

Independence Blue Cross and Subsidiaries

*Consolidated Financial Statements as of
December 31, 2005 and 2004 and for the
Years Ended December 31, 2005, 2004 and 2003,
and Independent Auditors' Report*

INDEPENDENT AUDITORS' REPORT

Members and the Board of Directors
Independence Blue Cross
Philadelphia, Pennsylvania

We have audited the accompanying consolidated balance sheets of Independence Blue Cross and subsidiaries (the "Company" or "IBC") as of December 31, 2005 and 2004, and the related consolidated statements of income and comprehensive income, changes in reserves, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of IBC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Independence Blue Cross and subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

June 21, 2006

INDEPENDENCE BLUE CROSS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2005 AND 2004
(Dollars in thousands)

ASSETS	2005	2004	LIABILITIES AND RESERVES	2005	2004
CASH AND CASH EQUIVALENTS	\$ 623,131	\$ 466,361	CLAIMS LIABILITIES	\$ 1,527,815	\$ 1,457,549
INVESTMENTS AVAILABLE FOR SALE—at fair value	1,873,094	1,912,163	ACCOUNTS PAYABLE AND ACCRUED EXPENSES:		
RECEIVABLES:			Merit rating refunds	15,208	21,353
Member and national account premiums	537,737	459,273	Accrued expenses	213,876	212,432
Federal Employee Health Benefits Program	55,302	55,056	Accrued postretirement benefits	38,551	37,715
BlueCard Program	107,416	122,656	Other	<u>136,988</u>	<u>119,310</u>
Interest	15,999	17,252			
Other	<u>62,626</u>	<u>39,076</u>	Total accounts payable and accrued expenses	<u>404,623</u>	<u>390,810</u>
Total receivables	<u>779,080</u>	<u>693,313</u>	UNEARNED INCOME	408,672	424,099
			LONG-TERM DEBT	<u>64,634</u>	<u>64,900</u>
			Total liabilities	<u>2,405,744</u>	<u>2,337,358</u>
Prepaid expenses	91,026	99,113	COMMITMENTS AND CONTINGENCIES		
Property and equipment—net	93,229	81,212	(Notes 9 and 14)		
Other assets	112,787	111,535	RESERVES:		
Investments in affiliates	53,688	50,317	Unallocated	1,414,778	1,247,293
Goodwill	208,183	208,183	Accumulated other comprehensive income— net of income taxes	<u>13,696</u>	<u>37,546</u>
	<u> </u>	<u> </u>	Total reserves	<u>1,428,474</u>	<u>1,284,839</u>
TOTAL ASSETS	<u>\$ 3,834,218</u>	<u>\$ 3,622,197</u>	TOTAL LIABILITIES AND RESERVES	<u>\$ 3,834,218</u>	<u>\$ 3,622,197</u>

See notes to consolidated financial statements.

INDEPENDENCE BLUE CROSS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(Dollars in thousands)

	2005	2004	2003
UNDERWRITING INCOME	<u>\$ 10,401,039</u>	<u>\$ 9,736,304</u>	<u>\$ 9,226,907</u>
UNDERWRITING COSTS:			
Claims incurred	9,300,782	8,655,543	8,077,661
Medical management	193,539	188,258	208,572
Operating expenses	<u>713,446</u>	<u>687,557</u>	<u>698,294</u>
Total underwriting costs	<u>10,207,767</u>	<u>9,531,358</u>	<u>8,984,527</u>
Net underwriting income	193,272	204,946	242,380
Investment income—net	91,787	82,823	70,790
Equity in net income of affiliates	8,287	13,617	10,657
Other expenses—net	<u>(14,161)</u>	<u>(26,506)</u>	<u>(13,054)</u>
Income before income taxes	279,185	274,880	310,773
PROVISION FOR INCOME TAXES	<u>111,700</u>	<u>109,700</u>	<u>121,900</u>
NET INCOME	167,485	165,180	188,873
OTHER COMPREHENSIVE INCOME— NET OF INCOME TAXES:			
Unrealized holding (loss) gain on investments arising during the period, net of reclassification adjustment, and the change in additional minimum pension obligation	<u>(23,850)</u>	<u>37,062</u>	<u>6,337</u>
COMPREHENSIVE INCOME	<u>\$ 143,635</u>	<u>\$ 202,242</u>	<u>\$ 195,210</u>

See notes to consolidated financial statements.

INDEPENDENCE BLUE CROSS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN RESERVES FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(Dollars in thousands)

	2005	2004	2003
BEGINNING BALANCE	\$ 1,284,839	\$ 1,082,597	\$ 887,387
Comprehensive income	<u>143,635</u>	<u>202,242</u>	<u>195,210</u>
ENDING BALANCE	<u>\$ 1,428,474</u>	<u>\$ 1,284,839</u>	<u>\$1,082,597</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(Dollars in thousands)

	2005	2004	2003
OPERATING ACTIVITIES:			
Net income	\$ 167,485	\$ 165,180	\$ 188,873
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	24,596	22,665	24,678
Equity in net (income) loss of affiliates—net of dividends received	(3,710)	(4,354)	3,743
Gain on sale of investments	(5,241)	(17,809)	(26,041)
Deferred income taxes	13,417	(18,196)	(6,643)
Change in assets and liabilities:			
Premiums receivable	(78,710)	18,975	2,378
Other receivables	(7,057)	(43,063)	(16,612)
Prepaid expenses and other	6,835	(51,782)	(49,191)
Claims liabilities	70,266	(79,599)	140,477
Accounts payable and accrued expenses	13,813	(143,097)	101,989
Unearned income	(15,427)	40,769	50,011
Net cash provided by (used in) operating activities	<u>186,267</u>	<u>(110,311)</u>	<u>413,662</u>
INVESTING ACTIVITIES:			
Purchase of investments available for sale	(1,232,043)	(1,571,677)	(2,086,608)
Sale or maturity of investments available for sale	1,233,696	1,347,779	1,938,901
Purchase of other invested assets	-	-	(1,400)
Purchase of property and equipment	(80,238)	(69,299)	(83,095)
Proceeds from sale of property and equipment	<u>49,318</u>	<u>108,778</u>	<u>100,693</u>
Net cash used in investing activities	<u>(29,267)</u>	<u>(184,419)</u>	<u>(131,509)</u>
FINANCING ACTIVITIES:			
Payment on long-term debt	<u>(266)</u>	<u>(5,272)</u>	<u>(64,465)</u>
Net cash used in financing activities	<u>(266)</u>	<u>(5,272)</u>	<u>(64,465)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	156,770	(300,002)	217,688
CASH AND CASH EQUIVALENTS—Beginning of year	<u>466,361</u>	<u>766,363</u>	<u>548,675</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 623,131</u>	<u>\$ 466,361</u>	<u>\$ 766,363</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during year for:			
Interest	<u>\$ 5,660</u>	<u>\$ 5,812</u>	<u>\$ 8,869</u>
Income taxes	<u>\$ 112,440</u>	<u>\$ 221,180</u>	<u>\$ 123,799</u>

See notes to consolidated financial statements.

INDEPENDENCE BLUE CROSS AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005, 2004 AND 2003

(Dollars in thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business—Independence Blue Cross (the “Company” or “IBC”) is a nonprofit corporation in the Commonwealth of Pennsylvania and is subject to regulation by the Commonwealth of Pennsylvania Insurance Department (“PID”). Health benefits are provided under contracts with members through hospitals, skilled nursing facilities and other organizations. The Company contracts with providers of health care to provide health services to members and also performs administrative services such as billing, collection, and marketing for Highmark Blue Shield (“HBS”) and processes claims for other Blue Cross plans’ members and for programs such as the Federal Employee Health Benefits Program and the BlueCard Program. The Company and HBS jointly participate in lines of business to provide Major Medical and Comprehensive Major Medical benefits. The Company offers its Preferred Provider Organization and Point-of-Service programs in Pennsylvania through its wholly owned subsidiary, QCC Insurance Company (“QCC”). The Company provides health insurance coverage to New Jersey residents through AmeriHealth Insurance Company of New Jersey and to Delaware residents through QCC d/b/a AmeriHealth Insurance Company. Health insurance is provided by the Company for Puerto Rico residents through its 83.6% owned subsidiary, La Cruz Azul de Puerto Rico, Inc. (“La Cruz Azul”). The Company provides workers’ compensation claims management services and third-party administrative services through CompServices, Inc. and AmeriHealth Administrators, Inc., respectively. In addition, the Company provides HMO coverage through its wholly owned subsidiaries, AmeriHealth HMO, Inc. and Keystone Health Plan East (“KHPE”). The Company and HBS provide hospitalization and medical/surgical coverages through Inter-County Hospitalization Plan, Inc. and Inter-County Health Plan, Inc., which are jointly owned subsidiaries. Through its 93% owned subsidiary, NewSeasons Assisted Living Communities, Inc. (“NewSeasons”), the Company acquires, constructs, owns, and operates assisted living facilities.

Service Marks—The Blue Cross and Blue Shield Association (the “Association”) licenses Independence Blue Cross to offer certain products and services under the BLUE CROSS® brand name. Independence Blue Cross is an independent organization governed by its own Board of Directors and is solely responsible for its own debts and other obligations. Neither the Association nor any other organization using the BLUE CROSS® or BLUE SHIELD® brand name acts as a guarantor of Independence Blue Cross’ obligations, except as discussed in Note 14.

Principles of Consolidation—The accompanying consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries, hereafter referred to as IBC, and IBC’s share of assets, liabilities, reserves and operating results of the lines of business it participates in with HBS. All significant intercompany transactions have been eliminated in consolidation.

Cash and Cash Equivalents—IBC considers cash and cash equivalents to be all highly liquid investments with original issue maturities of three months or less.

Investments Available for Sale-at fair value—IBC has categorized its investment portfolio as “available for sale” (“AFS”) and has reported the portfolio at fair value with unrealized gains and losses, net of tax, as a separate component of reserves. Gross realized gains and losses are calculated based upon the specific cost of the investments sold. The fair value of IBC’s AFS investment portfolio is estimated based on quoted market prices for the same or similar issues.

National Accounts—In order to provide service to employers with employees located in more than one geographical area, IBC participates in numerous syndicated contracts, known as National Accounts, with other Blue Cross plans throughout the country. On an interim basis, income, claims and administrative costs incurred in servicing National Account members are recorded in the consolidated statements of income and comprehensive income and changes in reserves. Underwriting gains and losses are recorded at settlement, which normally occurs within nine months following the end of the annual contract period.

Member Premiums and Unearned Income—Member premiums are billed in advance of their respective coverage periods. Receivables and income from such premiums are recorded during the coverage period. The unearned portion of premiums for a coverage period is recorded in the consolidated balance sheet as unearned income and later reported as underwriting income when earned.

Property and Equipment-net—Property and equipment are recorded at cost, which includes expenditures for significant improvements. Maintenance, repairs and minor improvements are expensed as incurred. When property or equipment is retired or otherwise disposed of, cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the consolidated statement of income. Depreciation is computed on the straight-line method over the estimated useful lives of the assets (three to ten years for office furniture and equipment, twelve to forty years for building and improvements).

In accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, certain software costs are capitalized for purchased software including costs incurred to develop new systems. Developmental costs are accumulated until the software is put into use, at which time amortization commences. Amortization is computed on a straight-line basis over the expected useful life of the software (three to five years).

Claims Liabilities—Claims liabilities include the estimated amounts to be paid for member benefits based on accumulated financial and statistical data. Processing expenses related to such claims are accrued currently based on an estimate of expenses necessary to process such claims. Claims liabilities are presented net of advances to providers.

Merit Rating Refunds—Merit rating refunds are the estimated premiums refundable to eligible retrospectively rated groups based on accumulated financial and statistical data.

Risk-Sharing Arrangements—IBC’s HMO operations have certain arrangements for their Commercial and Medicare lines of business with independent physician and managed care groups to share in any deficit or surplus generated against established target medical budgets in the hospital, referral, and pharmacy service categories. A liability or a receivable is recorded based upon each arrangement’s estimated experience.

Retirement Benefits—Pension expense related to IBC’s pension plans is recorded based on actuarially determined net periodic pension costs using a year-end measurement date. The actuarial cost method used is the projected unit credit method.

Health care and life insurance benefits are also provided for retirees. IBC recognizes, as a liability, the actuarial present value of postretirement benefits expected to be paid to employees. The related expense reflects benefits attributed to services rendered by eligible employees during the period and interest on the liability.

Medical Management—Medical management activities include provider network creation and maintenance, credentialing and recredentialing, precertification and concurrent review, discharge planning and case management, claim payment review, medical cost analysis, medical information management, and quality management. Costs of these activities are expensed as incurred.

Expense Reimbursement—Operating expenses are allocated to various lines of business in order to determine the expense reimbursement due from other Blue Cross plans and other health programs for which IBC processed claims. Expense reimbursement is also calculated for operating expenses incurred on behalf of HBS. The method by which IBC is reimbursed is either actual cost or a predetermined amount.

Income Taxes—The Company is subject to federal income taxes under provisions of Section 1012.b of the Tax Reform Act of 1986. Since the Company is a nonprofit corporation, it is exempt from Pennsylvania corporate taxes. All of the Company’s subsidiaries are subject to federal and state income or premium taxes.

The Company files a consolidated federal income tax return including all of its wholly owned subsidiaries. Deferred income taxes are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts.

Comprehensive Income—Total comprehensive income includes net income, unrealized gains (losses) on AFS investments arising during the period, net of reclassification adjustments, and the change in the additional minimum pension obligation.

Goodwill—IBC accounts for goodwill in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that intangible assets with finite lives be amortized and that goodwill and intangible assets with indefinite lives will not be amortized, but will rather be tested at least annually for impairment.

In 2003, IBC recorded an impairment loss related to the goodwill recorded on its investment in NewSeasons in the amount of \$3,763. The impairment loss is presented on the consolidated statements of income and comprehensive income as a component of other expenses. IBC concluded such impairment existed given the recent operating results of NewSeasons. No such impairments were recorded in 2005 and 2004. In 2005, 2004 and 2003, IBC used an income approach based on expected earnings to determine the fair value of each entity and to conclude on the existence of an impairment.

Basis of Presentation—The financial statements of the Company and certain subsidiaries are reported to their domiciliary State Insurance Departments on the basis of statutory accounting practices in a format established by the National Association of Insurance Commissioners (“NAIC”) and are presented herein in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

The principal differences relate to certain assets and liabilities designated as nonadmitted (primarily capitalized software, office furniture, equipment, certain receivables, certain intangibles, certain accrued and prepaid expenses and certain deferred income taxes) that are excluded from the balance sheet and reserves for statutory reporting purposes. As a result of these differences, statutory reserves at December 31, 2005 and 2004 were \$1,186,958 and \$1,038,534, respectively. Statutory net income for 2005, 2004, and 2003 was \$23,355, \$22,282 and \$53,189, respectively.

Fair Value of Financial Instruments—In accordance with SFAS No. 107, *Disclosure about Fair Value of Financial Instruments*, IBC has calculated the fair values of its notes receivable and long-term debt at the discounted amount of future cash flows using IBC’s current incremental lending/borrowing rate for similar financial instruments. Such fair values approximate IBC’s carrying amounts. In addition, the carrying amount of cash and cash equivalents approximates its fair value due to the short-term nature of these financial instruments. See Note 3 for additional disclosures about the fair value of *Investments Available for Sale*.

Guarantees—The Company reports guarantees in accordance with FASB Interpretation No. 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. See Note 9 for disclosure of guarantees and commitments.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Reclassifications—Certain prior-year amounts have been reclassified to conform to the current year’s presentation.

Recent Accounting Pronouncements—In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*. The Interpretation clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. In December 2003, FIN 46 was revised in FIN 46R. A nonpublic entity with an interest in an entity that is subject to this Interpretation and that is created after December 31, 2003, shall apply this Interpretation to that entity immediately. A nonpublic enterprise shall apply this Interpretation to all entities that are subject to this Interpretation by the beginning of the first annual period beginning after December 15, 2004. IBC is not a party to any variable interest entities covered by the Interpretation. In management’s opinion, this Interpretation has no impact on the Company’s financial statements.

In December 2003, the FASB revised SFAS No. 132 *Employers' Disclosures about Pensions and Other Postretirement Benefits*. This revision is intended to improve financial statement disclosures for defined benefit plans. The standard requires that companies give more details about their plan assets, benefit obligations, cash flows, benefit costs and other relevant information. This standard is effective for fiscal years ending on or after June 15, 2004. The Company has included the additional disclosures in the Notes to Consolidated Financial Statements (see Note 4).

In November 2005, the FASB issued FASB Staff Position ("FSP") Nos. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. This FSP nullifies certain requirements of EITF Issue 03-1 and supersedes EITF Topic No. D-44, *Recognition of Other-Than-Temporary Impairment Upon the Planned Sale of a Security Whose Cost Exceeds Fair Value*. The guidance in this FSP also amends FASB No. 115. This FSP is effective for reporting periods beginning after December 15, 2005. In management's opinion, this statement will not have a material impact on the Company's financial statements. The Company has included the required disclosures in the Notes to Consolidated Financial Statements (see Note 3).

In February 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments* (SFAS No. 155), an amendment of FASB Statements No. 133 and 140. SFAS No. 155 (i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of FASB Statement No. 133, (iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (v) amends FASB Statement No. 140 to eliminate the exemption from applying the requirements of FASB Statements No. 133 on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. In management's opinion, this statement will not have a material impact on the Company's financial statements.

2. AGENCY CONTRACTS

Claims processed for others and excluded from the consolidated financial statements amounted to \$459,308 in 2005, \$397,887 in 2004 and \$284,308 in 2003. Reimbursements for the administrative cost of services performed for HBS, governmental agencies, and other plans in the amount of \$32,084 in 2005, \$34,564 in 2004 and \$31,291 in 2003, respectively, have been offset against operating expenses.

3. INVESTMENTS

The cost or amortized cost and estimated fair value of investments at December 31, 2005 and 2004, are as follows:

	Available for Sale December 31, 2005			Estimated Fair Value
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury notes and federal agencies	\$ 217,482	\$ 145	\$ (2,647)	\$ 214,980
Mortgage-backed securities	92,251	656	(1,630)	91,277
Asset-backed securities	121,561	192	(2,302)	119,451
Corporate debt securities	678,893	8,837	(15,074)	672,656
Other	113,623	1,508	(1,445)	113,686
Total debt securities	<u>1,223,810</u>	<u>11,338</u>	<u>(23,098)</u>	<u>1,212,050</u>
Common stock	405,846	63,506	(10,433)	458,919
Preferred stock	202,825	3,536	(4,236)	202,125
Total equity securities	<u>608,671</u>	<u>67,042</u>	<u>(14,669)</u>	<u>661,044</u>
Total investments	<u>\$ 1,832,481</u>	<u>\$ 78,380</u>	<u>\$ (37,767)</u>	<u>\$ 1,873,094</u>

	Available for Sale December 31, 2004			Estimated Fair Value
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury notes and federal agencies	\$ 180,065	\$ 544	\$ (973)	\$ 179,636
Mortgage-backed securities	115,618	2,263	(1,007)	116,874
Asset-backed securities	129,740	1,936	(1,289)	130,387
Corporate debt securities	765,768	25,686	(4,307)	787,147
Other	102,660	1,385	(67)	103,978
Total debt securities	<u>1,293,851</u>	<u>31,814</u>	<u>(7,643)</u>	<u>1,318,022</u>
Common stock	358,043	60,937	(9,946)	409,034
Preferred stock	181,067	5,858	(1,818)	185,107
Total equity securities	<u>539,110</u>	<u>66,795</u>	<u>(11,764)</u>	<u>594,141</u>
Total investments	<u>\$ 1,832,961</u>	<u>\$ 98,609</u>	<u>\$ (19,407)</u>	<u>\$ 1,912,163</u>

The amortized cost and estimated fair value of debt securities by maturity date at December 31, 2005 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 104,816	\$ 103,908
Due after one year through five years	257,513	255,021
Due after five years through ten years	480,423	473,287
Due after ten years	<u>167,246</u>	<u>169,106</u>
Subtotal	1,009,998	1,001,322
Mortgage-backed securities	92,251	91,277
Asset-backed securities	<u>121,561</u>	<u>119,451</u>
Total debt securities	<u>\$ 1,223,810</u>	<u>\$ 1,212,050</u>

Gross realized gains and losses from sales of investments recorded in *Investment income – net* were as follows:

	2005	2004	2003
Realized gains	\$ 55,598	\$ 46,575	\$ 48,797
Realized losses	<u>(50,357)</u>	<u>(28,766)</u>	<u>(22,756)</u>
Net realized gains	<u>\$ 5,241</u>	<u>\$ 17,809</u>	<u>\$ 26,041</u>

The net change in the unrealized appreciation (depreciation) on investments classified as AFS included as a component of other comprehensive income was (\$38,589), \$24,749, and \$38,634 for the years ended December 31, 2005, 2004, and 2003, respectively. In addition, the Company's share of the unrealized gains (losses) included in the equity of its investment in affiliates accounted for under the equity method is included as a component of IBC's other comprehensive income.

In order to comply with statutory requirements, the Company has placed on deposit with various State Insurance Departments investments with an estimated fair value of \$64,043 and \$66,396 at December 31, 2005 and 2004, respectively. Deposits are included in *Investments available for sale* on the consolidated balance sheets.

The following table summarized the gross unrealized losses and fair value of fixed income and equity securities by the length of time that individual securities have been in a continuous unrealized loss position at December 31, 2005 and 2004:

	2005						Total Unrealized Losses
	Less than 12 months			12 months or more			
	Number of Issues	Estimated Fair Value	Unrealized Losses	Number of Issues	Estimated Fair Value	Unrealized Losses	
U.S. Treasury notes and federal agencies	113	\$113,965	\$(1,493)	55	\$ 42,290	\$(1,154)	\$(2,647)
Mortgage-backed securities	57	26,837	(317)	105	33,802	(1,313)	(1,630)
Asset-backed securities	101	69,469	(1,316)	57	26,222	(986)	(2,302)
Corporate debt securities	1,345	297,217	(9,483)	533	140,940	(5,591)	(15,074)
Other	<u>38</u>	<u>61,548</u>	<u>(1,267)</u>	<u>14</u>	<u>6,049</u>	<u>(178)</u>	<u>(1,445)</u>
Total debt securities	<u>1,654</u>	<u>569,036</u>	<u>(13,876)</u>	<u>764</u>	<u>249,303</u>	<u>(9,222)</u>	<u>(23,098)</u>
Common stock	728	98,101	(6,219)	120	6,530	(4,214)	(10,433)
Preferred stock	<u>221</u>	<u>83,121</u>	<u>(3,071)</u>	<u>47</u>	<u>21,446</u>	<u>(1,165)</u>	<u>(4,236)</u>
Total equity securities	<u>949</u>	<u>181,222</u>	<u>(9,290)</u>	<u>167</u>	<u>27,976</u>	<u>(5,379)</u>	<u>(14,669)</u>
Total investments	<u>2,603</u>	<u>750,258</u>	<u>(23,166)</u>	<u>931</u>	<u>277,279</u>	<u>(14,601)</u>	<u>(37,767)</u>

	2004						Total Unrealized Losses
	Less than 12 months			12 months or more			
	Number of Issues	Estimated Fair Value	Unrealized Losses	Number of Issues	Estimated Fair Value	Unrealized Losses	
U.S. Treasury notes and federal agencies	97	\$ 141,542	\$ (711)	18	\$ 10,736	\$ (262)	\$ (973)
Mortgage-backed securities	86	29,981	(288)	53	32,173	(719)	(1,007)
Asset-backed securities	84	44,812	(492)	22	19,435	(797)	(1,289)
Corporate debt securities	783	218,819	(3,775)	84	30,457	(532)	(4,307)
Other	<u>19</u>	<u>17,434</u>	<u>(55)</u>	<u>1</u>	<u>3,833</u>	<u>(12)</u>	<u>(67)</u>
Total debt securities	<u>1,069</u>	<u>452,588</u>	<u>(5,321)</u>	<u>178</u>	<u>96,634</u>	<u>(2,322)</u>	<u>(7,643)</u>
Common stock	604	55,508	(6,981)	140	6,728	(2,965)	(9,946)
Preferred stock	<u>132</u>	<u>41,169</u>	<u>(1,326)</u>	<u>11</u>	<u>10,692</u>	<u>(492)</u>	<u>(1,818)</u>
Total equity securities	<u>736</u>	<u>96,677</u>	<u>(8,307)</u>	<u>151</u>	<u>17,420</u>	<u>(3,457)</u>	<u>(11,764)</u>
Total investments	<u>1,805</u>	<u>\$ 549,265</u>	<u>\$ (13,628)</u>	<u>329</u>	<u>\$ 114,054</u>	<u>\$ (5,779)</u>	<u>\$ (19,407)</u>

The assessment of other than temporary impairments is performed on a case-by-case basis. Factors considered in determining whether an other than temporary impairment exists include: the financial condition, business prospects and creditworthiness of the issuer, the length of time and extent to which fair value has been less than cost for equity securities or amortized cost for fixed income securities, and the Company's intent and ability to hold such investments until the fair value recovers.

The majority of unrealized losses on fixed income securities were caused by interest rate increases. Because the declines in market value are not considered severe on a security by security basis, are attributable to interest rate increases, not declines in credit quality and the Company has the intent and ability to hold to recovery, the Company does not consider those investments to be other than temporarily impaired at December 31, 2005. For equity securities, because the declines in market value are not considered severe in nature on a security by security basis and the Company has the intent and ability to hold to recovery, the Company does not consider those investments to be other than temporarily impaired at December 31, 2005.

The Company recognizes other than temporary impairments on debt and equity securities when, in management's judgment, the decline in value is not temporary or when the Company has made a decision to sell the security at an amount below its carrying value. When an other than temporary impairment is recognized, the security is written down to fair value as the new cost basis, and the amount of the write-down is recorded as a realized loss. The Company recognized \$15,487, \$3,211 and \$4,035, respectively, of other than temporary impairments on common stock during the years ended December 31, 2005, 2004 and 2003. No impairments were recorded on debt or preferred stock securities during the year ended December 31, 2005, 2004 or 2003.

4. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

IBC has a noncontributory defined benefit pension plan for the benefit of all its employees hired prior to January 1, 2000. For those employees hired on or after January 1, 2000, benefits are calculated on a cash balance formula. IBC's funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide for benefits attributed to service to date and for those expected to be earned in the future.

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retirees. Under the current program, substantially all of IBC's employees may become eligible for these benefits if they are working for IBC when they reach age 55 and they have completed at least 10 years of service. Therefore, IBC begins accruing an obligation for active participants at the later of age 45 or date of hire.

A summary of assets, obligations and assumptions of the pension and health/life benefit plans are as follows at December 31, 2005 and 2004:

	<u>Pension Benefits</u>		<u>Health/Life Benefits</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 413,400	\$350,243	\$ 61,343	\$ 50,012
Service cost	25,234	23,535	5,750	4,973
Interest cost	24,756	23,358	3,977	3,465
Actuarial loss	21,033	26,016	(8,870)	5,382
Benefits paid	(28,665)	(9,752)	(3,119)	(2,489)
Amendments and settlements	1,565	-	-	-
Participant contributions	-	-	543	-
	<u>-</u>	<u>-</u>	<u>543</u>	<u>-</u>
Benefit obligation at end of year	<u>\$ 457,323</u>	<u>\$413,400</u>	<u>\$ 59,624</u>	<u>\$ 61,343</u>

	<u>Pension Benefits</u>		<u>Health/Life Benefits</u>	
	2005	2004	2005	2004
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 322,191	\$ 232,507	\$ 9,083	\$ 8,639
Actual return on plan assets	16,269	31,966	1,080	444
Employer contribution	37,434	67,470	8,564	2,489
Benefits paid	(28,665)	(9,752)	(3,119)	(2,489)
Participant contributions	-	-	543	-
Fair value of plan assets at end of year	<u>\$ 347,229</u>	<u>\$ 322,191</u>	<u>\$ 16,151</u>	<u>\$ 9,083</u>
Funded status:				
Funded status	\$ (110,094)	\$ (91,209)	\$ (43,473)	\$ (52,260)
Unrecognized net loss	167,418	149,227	5,324	15,060
Unamortized prior-service (benefit) cost	<u>(766)</u>	<u>3,107</u>	<u>(402)</u>	<u>(515)</u>
Prepaid asset (benefit obligation) for nonvested employees	<u>\$ 56,558</u>	<u>\$ 61,125</u>	<u>\$ (38,551)</u>	<u>\$ (37,715)</u>
Components of net periodic benefit cost:				
Service cost	\$ 25,234	\$ 23,535	\$ 5,750	\$ 4,973
Interest cost	24,756	23,358	3,977	3,465
Expected return on plan assets	(29,800)	(27,783)	(1,229)	(717)
Amortization of unrecognized:				
Prior-service (benefit) cost	(25)	335	(113)	(113)
Actuarial loss	9,464	7,667	1,015	492
One time settlement charge	<u>12,371</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net periodic benefit cost	<u>\$ 42,000</u>	<u>\$ 27,112</u>	<u>\$ 9,400</u>	<u>\$ 8,100</u>

Additional Information

	<u>Pension Benefits</u>		<u>Health/Life Benefits</u>	
	2005	2004	2005	2004
Decrease in minimum liability included in other comprehensive income, net of income tax	\$ (3,639)	\$ (23,879)	N/A	N/A

The assumptions used in determining the actuarial present value of the projected benefit obligations were as follows:

Weighted-average assumptions as of December 31	Pension Benefits		Health/Life Benefits	
	2005	2004	2005	2004
Discount rate	5.75 %	6.0 %	5.75 %	6.0 %
Rate of compensation increase	4.0	4.0	4.0	4.0
Expected long-term rate of return on plan assets	9.0	9.5	9.0	9.5

The expected rate of return on plan assets was estimated utilizing a variety of factors including the historical investment return achieved over a long-term period, the targeted allocation of plan assets and expectation concerning future returns in the marketplace for both equity and debt securities.

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retirees. The related trend rate information is as follows:

**Assumed health care cost trend rates at
December 31, 2005**

	2005	2004
Health care cost trend rate assumed for next year	10.0 %	10.0 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0	5.0
Year that the rate reaches the ultimate trend rate	2011	2010

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would not significantly change results.

IBC's pension plan weighted-average asset allocations at December 31, 2005 and 2004, by asset category are as follows:

Asset Category	Plan Assets at December 31	
	2005	2004
Equity securities	58 %	61 %
Debt securities	27	25
Money market	8	7
Other	<u>7</u>	<u>7</u>
Total	<u>100 %</u>	<u>100 %</u>

The investment strategy of the Company's funded defined benefits plans is to achieve consistent positive returns, after adjusting for inflation, and to maximize long-term total return within prudent

levels of risk through a combination of income and capital appreciation. Risk to capital is minimized through the diversification of investments across and within various asset categories.

IBC's health/life benefit plan weighted-average asset allocations at December 31, 2005 and 2004, by asset category are as follows:

Asset Category	Plan Assets at December 31	
	2005	2004
Debt securities	38 %	0 %
Equity securities	<u>62</u>	<u>100</u>
Total	<u>100 %</u>	<u>100 %</u>

Contributions—In 2006, the Company expects to contribute at least \$42,381 and \$5,441 to its pension plans and postretirement benefit plan, respectively. Expected future benefit payments are as follows:

Year	Pension Benefits	Health/Life Benefits
2006	\$ 12,080	\$ 3,877
2007	14,455	4,924
2008	18,720	6,230
2009	22,268	7,725
2010	25,281	9,422
2011-2015	178,378	74,210

The Company sponsors a qualified 401(k) Savings Plan available to all full-time employees of the Company and its subsidiaries and affiliates. The Company contributes an amount equal to 50% of the first 6% of salary deferral contributed by the employee, except for those employees at the Florida Operations Center. The Florida Operations Center employees, who are not covered under IBC's defined benefit plan, receive a company matching contribution equal to 100% of the first 5% of salary deferral contributed by the employee. The Company's contribution for the plan was \$7,995 and \$7,659 for 2005 and 2004, respectively. The fair value of plan assets was \$302,802 and \$268,393 at December 31, 2005 and 2004, respectively.

5. COMPREHENSIVE INCOME

The components of IBC's other comprehensive income as of December 31, 2005, 2004, and 2003, are as follows:

	2005		
	Before-Tax	Tax Benefit (Expense)	Net
Change in additional minimum pension obligation	\$ 5,426	\$ (1,787)	3,639
Unrealized holding losses arising during the period	(37,452)	13,108	(24,344)
Less: reclassification adjustment for gains realized in net income	<u>5,241</u>	<u>(2,096)</u>	<u>3,145</u>
Other comprehensive loss	<u>\$ (37,267)</u>	<u>\$ 13,417</u>	<u>\$ (23,850)</u>
	2004		
	Before-Tax	Tax Expense	Net
Change in additional minimum pension obligation	\$ 36,347	\$ (12,468)	\$ 23,879
Unrealized holding gains arising during the period	36,720	(12,852)	23,868
Less: reclassification adjustment for gains realized in net income	<u>17,809</u>	<u>(7,124)</u>	<u>10,685</u>
Other comprehensive income	<u>\$ 55,258</u>	<u>\$ (18,196)</u>	<u>\$ 37,062</u>
	2003		
	Before-Tax	Tax Benefit (Expense)	Net
Change in additional minimum pension obligation	\$ (26,120)	\$ 9,142	\$ (16,978)
Unrealized holding gains arising during the period	65,141	(26,298)	38,843
Less: reclassification adjustment for gains realized in net income	<u>26,041</u>	<u>(10,513)</u>	<u>15,528</u>
Other comprehensive income	<u>\$ 12,980</u>	<u>\$ (6,643)</u>	<u>\$ 6,337</u>

6. INCOME TAXES

The components of the provision for income taxes are as follows:

	Years Ended December 31, 2005		
	2005	2004	2003
Federal:			
Current	\$ 96,100	\$ 76,800	\$ 126,000
Deferred	(4,500)	9,100	(36,500)
State and local	<u>20,100</u>	<u>23,800</u>	<u>32,400</u>
	<u>\$ 111,700</u>	<u>\$ 109,700</u>	<u>\$ 121,900</u>

IBC paid \$95,400, \$187,165, and \$104,600 in federal income taxes in 2005, 2004, and 2003, respectively. The Company paid \$17,040, \$34,015, and \$19,199 in state and local income taxes in 2005, 2004, and 2003, respectively.

The net deferred taxes as of December 31, 2005 and 2004, included in other assets on the consolidated balance sheets, include the following amounts of deferred tax assets and liabilities:

	2005	2004
Deferred tax asset	\$165,100	\$143,400
Deferred tax asset—additional minimum pension obligation	2,400	4,200
Valuation allowance for deferred tax asset	<u>(6,600)</u>	<u>(6,600)</u>
	<u>160,900</u>	<u>141,000</u>
Deferred tax liability	(78,500)	(61,300)
Deferred tax liability—investments available for sale	<u>(12,400)</u>	<u>(28,400)</u>
	<u>(90,900)</u>	<u>(89,700)</u>
Net deferred tax asset	<u>\$ 70,000</u>	<u>\$ 51,300</u>

The deferred tax asset results primarily from nondeductible accruals for postretirement employee benefits, the discounting of claims liabilities and unearned income required for tax purposes, and an allowance for doubtful accounts that is not deductible for tax purposes until losses are identified, quantified and written off. The deferred tax liability results from the use of accelerated methods of depreciation for tax purposes and the required accounting for pension funding. The effective tax rates differed from the statutory tax rate of 35% primarily due to state and local income taxes.

In connection with the ownership increase in NewSeasons in 2001, IBC acquired \$13,500 of net operating loss carryforwards. As of December 31, 2005, the net operating loss carryforward will begin expiring in 2011. The net operating loss carryforward may only be utilized by NewSeasons.

SFAS No. 109, *Accounting for Income Taxes*, requires deferred tax assets to be reduced by a valuation allowance if it is more likely than not some portions or all of the deferred tax assets will not be realized. As of December 31, 2005 and 2004, IBC has recorded valuation allowances of \$6,600 and \$6,600, respectively. The amounts as of December 31, 2005 and 2004 relate to subsidiary net operating loss (“NOL”) carryforwards which can only be utilized against that subsidiary’s taxable income.

7. PROPERTY AND EQUIPMENT—NET

Property and equipment at December 31, 2005 and 2004, is as follows:

	2005	2004
Land	\$ 2,538	\$ 2,532
Building and improvements	42,701	30,286
Office furniture and equipment	39,240	35,646
Capitalized software	<u>58,161</u>	<u>45,334</u>
Property and equipment—gross	142,640	113,798
Accumulated depreciation and amortization	<u>(49,411)</u>	<u>(32,586)</u>
Property and equipment—net	<u>\$ 93,229</u>	<u>\$ 81,212</u>

Depreciation and amortization expense related to property and equipment was \$14,125, \$18,914, and \$15,998 for the years ended December 31, 2005, 2004, and 2003, respectively.

8. INDEBTEDNESS

Indebtedness outstanding at December 31, 2005 and 2004 is as follows:

	2005	2004
Mortgage and construction loans and notes payable	\$ 24,156	\$ 24,704
Subordinated capital note	40,000	40,000
Capital lease obligation	<u>478</u>	<u>196</u>
	<u>\$ 64,634</u>	<u>\$ 64,900</u>

In June 1999, the Company, through its wholly owned subsidiary, KHPE, entered into a \$40,000 subordinated capital note agreement with a third party. Under the terms of the note, interest accrues at 9.6% per annum and is paid quarterly. The principal balance is payable on June 30, 2014.

The Company, through one of its subsidiaries, owns buildings pledged as collateral for related mortgage loans. The fair value of the buildings pledged as collateral approximates the amount of outstanding debt as of December 31, 2005 and 2004.

Industrial Revenue Bonds were issued to finance the purchase of the land and building of the Company’s Puerto Rico affiliate, La Cruz Azul, and were secured by the land and building of the

affiliate. On June 27, 2003, the affiliate sold the land and building and paid off all outstanding principal and interest related to these bonds.

Maturities of mortgage loans, bonds, notes payable, and capital lease obligations for each of the next five years and thereafter are as follows:

Year	Amount
2006	\$ 721
2007	751
2008	15,816
2009	7,311
2010	35
Thereafter	<u>40,000</u>
 Total	 <u>\$ 64,634</u>

Interest paid amounted to \$5,660 in 2005, \$5,812 in 2004, and \$8,869 in 2003.

IBC has an available line of credit with a bank in the amount of \$10,000, which expires on June 30, 2006. Borrowings under the line of credit bear interest at LIBOR plus 60 basis points, and are payable upon demand. As of December 31, 2005 and 2004, no amounts were outstanding under this agreement.

IBC has established Reverse Repurchase Agreements with a financial institution with the amount not to exceed \$56,992 and \$52,579, which represent two percent of the statutory admitted assets of IBC and KHPE as of December 31, 2005 and 2004, respectively. Borrowings under these agreements bear interest at the prevailing repurchase rate. As of December 31, 2005 and 2004, no amounts were outstanding under these agreements.

9. COMMITMENTS

IBC leases certain facilities and equipment under long-term leases. As of December 31, 2005, future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year are as follows:

Years Ended December 31	Facilities	Equipment	Total
2006	\$ 37,772	\$ 40,605	\$ 78,377
2007	39,306	38,034	77,340
2008	38,886	14,766	53,652
2009	37,880	5,137	43,017
2010	33,633	4,105	37,738
Thereafter	<u>292,034</u>	<u>335</u>	<u>292,369</u>
 Total	 <u>\$ 479,511</u>	 <u>\$ 102,982</u>	 <u>\$ 582,493</u>

Total rental expense amounted to \$71,440, \$81,070, and \$73,552 for 2005, 2004, and 2003, respectively.

During 2003, IBC's subsidiary, NewSeasons, entered into agreements for the sale and leaseback of several of its buildings to a Maryland real estate investment trust (the "Trust"). The net proceeds from the sale were \$69,832. Deferred gains of \$8,527 are being amortized over 160 months, the life of the respective leases. NewSeasons provided a Guaranty on lease payments for certain properties leased from the Trust. Under the terms of the Guaranty, IBC will guarantee the rental payments and monetary obligations of NewSeasons over the term of the lease up to a maximum of 16 years. As of December 31, 2005, no payments have been made by IBC in connection with this agreement.

During 2003, IBC's subsidiary, La Cruz Azul, entered into an agreement for the sale and leaseback of its building. The net proceeds from the sale were \$15,018. Deferred gains of \$1,627 were amortized over 24 months, the life of the lease. La Cruz Azul provided a Guaranty on lease payments for the leased property. Under the terms of the Guaranty, IBC will guarantee the rental payments and monetary obligations of La Cruz Azul over the term of the lease. As of December 31, 2005, no payments have been made by IBC in connection with this agreement.

During 2005 and 2004, IBC entered into agreements for the sale and leaseback of a portion of the Company's office furniture, capitalized software and equipment. The leases have terms of 30 through 60 months. These leases are accounted for as operating leases. The book value and associated depreciation of the office furniture, capitalized software and equipment have been removed from the accounts for those operating leases. The proceeds from the 2005 and 2004 sales of \$49,318 and \$99,791, respectively, approximated the net book values of the disposed items; therefore, no gain or loss was realized on these sales. Annual payments under the 2005 and 2004 leases are \$11,679 and \$22,880, respectively.

In June of 1998, IBC entered into a \$10,000 surplus note agreement with Blue Cross and Blue Shield of Vermont ("BCBS of VT"). Under the terms of the agreement, if BCBS VT draws on an IBC letter of credit, such amounts will become a principal advance under the surplus note agreement. As of December 31, 2005 and 2004, there have not been any advances under this surplus note agreement.

10. MEDICAID JOINT VENTURES

The Company, through its wholly owned subsidiaries KHPE, Vista Health Plan, Inc., and AmeriHealth HMO, Inc., is a 50-50 partner in two joint ventures with Mercy Health Plan, Keystone Mercy Health Plan (“KMHP”) and AmeriHealth Mercy Health Plan (“AMHP”) (the “Medicaid Joint Ventures”) (see Note 11). The Medicaid Joint Ventures provide medical services to certain persons eligible for participation in the Pennsylvania and South Carolina Medical Assistance Programs pursuant to agreements with the States’ Departments of Welfare. Under the terms of the current Pennsylvania agreements, the capitation payments received by KHPE and AmeriHealth HMO, Inc. are remitted to the Medicaid Joint Ventures; and it is the responsibility of the Medicaid Joint Ventures, through their providers, to provide defined program benefits. The South Carolina payments are received directly by Select Health, a licensed HMO in the state. The consolidated statements of income and comprehensive income include the following activity related to the agreements:

	Years Ended December 31,		
	2005	2004	2003
Underwriting income	\$ 1,638,958	\$ 1,355,737	\$ 1,165,130
Claims incurred	<u>(1,638,958)</u>	<u>(1,355,737)</u>	<u>(1,165,130)</u>
Net income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying consolidated financial statements do not include any liabilities for outstanding claims under this program.

11. INVESTMENTS IN AFFILIATES

The Company is a 50-50 partner in KMHP and records their portion of equity in KMHP earnings in accordance with the equity method of accounting.

Summary financial data for KMHP is as follows:

	2005	2004	2003
Revenues	\$ 1,454,662	\$ 1,202,000	\$ 1,022,404
Net (loss) income	(8,474)	8,728	20,140
Total assets	234,529	244,428	214,138
Partners’ equity	47,176	58,696	63,154

The Company is a 50-50 partner in AMHP and records their portion of equity in AMHP earnings in accordance with the equity method of accounting.

Summary financial data for AMHP is as follows:

	2005	2004	2003
Revenues	\$ 436,403	\$ 337,016	\$ 297,619
Net income	23,676	17,174	5,898
Total assets	115,509	84,164	58,739
Partners' equity	49,990	32,986	20,334

12. ACQUISITIONS AND DISPOSITIONS

On December 31, 2003, the Company, through a wholly owned subsidiary, sold AmeriHealth Health Plan, Inc., a health maintenance organization that provides services to New York residents. IBC recorded a gain of \$265 related to this sale.

On November 25, 1998, the Company, through a wholly owned subsidiary, purchased 51% of the common stock of La Cruz Azul for \$18,000. The excess of acquisition cost over the fair value of net assets acquired of \$8,718 was fully amortized as of December 31, 2001. On October 29, 2003, \$55,500 of La Cruz Azul capital notes owned by the Company were converted to 365,132 shares of La Cruz Azul common stock. The conversion increased the Company's common stock ownership to 82.7%. In 2005, the Company, through a wholly owned subsidiary, acquired an additional 32,894 shares of La Cruz Azul common stock for \$5,000. The purchase increased the Company's common stock ownership to 83.6%

13. UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSES LIABILITY

	2005	2004
Balance, January 1	<u>\$ 1,457,549</u>	<u>\$ 1,537,148</u>
Incurred related to:		
Current year	9,719,429	9,072,858
Prior years	<u>(418,647)</u>	<u>(417,315)</u>
Total incurred	<u>9,300,782</u>	<u>8,655,543</u>
Paid related to:		
Current year	(8,426,766)	(7,767,604)
Prior years	<u>(803,750)</u>	<u>(967,538)</u>
Total paid	<u>(9,230,516)</u>	<u>(8,735,142)</u>
Balance, December 31	<u>\$ 1,527,815</u>	<u>\$ 1,457,549</u>

The claims and claims adjustment expenses for prior years decreased by a total of \$418,647 in 2005 and \$417,315 in 2004, respectively, because of lower than anticipated claims costs and favorable utilization trends.

14. CONTINGENCIES

Trust Fund—During 2000, the Company established an Insolvency Protection Trust Fund (the “Trust”) to comply with the Blue Cross and Blue Shield membership standards, which require plans to take steps to ensure the payment of claims liabilities and the continuation of coverage. As of December 31, 2005 and 2004, the funded amount required for the Trust was \$4,859 and \$7,952, respectively, and the estimated fair value of investments on deposit was \$15,643 and \$15,324, respectively.

Litigation—In the course of ordinary business, IBC is involved in and is subject to claims, contractual disputes, and other uncertainties. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters will not have a material adverse effect on IBC’s financial condition or results of operations.

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