Lines 1 to 25)	149,173	4,748,170	15,448,303	0	(a) 20,345,646
27. Less expenses unpaid December 31, current year		518,416	1,635,303		2,153,719
28. Add expenses unpaid December 31, prior year		508,409	1,455,568		1,963,977
29. Amounts receivable relating to uninsured plans, prior year					0
30. Amounts receivable relating to uninsured plans, current year					0
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)	149,173	4,738,163	15,268,568	0	20,155,904

DETAILS OF WRITE-INS

2501. Other Miscellaneous	15,687	378,451	553,974		948,112
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)	15,687	378,451	553,974	0	948,112

(a) Includes management fees of $.....2,145,883 to affiliates and $.....8,848,237 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

		1 Collected During Year	2 Earned During Year
1.	U.S. government bonds	(a)	
1.1	Bonds exempt from U.S. tax	(a)	
1.2	Other bonds (unaffiliated)	(a)	
1.3	Bonds of affiliates	(a)	
2.1	Preferred stocks (unaffiliated)	(b)	
2.11	Preferred stocks of affiliates	(b)	
2.2	Common stocks (unaffiliated)	1,019,873	1,019,355
2.21	Common stocks of affiliates		
3.	Mortgage loans	(c)	
4.	Real estate	(d)	
5.	Contract loans		
6.	Cash, cash equivalents and short-term investments	(e) 1,922,458	1,962,664
7.	Derivative instruments	(f)	
8.	Other invested assets		
9.	Aggregate write-ins for investment income	0	0
10.	Total gross investment income	2,942,331	2,982,019
11.	Investment expenses		(g)
12.	Investment taxes, licenses and fees, excluding federal income taxes		(g)
13.	Interest expense		(h)
14.	Depreciation on real estate and other invested assets		(i) 0
15.	Aggregate write-ins for deductions from investment income		101,858
16.	Total deductions (Lines 11 through 15)		101,858
17.	Net investment income (Line 10 minus Line 16)		2,880,161

DETAILS OF WRITE-INS

0901.			
0902.			
0903.			
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)	0	0
1501.	Bank Services Charges		37,880
1502.	Investment Fees		63,978
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)		101,858

(a) Includes $.....0 accrual of discount less $.....0 amortization of premium and less $.....0 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 $.....0 for company's occupancy of its own buildings; and excludes $.....0 interest on encumbrances.
(e) Includes $.....0 accrual of discount less $.....0 amortization of premium and less $.....0 paid for accrued interest on purchases.
(f) Includes $.....0 accrual of discount less $.....0 amortization of premium.
(g) Includes $.....0 investment expenses and $.....0 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 $.....0 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				0
1.1	Bonds exempt from U.S. tax				0
1.2	Other bonds (unaffiliated)				0
1.3	Bonds of affiliates				0
2.1	Preferred stocks (unaffiliated)				0
2.11	Preferred stocks of affiliates				0
2.2	Common stocks (unaffiliated)	34,460		149,780	184,240
2.21	Common stocks of affiliates			(111,907)	(111,907)
3.	Mortgage loans				0
4.	Real estate				0
5.	Contract loans				0
6.	Cash, cash equivalents and short-term investments				0
7.	Derivative instruments				0
8.	Other invested assets				0
9.	Aggregate write-ins for capital gains (losses)	265,475	0	57,922	323,397
10.	Total capital gains (losses)	299,934	0	95,795	395,729

DETAILS OF WRITE-INS

0901.	Investment in PHP Mid-Michigan Family Care	265,475			265,475
0902.	Investment in PHP Shared Services Organization			57,922	57,922
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)	265,475	0	57,922	323,397

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			0
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)	692,567	214,724	(477,843)
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)	692,567	214,724	(477,843)
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	33,938	63,753	29,815
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due			0
13.3 Accrued retrospective premiums			0
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers	586,141	691,820	105,679
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			0
17. Guaranty funds receivable or on deposit			0
18. Electronic data processing equipment and software	10,710,997	2,382,837	(8,328,160)
19. Furniture and equipment, including health care delivery assets	350,817	330,919	(19,898)
20. Net adjustment in assets and liabilities due to foreign exchange rates			0
21. Receivable from parent, subsidiaries and affiliates	36,786		(36,786)
22. Health care and other amounts receivable	84,828	170,877	86,049
23. Aggregate write-ins for other than invested assets	844,987	729,051	(115,936)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 through 23)	13,341,061	4,583,981	(8,757,080)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0
26. TOTALS (Lines 24 and 25)	13,341,061	4,583,981	(8,757,080)

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. Prepaids	844,987	729,051	(115,936)
2302.			0
2303.			0
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above)	844,987	729,051	(115,936)

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment	Total Members at End of					6
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	Current Year Member Months
1. Health maintenance organizations	72,755	70,501	68,751	67,468	65,692	820,075
2. Provider service organizations						
3. Preferred provider organizations						
4. Point of service						
5. Indemnity only						
6. Aggregate write-ins for other lines of business	0	0	0	0	0	0
7. Total	72,755	70,501	68,751	67,468	65,692	820,075

DETAILS OF WRITE-INS

0601.						
0602.						
0603.						
0698. Summary of remaining write-ins for Line 6 from overflow page	0	0	0	0	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above)	0	0	0	0	0	0

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Organization—Physicians Health Plan of Mid-Michigan ("PHPMM") is a nonprofit health maintenance organization ("HMO") under the laws of the State of Michigan and is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code. Under the articles of incorporation, Sparrow Health System ("Sparrow") is the sole corporate member (sponsor) of PHPMM.

Basis of Presentation—The statutory basis financial statements have been prepared on the basis of accounting practices prescribed or permitted by the Office of Financial and Insurance Services of the State of Michigan ("OFIS"). These practices differ in some respects from accounting principles generally accepted in the United States of America ("GAAP"). Certain assets are considered non-admitted for statutory purposes and are excluded from the balance sheet.

The statutory financial statements are prepared in accordance with the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual—Version effective January 1, 2001 (the "Manual") as modified by OFIS (statutory accounting principles). Accordingly, the admitted assets, liabilities and surplus of PHPMM as of December 31, 2006 and 2005, and the results of its operations and its cash flow for the years then ended have been determined in accordance with the statutory accounting principles.

The State of Michigan has provided for transitional implementation of certain Statements of Statutory Accounting Principles ("SSAPs") that will have the greatest impact on admitted assets.

The difference in PHPMM's net income and capital and surplus between NAIC statutory accounting practices and practices prescribed by the State of Michigan are not included in the financial statements.

Accounting practices and procedures as prescribed or permitted by OFIS comprise a comprehensive basis of accounting other than GAAP. The more significant statutory accounting practices, which differ from GAAP, are as follows:

- The effects of reinsurance are netted against the corresponding assets, liabilities, income, or expenses.
- Certain assets, such as premiums over 90 days past due, goodwill, certain property and equipment and prepaid expenses are "non-admitted" and are charged against capital and surplus.
- Computer software applications are treated as a non-admitted asset and charged against capital and surplus.
- Changes in unrealized appreciation and depreciation in the value of common stocks are reflected as direct increases or decreases in capital and surplus.
- Classification of items in the statement of cash flows differs from GAAP.
- PHPMM's subsidiaries are included in the statement of admitted assets, liabilities and surplus—statutory basis using the equity method of accounting. The related income or loss is reported as a direct charge to capital and surplus.

Cash and Short-Term Investments—Included in cash and short-term investments are cash and cash equivalents with original maturities of less than three months and other investments with original maturities of less than one year.

Restricted Investments—In accordance with Michigan regulatory requirements, PHPMM maintains restricted investments under an agreement with OFIS. The restricted investment reserves are stated at fair value and classified as a non-current asset as they are not available for working capital purposes.

Common Stocks—Stocks consist of common stocks and are carried at fair value.

Real Estate, Furniture and Equipment, Electronic Data Processing Equipment, and Software—Real estate, furniture and equipment, electronic data processing equipment, and software are recorded at cost, less accumulated depreciation. A portion of fixed assets are non-admitted assets. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, primarily 7 years for equipment and building improvements and 35 years for property.

Claims Unpaid—Accrued medical claims and related expenses (hospitalization and other outside medical services) include amounts billed and not paid and an estimate of costs incurred for unbilled services provided at the balance sheet date including claims payable of PHN as required by the order from OFIS. Such estimates are based on historical payment patterns using actuarial techniques and are regularly reviewed and updated.

Premiums—Premiums are recognized as revenue in the period in which the members are entitled to health care services. Premiums billed and collected in advance are recorded as unearned premiums. One employer group accounted for approximately 30% and 27% of the premiums for 2006 and 2005, respectively.

Minimum Net Worth Requirements—Under the laws of the State of Michigan, PHPMM is required to maintain a minimum net worth and statutory capital. PHPMM was in compliance with the state statutory net worth and statutory capital requirements at December 31, 2006.

NOTES TO FINANCIAL STATEMENTS

The State of Michigan further requires HMOs to maintain positive working capital defined as current assets (net of statutory deposits and escrow) less current liabilities. PHPMM has positive working capital when measured using the statutory basis of accounting.

In addition, the State of Michigan requires PHPMM to provide a statutory deposit. PHPMM maintains its statutory deposit of $1,000,000 within investments. Currently, PHPMM is in compliance with the statutory deposit requirements.

Use of Estimates—The statutory basis financial statements have been prepared in accordance with the accounting practices prescribed or permitted by OFIS. This basis requires the use of certain estimates, the most significant of which are related to incurred but unreported claims for medical services. Actual results could differ from these estimates.

Hospital/Medical Benefits—Hospital/Medical benefits expenses include claims paid, claims in process and pending, and estimated unreported claims and charges by physicians, hospitals, and other health care providers for services rendered to PHPMM enrollees during the year and are actuarially determined. Adjustments to prior period estimates are reflected in the current period, and changes in these estimates could be significant.

Accrued Medical Incentive Pool and Bonus Amounts—Participating physicians and hospitals are reimbursed for health care services provided at less than 100% of their allowable fees. In addition, a percentage of each participating provider's reimbursement is withheld as a Physician or Hospital Incentive Allowance ("PIA"). The purpose of the PIA is to offset operating deficits, to provide working capital, to fund regulatory requirements, and to provide an incentive for participating physicians and hospitals to control medical costs. At the discretion of the Board of Directors and subject to certain HMO restrictions, all, a portion, or none of the PIA accumulated during the year may be returned to participating providers. It is expected that the Board of Directors will elect to return all of the PIA withheld for 2006 in the amount of $12,675,856, as all criteria to return the PIA have been met. The decision will be finalized based upon receipt of the audited financial statements. The Board of Directors elected to return all of the PIA withheld for 2005 in the amount of $11,324,361. These amounts are included in medical services expenses and physician and hospital incentive allowance in the accompanying financial statements.

General Administrative Expenses—PHPMM has an administrative services agreement ("ASA") with United Healthcare Services, Inc. ("UHS"), which covers administrative services that are system dependent (i.e., billing, enrollment, claims processing, and accounting). The agreement expires December 31, 2006. UHS provides these services to PHPMM for a fee based on a per member per month basis plus additional "pass-through" costs. PHPMM withholds a portion of the service fee, which may be paid contingent upon UHS's performance under the terms of the agreement.

Restructuring— Currently, PHPMM and Physicians Health Plan of South Michigan ("PHPSM") jointly own a "shared services" organization, Physicians Health Plans Shared Services L.L.C. ("PHP Shared Services"), which was formed in 1998 as a Michigan limited liability company. The purpose of PHP Shared Services is to facilitate statewide contracting and to achieve economies of scale to obtain HMO management and other required purchased services for owners of PHP Shared Services. PHPMM's investment in PHP Shared Services is being accounted for under the equity method.

Reclassifications— Certain reclassifications have been made to the 2005 financial statements to conform to the classifications used in 2006. These reclassifications had no effect on changes in net assets or net assets as previously reported.

2. ACCOUNTING CHANGES AND CORRECTION OF ERRORS

   Not applicable.

3. BUSINESS COMBINATIONS AND GOODWILL

   Not applicable.

4. DISCONTINUED OPERATIONS

   Not applicable.

NOTES TO FINANCIAL STATEMENTS

5. INVESTMENTS

At December 31, 2006, the amortized cost, fair value and net holding gains and losses of investments, including restricted investments of $1,089,830, are as follows:

	2006		
	Amortized Cost	Net Unrealized Gain	Fair Value
Cash and short-term investments	$ 34,997,214	$ -	$ 34,997,214
Common stock	22,445,752	34,460	22,480,212
Total	$ 57,442,966	$ 34,460	$ 57,477,426
Investment income:			
Interest income	$ 2,880,161		
Net realized gains or losses	299,936		
Total Investment Loss	$ 3,180,097		

At December 31, 2005, the amortized cost, fair value and net holding gains and losses of investments, including restricted investments of $1,043,967, are as follows:

	2005		
	Amortized Cost	Net Unrealized Gain	Fair Value
Cash and short-term investments	$ 39,617,486	$ -	$ 39,617,486
Common stock	24,141,329	977,733	25,119,062
Total	$ 63,758,815	$ 977,733	$ 64,736,548
Investment income:			
Interest income	$ 1,863,355		
Net realized gains or losses	163,977		
Total Investment Loss	$ 2,027,332		

6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

PHPMM has no investments in Joint Ventures, Partnerships, or Limited Liability Companies that exceed 10% of its admitted assets.

7. INVESTMENT INCOME

All income due or accrued has been included in the filing.

8. DERIVATIVE INSTRUMENTS

Not applicable.

9. INCOME TAXES

PHPMM is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code.

10. INFORMATION CONCERNING PARENT, SUBSIDIARIES AND AFFILIATES

PHPMM is a controlled entity of Sparrow Health System ("SHS"). Certain administrative expenses such as payroll are processed under a centralized Sparrow system. The financial statements have been prepared from separate records maintained by Sparrow, with certain expense items representing allocations from Sparrow. Please see (a), (b), and (c) in the table below.

NOTES TO FINANCIAL STATEMENTS

In addition, Sparrow Hospital, a wholly-owned subsidiary of SHS, paid premiums for health benefits to PHPMM. Please see (d) in the table below.

PHPMM has a contract with PHN. PHPMM members obtain medical services from PHN.

Physicians Health Plan of Mid-Michigan—Family Care ("PHPMM-FC") is a not-for-profit HMO organized under the laws of the State of Michigan and is a wholly-owned subsidiary of PHPMM. Approximately 20% of certain administrative expenses are charged to PHPMM-FC for services which apply to the PHPMM-FC participants. Please see (e) and (f) in the table below.

PHPMM is a member of PHP Shared Services. The purpose of PHP Shared Services is to facilitate statewide contracting and to achieve economies of scale to obtain health maintenance organization management and other required purchased services for owners of PHP Shared Services. Please see (g) in the table below.

PHPMM Insurance Company ("PHPMM IC") is a for-profit company organized under the laws of the State of Michigan and is a wholly-owned subsidiary of PHPMM. Certain administrative expenses are charged to PHPMM IC for services which apply directly to PHPMM IC. Please see (h) and (i) in the table below.

NOTES TO FINANCIAL STATEMENTS

(a) Total of various expenses paid by PHPMM to SHS	$ 8,144,145	$ 7,546,053
(b) Amount payable at December 31 by PHPMM to SHS for processed and allocated expenses	$ 790,357	$ 482,615
(c) Dividends paid by PHPMM to SHS	$ 2,900,000	$ 2,900,000
(d) Premiums for health benefits paid by Sparrow Hospital to PHPMM TPA	$ 172,985	$ 173,496
(e) Total paid by PHPMM-FC to PHPMM for fees for services	$ 2,555,633	$ 2,226,069
(f) Net equity of PHPMM-FC in PHPMM's statutory financial statements	$ 6,104,422	$ 5,729,397
(g) Total paid by PHPMM to PHP Shared Services for its share of allocated expenses	$ 8,044,520	$ 2,100,721
(h) Total paid by PHPMM to PHPMM IC investment	$ 8,500,000	$ -
(i) Total paid by PHPMM IC to PHPMM for direct expenses	$ 190,208	$ -

11. DEBT

Not applicable.

12. RETIREMENT PLANS, DEFERRED COMPENSATION, POSTRETIREMENT BENEFITS AND COMPENSATED ABSENCES AND OTHER POSTRETIREMENT BENEFIT PLANS

Substantially all PHPMM employees are covered by a noncontributory pension plan sponsored by SHS (the "Plan"). Pension benefits under the Plan are based on years of service and the employee's compensation during the last five years of employment. The policy of the Plan is to contribute an amount equal to or at least the actuarially determined minimum funding requirement. Contributions are intended to provide for benefits attributed to service to date and for those expected to be earned in the future. Plan assets are invested primarily in equities and fixed income securities. PHPMM paid $345,373 and $304,619 to SHS in 2006 and 2005, respectively, for their pension costs.

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

Not applicable.

14. CONTINGENCIES

PHPMM is required to periodically file financial statements with regulatory agencies in accordance with statutory accounting and reporting practices. PHPMM must comply with the minimum regulatory net worth requirement specified in the Michigan Insurance Code. The regulatory net worth of PHPMM exceeded the aggregate minimum requirements in 2006 and 2005. At December 31, 2006, PHPMM equity was at 286% of RBC.

As discussed in footnote 1, UHS's ASA expires December 31, 2006. PHPMM anticipates expending approximately $12.5 million in funds to replace UHS as the administrative service provider.

15. LEASES

PHPMM entered into two agreements to lease office space during 2005. Rental expense for 2006 and 2005 was $3,356 and $1,655, respectively.

16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

2006 **2005**

Not applicable.

17. SALE, TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES

Not applicable.

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

Effective July 1, 2005, PHPMM earns 100% of the net profit or loss of the HMO's out-of-area product and out-of-network portion of a point-of-service product.

NOTES TO FINANCIAL STATEMENTS

19. DIRECT PREMIUM WRITTEN PRODUCED BY MANAGING GENERAL AGENTS/THIRD PARTY ADMINISTRATORS

    Not applicable.

20. SEPTEMBER 11 EVENTS

    Not applicable.

21. OTHER ITEMS

    Dividends paid by a Michigan HMO are subject to limitations imposed by the Michigan Insurance Code (the Code). Under the Code, dividends may be paid only from statutory earnings and net worth. In addition, OFIS must approve all dividends and may not approve extraordinary dividends. During 2006 and 2005, dividend payments totaled $3,000,000 and $2,900,000, respectively.

    PHPMM elected to use rounding in reporting amounts in the statement.

22. SUBSEQUENT EVENTS

    There are no subsequent events to December 31, 2006 that require disclosure.

23. REINSURANCE

    PHPMM has a reinsurance contract whereby it cedes exposure of potential losses arising from medical claims, which are in excess of $200,000. Amounts to be received under reinsurance agreements are recorded as a reduction in healthcare costs when the claim is identified and can be reasonably estimated. Reinsurance ceded contracts does not relieve PHPMM from its obligations to providers. PHPMM initially pays all claims and assumes responsibility for the portion reinsured, to the extent that the reinsured does not meet its obligations assumed under the reinsurance agreement. Reinsurance premiums, net of risk share, in 2006 and 2005 are $887,020 and $991,591, respectively, and net of reinsurance recoveries, in 2006 and 2005 are ($530,043) and $299,772 respectively.

24. RETROSPECTIVELY RATED CONTRACTS

    Not applicable.

25. CHANGE IN INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES

    Reserves for incurred claims, including accrued medical incentives, attributable to insured events prior to December 31, 2005 have decreased by $28,840,700 from $29,957,600 in 2005 to $1,116,900 in 2006. Claims payments accounted for $26,673,600 of this change while $2,167,100 is due to changes in estimates, which are included in hospital/medical services expense in the accompanying statutory statements of operations.

26. INTERCOMPANY POOLING ARRANGEMENTS

    Not applicable.

27. STRUCTURED SETTLEMENTS

    Not applicable.

NOTES TO FINANCIAL STATEMENTS

28. HEALTH CARE RECEIVABLES (In 000's)

A. Pharmacy Rebates

Quarter	Estimated Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Billed or Otherwise Confirmed	Actual Rebates Received Within 90 Days of Billing	Actual Rebates Received Within 91 to 180 Days of Billing	Actual Rebates Received More Than 180 Days After Billing
12/31/2006	964				
9/30/2006	762	925	841		
6/30/2006	932	1,075	1,075		
3/31/2006	1,024	1,258	1,258		
12/31/2005	1,055	1,161	1,101		59
9/30/2005	1,049	1,161	1,156		4
6/30/2005	997	1,120	1,120		
3/31/2005	963	1,058	1,058		
12/31/2004	893	1,013	989		24
9/30/2004	893	943	889		54
6/30/2004	823	880	873		7
3/31/2004	802	872	771		101

NOTES TO FINANCIAL STATEMENTS

B. Risk Share Receivable

Calendar Year	Evaluation Period Year Ending	Risk Sharing Rec as Est in Prior Yr	Risk Share Rec as Est in Cur Yr	Risk Share Receivable Billed	Risk Share Rec Not Yet Billed	Actual Risk Share Amts Rec'd in Yr Billed	Actual Risk Share Amts Rec'd First Yr Subsequent	Actual Risk Share Amts Rec'd Second Yr Subsequent	Actual Risk Share Amts Rec'd All Other
2006	2006		27			27			
	2007								
2005	2005	102					26		
	2006								
2004	2004	286	102	26			207		
	2005								

29. PARTICIPATING POLICIES

Not applicable.

30. PREMIUM DEFICIENCY RESERVES

Not applicable.

31. ANTICIPATED SALVAGE AND SUBROGATION

Due to the type of business being written with this license, the PHPMM has no salvage. As of December 31, 2006 and 2005, PHPMM had no specific accruals established for outstanding subrogation, as it is considered as a component of the actuarial calculations used to develop the estimates of incurred but not yet reported claims.

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings 1 Amount	2 Percentage	Admitted Assets as Reported in the Annual Statement 3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities		0.0		0.0
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies		0.0		0.0
1.22 Issued by U.S. government sponsored agencies		0.0		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		0.0		0.0
1.512 Issued or guaranteed by FNMA and FHLMC		0.0		0.0
1.513 All other		0.0		0.0
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA		0.0		0.0
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)		0.0		0.0
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		0.0		0.0
3.2 Preferred stocks:				
3.21 Affiliated		0.0		0.0
3.22 Unaffiliated		0.0		0.0
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated		0.0		0.0
3.32 Unaffiliated	14,012,119	20.8	14,012,119	21.0
3.4 Other equity securities:				
3.41 Affiliated	8,468,093	12.6	8,468,093	12.7
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	2,615,485	3.9	2,615,485	3.9
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		0.0		0.0
8. Cash, cash equivalents and short-term investments	34,997,214	51.9	34,997,214	52.5
9. Other invested assets	7,294,899	10.8	6,602,332	9.9
10. Total invested assets	67,387,810	100.0	66,695,243	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. 12/31/2005

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. 12/31/2001

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). 04/09/2003

3.4 By what department or departments? Michigan Office of Financial & Insurance Services (OFIS)

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, 600 Renaissance Center, Detroit MI 48243-1895

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?
Reden-Anders, 222 South Ninth Street, Minneapolis MN 55400

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. $.....0

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 [X] No [ ]
20.2 If no, give full and complete information relating thereto.

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 [ ] No [X]
21.2 If yes, state the amount thereof at December 31 of the current year:
21.21 Loaned to others .....
21.22 Subject to repurchase agreements .....
21.23 Subject to reverse repurchase agreements .....
21.24 Subject to dollar repurchase agreements .....
21.25 Subject to reverse dollar repurchase agreements .....
21.26 Pledged as collateral .....
21.27 Placed under option agreements .....
21.28 Letter stock or securities restricted as to sale .....
21.29 Other .....
21.3 For category (21.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

22.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [ ] No [X]
22.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [ ] No [ ] 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
Mellon Bank	One Mellon Center, Pittsburgh PA 15258-0001

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)
N/A		

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
N/A	Longwood Investment Advisors	Three Radnor Corporate Center, Pittsburgh PA 190
104474	Sanford C Bernstein & Co., Inc.	One Northe Lexington Ave White Plains, NY 10601
25587	Pimco Advisors Distributors LLC	2187 Atlantic St. 7th Floor Stamford, CT 06902
28832	Janus Distributors LLC	PO Box 173401 Denver CO 80217
N/A	Western Asset Management Co	117 E. Colorado Blvd Passedena, CA 91105
N/A	Trust Company of the West	865 South Figueroa St. Los Angelas, CA 90017

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

25.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adj.Carrying Value
25.2999. TOTAL		0

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

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	40,312,142		(40,312,142)
26.2 Preferred stocks			0
26.3 Totals	40,312,142	0	(40,312,142)

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

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? $.....53,123

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
Michigan Association of Health Plans	40,558

29.1 Amount of payments for legal expenses, if any? $.....161,781

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
Foster, Swift, Collins and Smith	157,883

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? $.....0

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

GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes [ ] No [X]

1.2 If yes, indicate premium earned on U.S. business only .....

1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? .....

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. .....

1.5 Indicate total incurred claims on all Medicare Supplement insurance. .....

1.6 Individual policies:

Most current three years:

1.61 Total premium earned .....

1.62 Total incurred claims .....

1.63 Number of covered lives .....

All years prior to most current three years:

1.64 Total premium earned .....

1.65 Total incurred claims .....

1.66 Number of covered lives .....

1.7 Group policies:

Most current three years:

1.71 Total premium earned .....

1.72 Total incurred claims .....

1.73 Number of covered lives .....

All years prior to most current three years:

1.74 Total premium earned .....

1.75 Total incurred claims .....

1.76 Number of covered lives .....

2. Health test:

	1 Current Year	2 Prior Year
2.1 Premium Numerator	230,417,691	214,379,719
2.2 Premium Denominator	230,417,691	214,379,719
2.3 Premium Ratio (2.1/2.2)	100.0	100.0
2.4 Reserve Numerator	37,096,943	32,233,857
2.5 Reserve Denominator	37,096,943	32,233,856
2.6 Reserve Ratio (2.4/2.5)	100.0	100.0

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 [X] No [ ]

5.2 If no, explain:

5.3 Maximum retained risk (see instructions):

5.31 Comprehensive medical $.....255,000

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:

PHPMM adheres to the Statutory deposit requirements established by the NAIC. PHPMM also has established margin at 8% on the balance sheet. In case of insolvency, PHPMM does not need to pay the management contract fee, which includes runout for future claims.

7.1 Does the reporting entity set up its claim liability for provider services on a service date base? Yes [X] No [ ]

7.2 If no, give details:

8. Provide the following information regarding participating providers:

8.1 Number of providers at start of reporting year 1,328

8.2 Number of providers at end of reporting year 1,359

9.1 Does the reporting entity have business subject to premium rate guarantees? Yes [ ] No [X]

9.2 If yes, direct premium earned:

9.21 Business with the rate guarantees between 15-36 months .....

9.22 Business with rate guarantees over 36 months .....

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 $.....225,000

10.22 Amount actually paid for year bonuses $.....152,631

10.23 Maximum amount payable withholds $.....12,675,856

10.24 Amount actually paid for year withholds $.....11,421,706

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 [X]	No [ ]
11.14 A Mixed Model (combination of above)?	Yes [ ]	No [X]
11.2 Is the reporting entity subject to Minimum Net Worth Requirements?	Yes [X]	No [ ]
11.3 If yes, show the name of the state requiring such net worth. Michigan		
11.4 If yes, show the amount required.	$.....21,444,294	
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
Clinton County
Eaton County
Gratiot County
Ingham County
Ionia County
Isabella County
Montcalm County
Saginaw County
Shiawasee County

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)	72,523,611	77,586,611	69,303,854	78,496,764	75,770,520
2. Total liabilities (Page 3, Line 22)	41,883,976	42,848,124	36,621,871	47,270,380	47,772,369
3. Statutory surplus	21,444,294	16,951,363	15,629,592	12,545,414	2,000,000
4. Total capital and surplus (Page 3, Line 31)	30,639,635	34,738,487	32,681,983	31,226,384	27,998,151
Income Statement Items (Page 4)					
5. Total revenues (Line 8)	230,417,691	214,379,719	198,097,201	188,471,658	242,272,588
6. Total medical and hospital expenses (Line 18)	205,689,707	191,449,199	173,981,465	142,389,058	211,704,474
7. Claims adjustment expenses (Line 20)	4,897,343	4,911,305	7,496,152	7,114,435	9,446,606
8. Total administrative expenses (Line 21)	15,448,303	14,060,997	13,203,113	12,779,827	17,929,352
9. Net underwriting gain (loss) (Line 24)	4,382,338	3,958,218	3,416,471	26,188,338	3,192,156
10. Net investment gain (loss) (Line 27)	3,180,097	2,027,332	1,141,315	(77,682)	(197,735)
11. Total other income (Lines 28 plus 29)		3,849,824		(23,092,789)	2,100,951
12. Net income or (loss) (Line 32)	7,562,435	9,835,374	4,557,786	3,017,867	5,095,372
Risk-Based Capital Analysis					
13. Total adjusted capital	30,639,635	34,738,487	32,681,983	31,226,384	27,998,151
14. Authorized control level risk-based capital	10,722,147	8,475,682	7,814,796	6,272,707	8,735,172
Enrollment (Exhibit 1)					
15. Total members at end of period (Column 5, Line 7)	65,692	72,755	67,286	69,426	100,126
16 Total member months (Column 6, Line 7)	820,075	835,340	812,572	840,862	1,273,770
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)	89.3	89.3	87.8	75.3	87.4
19. Cost containment expenses	0.1	0.1	0.1	XXX	XXX
20. Other claims adjustment expenses	2.1	2.2	3.8	3.8	3.9
21. Total underwriting deductions (Line 23)	98.1	98.2	98.3	85.8	98.9
22. Total underwriting gain (loss) (Line 24)	1.9	1.8	1.7	13.8	1.1
Unpaid Claims Analysis (U&I Exhibit, Part 2B)					
23. Total claims incurred for prior years (Line 13 Col. 5)	27,790,526	23,724,934	19,955,097	32,632,284	40,347,319
24. Estimated liability of unpaid claims - [prior year (Line 13, Col. 6)]	29,957,647	25,225,184	25,266,712	35,283,137	45,244,273
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)	8,468,093	80,000	80,324	97,647	91,408
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	6,602,332	6,106,778	6,605,133	4,896,216	4,802,680
31. Total of above Lines 25 to 30	15,070,425	6,186,778	6,685,457	4,993,863	4,894,088

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	1. United States				
Governments	2. Canada				
(Including all obligations guaranteed	3. Other Countries				
by governments)	4. Totals	0	0	0	0
	5. United States				
States, Territories and Possessions	6. Canada				
(Direct and guaranteed)	7. Other Countries				
	8. Totals	0	0	0	0
Political Subdivisions of States,	9. United States				
Territories and Possessions	10. Canada				
(Direct and guaranteed)	11. Other Countries				
	12. Totals	0	0	0	0
Special Revenue and Special Assessment	13. United States				
Obligations and all Non-guaranteed Obligations	14. Canada				
of Agencies and Authorities of Governments	15. Other Countries				
and their Political Subdivisions	16. Totals	0	0	0	0
	17. United States				
Public Utilities	18. Canada				
(Unaffiliated)	19. Other Countries				
	20. Totals	0	0	0	0
Industrial and Miscellaneous and	21. United States				
Credit Tenant Loans	22. Canada				
(Unaffiliated)	23. Other Countries				
	24. Totals	0	0	0	0
Parent, Subsidiaries and Affiliates	25. Totals				
	26. **Total Bonds**	0	0	0	0
PREFERRED STOCKS	27. United States				
Public Utilities	28. Canada				
(Unaffiliated)	29. Other Countries				
	30. Totals	0	0	0	
	31 United States				
Banks, Trust and Insurance Companies	32. Canada				
(Unaffiliated)	33. Other Countries				
	34. Totals	0	0	0	
	35. United States				
Industrial and Miscellaneous	36. Canada				
(Unaffiliated)	37. Other Countries				
	38. Totals	0	0	0	
Parent, Subsidiaries and Affiliates	39. Totals				
	40. **Total Preferred Stocks**	0	0	0	
COMMON STOCKS	41. United States				
Public Utilities	42. Canada				
(Unaffiliated)	43. Other Countries				
	44. Totals	0	0	0	
	45. United States	225,702	225,702	189,389	
Banks, Trust and Insurance Companies	46. Canada				
(Unaffiliated)	47. Other Countries	18,830	18,830	16,123	
	48. Totals	244,532	244,532	205,512	
	49. United States	13,705,995	13,705,995	13,813,486	
Industrial and Miscellaneous	50. Canada				
(Unaffiliated)	51. Other Countries	61,593	61,593	58,400	
	52. Totals	13,767,587	13,767,587	13,871,886	
Parent, Subsidiaries and Affiliates	53. Totals	8,468,093	8,468,093	8,523,380	
	54. **Total Common Stocks**	22,480,212	22,480,212	22,600,778	
	55. **Total Stocks**	22,480,212	22,480,212	22,600,778	
	56. **Total Bonds and Stocks**	22,480,212	22,480,212	22,600,778	

SCHEDULE D - VERIFICATION BETWEEN YEARS

Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year		24,141,329
2. Cost of bonds and stocks acquired, Column 7, Part 3		12,797,956
3. Accrual of discount		
4. Increase (decrease) by adjustment:		
4.1 Columns 12 - 14, Part 1		
4.2 Columns 15 - 17, Part 2, Section 1		
4.3 Column 15, Part 2, Section 2	(47,189)	
4.4 Columns 11 - 13, Part 4	85,062	37,874
5. Total gain (loss), Column 19, Part 4		34,460
6. Deduct consideration for bonds and stocks disposed of, Column 7, Part 4		14,531,408
7. Amortization of premium		
8. Foreign exchange adjustment:		
8.1 Column 15, Part 1		
8.2 Column 19, Part 2, Section 1		
8.3 Column 16, Part 2, Section 2		
8.4 Column 15, Part 4		0
9. Book/adjusted carrying value at end of current period		22,480,212
10. Total valuation allowance		
11. Subtotal (Lines 9 plus 10)		22,480,212
12. Total nonadmitted amounts		
13. Statement value of bonds and stocks, current year		22,480,212

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

	1	2	Direct Business Only					
			3	4	5	6	7	8
State, Etc.	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	231,299,110		(3,399)			
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	231,299,110	0	(3,399)	0	0	0
60. Reporting entity contributions for Employee Benefit Plans	XXX	XXX						
61. Total (Direct Business)	XXX	(a) 1	231,299,110	0	(3,399)	0	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

All insurer members of a Holding Company Group that has acquired and/or disposed of any domestic insurer(s) since filing the last annual or quarterly statement shall prepare a common schedule for inclusion in each of the individual quarterly statements

PART 1 - ORGANIZATIONAL LISTING

Electronic Filing Only

1 NAIC Group Code	2 Group Name	3 NAIC Company Code	4 State of Domicile	5 FEI Number	6 Name of Company
*					
3408	SPARROW HEALTH SYSTEM		MI		SPARROW WOMEN'S HOSPITAL ASSOCIATION
3408	SPARROW HEALTH SYSTEM		MI	38-1360584	E.W. SPARROW HOSPITAL ASSOCIATION
3408	E.W. SPARROW HOSPITAL ASSOCIATION		MI		MID MICHIGAN MRI , INC
3408	E.W. SPARROW HOSPITAL ASSOCIATION		MI		SPARROW PHYSICIANS HEALTH NETWORK
3408	E.W. SPARROW HOSPITAL ASSOCIATION		MI		GRADUATE MEDICAL EDUCATION, INC
3408	E.W. SPARROW HOSPITAL ASSOCIATION		MI		PREMIER
3408	E.W. SPARROW HOSPITAL ASSOCIATION		MI		CAYMICH INSURANCE CO, LTD
3408	E.W. SPARROW HOSPITAL ASSOCIATION		MI		FINCOR HOLDINGS, INC
3408	E.W. SPARROW HOSPITAL ASSOCIATION		MI		NORTH GRAND RIVER COOPERATIVE
3408	E.W. SPARROW HOSPITAL ASSOCIATION		MI		LANSING MEDICAL DENTAL BUILDING
3408	E.W. SPARROW HOSPITAL ASSOCIATION		MI		MEDICAL CENTER WEST CONDO ASSOCIATION
3408	E.W. SPARROW HOSPITAL ASSOCIATION		MI		IONIA COUNTY MEMORIAL HOSPITAL
3408	SPARROW HEALTH SYSTEM		MI		CARSON CITY HOSPITAL
3408	SPARROW HEALTH SYSTEM		MI	38-1358172	CLINTON MEMORIALHOSPITAL
3408	SPARROW HEALTH SYSTEM		MI	38-6100687	SPARROW FOUNDATION
3408	SPARROW HEALTH SYSTEM	95849	MI	38-2356288	PHYSICIANS HEALTH PLAN OF MID-MICHIGAN
3408	PHYSICIANS HEALTH PLAN OF MID-MICHIGAN		MI	38-3361367	PHYSICIANS HEALTH PLAN SHARED SVCS ORG
3408	PHYSICIANS HEALTH PLAN OF MID-MICHIGAN		MI	38-2594856	PHPMM TPA
3408	PHYSICIANS HEALTH PLAN OF MID-MICHIGAN	11537	MI	38-4497604	PHPMM FAMILYCARE
3408	PHYSICIANS HEALTH PLAN OF MID-MICHIGAN	12916	MI	20-5565219	PHPMM INSURANCE COMPANY
3408	SPARROW HEALTH SYSTEM		MI	38-2543305	SPARROW HOME CARE
3408	SPARROW HEALTH SYSTEM		MI	38-2594856	PHYSICIANS HEALTH NETWORK
3408	SPARROW HEALTH SYSTEM		MI	38-2595963	SPARROW DEVELOPMENT, INC
3408	SPARROW DEVELOPMENT, INC		MI		PHARMACY PLUS
3408	SPARROW DEVELOPMENT, INC		MI		ST LAWRENCE OR MGT COMPANY, LLC
3408	SPARROW DEVELOPMENT, INC		MI		MICHIGAN ATHLETIC CLUB
3408	SPARROW DEVELOPMENT, INC		MI		SPARROW PRACTICE MANAGEMENT CO
3408	SPARROW DEVELOPMENT, INC		MI		SPARROW REGIONAL MEDICAL SUPPLY
3408	SPARROW HEALTH SYSTEM		MI		SPARROW SPECIALTY HOSPITAL
3408					

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

PART 1 - ORGANIZATIONAL CHART