



**Independence
Blue Cross**



PEOPLE.
PARTNERS.
PROGRESS.

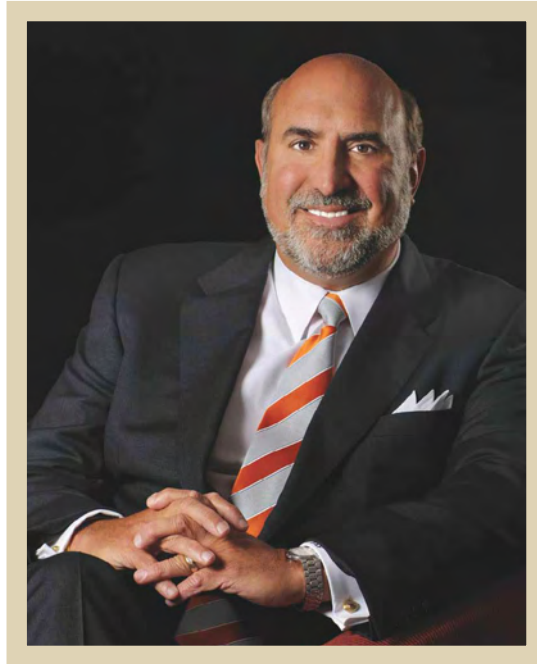


2006 ANNUAL REPORT

*At Independence Blue Cross,
we are working with partners
across our community,
achieving progress
toward a vital goal:
Quality and affordability
in health care.*



LETTER FROM THE PRESIDENT



DEAR CUSTOMERS, COLLEAGUES, AND MEMBERS OF THE COMMUNITY,

This report documents a year of accomplishment for Independence Blue Cross. We worked with discipline, urgency, and focus to deliver value to our members and customers and to serve our community in remarkable ways.

We've chosen the phrase "People. Partners. Progress." to sum up 2006, and I believe the theme is apt. As you will see, Independence Blue Cross indeed achieved progress over the course of the year, enhancing our performance and developing new capabilities. And in every sense, these achievements were about our people and partners — focused on their needs, shaped with their input, driven by their talent and energy.

In 2006, we responded to our members and to the employers we serve, crafting innovations to directly meet their requirements. We invested in our associates, developing their capabilities and supporting their efforts through excellent new business processes. We also sustained and strengthened our longstanding commitment to the people of our community. This commitment is reflected in many ways — from our

ongoing participation in low-cost insurance programs such as adultBasic and the Children's Health Insurance Program (CHIP), to our Charitable Medical Care Grant Program supporting private, nonprofit clinics, to the exemplary volunteer efforts of our associates.

Finally, at every opportunity, we continued to prove the power of partnership. We joined together with health care professionals, businesses and government, civic groups, and other Blue health plans to change health care for the better, communicating openly and working collaboratively to reach shared goals. Among our most important colleagues in this effort were our region's nurses, physicians, and hospitals — a community of health care providers as excellent as any in the nation.

In the pages that follow, you will have the chance to meet some of the many people whose ideas and efforts contributed to our success in 2006, as well as some of those we serve — individuals, families, and businesses representing every segment of our community and market.

*"When we take the right approaches
to containing costs,
we also improve health care quality."*

FROM PLANNING TO ACTION

In 2005, Independence Blue Cross finished work on an ambitious strategic plan, IBC 2010, charting our course over five years. In 2006, we moved forward with implementation of the plan, and I am pleased to report that we are achieving in each of the priority areas we identified.

To serve customers better and to address their concerns about rising prescription drug costs, we launched FutureScripts™, a new pharmacy benefits company. Through FutureScripts, we are negotiating drug prices directly and designing innovative ways to encourage members to switch to lower-cost generics, capturing \$100 million in savings over the next five years for employers who offer our drug benefits.

To offer employers, members, and providers greater access to useful information, we continued our progress in the area of informatics. We enhanced our information systems with the goal of making the right data available in the right format and at the right time to support decisions about health care and health insurance. This effort included joining Blue Health Intelligence™, a national database consolidating health information on 80 million people insured by Blue health plans like Independence Blue Cross that are part of the Blue Cross and Blue Shield Association.

To generate new business and help keep our company strong, we finalized plans for Independence Administrators, our new third-party administrator for self-funded health plans. Slated for launch in 2007, this new venture exemplifies our commitment to building on the value of the Blue brand.

We also introduced several strong new products. These included our Keystone Individual HMO, a less expensive product for people who enjoy good health, and our Flex Plus Series, which brings the advantages of our Flex product to large employer groups, allowing them to tailor and customize options meeting their individual needs.

In all, 2006 was a year in which Independence Blue Cross moved forward simultaneously on many fronts. We demonstrated our continued commitment to values that have always guided us, and we proved ourselves a dynamic and entrepreneurial organization when it comes to putting these values into action.

THE HEALTH CARE COST CRISIS

In our 2005 annual report, I described our commitment to addressing the crisis in health care costs facing our nation. Today, health care affordability remains Americans' No. 1 domestic concern, and rising costs continue to put access to health care beyond the reach of too many people. More than 1.3 million Pennsylvanians, 11 percent of our population, are uninsured.

In the face of this reality, Independence Blue Cross is working in every way we can to address the factors that drive inflation in health care and, in turn, drive up health insurance premiums.

The fundamental issues affecting costs include the health of the population we serve and the services we provide to members with chronic conditions such as heart disease, asthma, and diabetes. These conditions ultimately account for 70 percent of health care spending. As you will read later in this report, we are

working to improve the health of our members through progressive wellness initiatives, while addressing the treatment of chronic conditions through our highly effective ConnectionsSM disease management program, honored this year as the best program of its kind in the nation.

We strongly believe that when we take the right approaches to containing costs, we also improve health care quality. We do so by promoting practices that lead to early diagnosis and effective treatment, eliminating the need for multiple diagnostic procedures and repeat doctor visits and shortening hospital stays. We also do so by avoiding the costs and risks of unnecessary or unproven procedures and medications. This approach does not set patients, providers, and other health care partners against each other in a zero-sum game, but instead establishes an ideal we can all work toward and benefit from: more effective and cost-effective health care.

LOOKING FORWARD

Independence Blue Cross ended 2006 financially sound, with gross underwriting income of \$10.7 billion and net income of \$210.9 million — exceeding our target. We remain our region's leading health insurance provider, with a total membership of 3.4 million nationwide.

As we look to the future, we are mindful of major challenges, from thriving in an intensely competitive market to tackling the complex issues of quality, cost, and access. We also see promising opportunities and stand ready to make the most of them. Independence Blue Cross is well positioned to move forward with strategic new projects and partners, open to possibilities for strengthening our organization, increasing our quality and efficiency, and bringing new value to our members.

As we plan for 2007 and the years beyond, it is with confidence inspired by our company's considerable strengths. Our products continue to earn recognition for their outstanding quality, our provider network is unsurpassed, and our brand image stands out as an invaluable asset. Perhaps most important, we have forged a longstanding bond with members, employers, and our community that provides a solid foundation on which to build our future.

These strengths not only position Independence Blue Cross to serve our members well, but also to help shape a brighter future for health care. I hope you will join with us in this vitally important work.



JOSEPH A. FRICK

President and Chief Executive Officer

"We have forged a longstanding bond with members, employers, and our community that provides a solid foundation on which to build our future."

AT INDEPENDENCE BLUE CROSS, ONE PRIORITY OUTRANKS ALL OTHERS:
THE WELL-BEING OF THE PEOPLE WE SERVE.

Fulfilling a Mission of Value

Our company's achievements in 2006 and our plans for the years to come reflect ideals that date back to our founding 69 years ago. Each day, we work to promote the health of our members and people across our community, to support advances in the quality of health care, and to increase access to care by containing costs.

To reach these goals, we look to make the most of our unique position and perspective within the health care community — innovating, advocating, and leading. We also aspire to promote progress through partnerships. This means bringing together diverse stakeholders and providing forums where groups that share common concerns can exchange information and ideas — whether they be hospitals, nursing schools, professional societies, or health clinics.

To understand our mission, it is important to understand our identity as an organization. Independence Blue Cross is a nonprofit corporation, managed solely to

meet the needs of our members, of the employers who purchase our services, of our physician and hospital partners, and of our community. We have no stock and no shareholders to whom to return a profit, and we paid nearly \$168 million in taxes for 2006.

In our daily operations, we look to fulfill core business functions with quality and efficiency — enrolling members, supporting members when they are ill, helping members stay well, and paying claims. But the value we deliver goes far beyond this. It comes in the form of the remarkable network of hospitals and doctors we bring together; the wellness, education, and health care management programs we create; and the investment we make in our community. It also comes in the form of trust. The people we do business with know that they can rely on Independence Blue Cross to meet our commitments, fully and faithfully, as we have since 1938.

OUR IDENTITY AND GOALS

A nonprofit hospital plan corporation, Independence Blue Cross exists to make quality health care accessible and affordable.

With 3.4 million members, including 2.6 million in southeastern Pennsylvania, we cover more individuals than any other health insurer in the region.

Founded in 1938, Independence Blue Cross has served its community without interruption for nearly 70 years.

"Independence Blue Cross promotes a true partnership with physicians and their members. They support preventive screenings, wellness and nutrition programs, management of chronic conditions, and excellent coordination of care. When a member needs services, network physicians and IBC's medical directors extend themselves to ensure the best possible care and outcomes."

DONALD B. PARKS, M.D.

Internal Medicine
Parkstone Medical Associates



"We do business with Independence Blue Cross because they're a responsive business partner capable of meeting our complex needs. I admire the fact that they are also committed to strengthening the well-being of our community and the people who live here."

DAVID L. COHEN

Executive Vice President
Comcast Corporation

"This is a company with a soul. We genuinely care about our members, our associates, and our community, and that concern shapes every aspect of the way we do business. That's what sets us apart, and that's why I'm proud to be a part of this organization."

SHEILA HESS

Manager of Social Mission Programs
Independence Blue Cross



KEEPING THE PROMISE

The true test of an insurance company is the support it provides in time of need. For Doris Daniels and her family, that time came when she was pregnant with her third child, Treyden, was diagnosed with breast cancer, and needed to deliver her baby prematurely, at just 32 weeks. “Until something like this happens, you don’t know how good your benefits are,” she says. “But when your son is in the hospital for a month, you need chemo, and you have the support of a great case manager, you see the value of Independence Blue Cross.” Today, fortunately, mother, child, and family are all doing beautifully.

*Doris Daniels, Howard Coleman, and their children, Antione, 11,
Kai, 3, and Treyden, 1.*





OUR HEALTHY LIFESTYLES PROGRAM CONTINUES TO LEAD THE WAY
IN PREVENTING DISEASE AND PROMOTING GOOD HEALTH.

Excelling in Wellness

Each year, one U.S. health plan receives the nation's top honor for disease management for helping its members live successfully with chronic conditions such as diabetes, asthma, and heart disease. In 2006, the Disease Management Association of America chose to honor Independence Blue Cross and our ConnectionsSM Health Management Program, part of our Healthy LifestylesSM wellness initiative. Connections pairs members who have chronic conditions with expert Health Coaches available 24/7. It teaches members key skills, from taking medications properly to managing their weight. In doing so, it helps them stay well and out of the hospital. A 2006 study shows that the program is lowering medical cost trends by 2.5 to 3 percent, an achievement of real significance, given that treating chronic conditions drives 70 percent of health care spending.

Disease management is just one component of Healthy Lifestyles. The program also provides a wealth of online

information and financial incentives to help healthy people stay well. It promotes weight loss, exercise, smoking cessation, stress reduction, good nutrition, and safety measures as simple as the use of bike helmets. Healthy Lifestyles takes a truly inclusive approach, offering everything from discounts on massage therapy, to guidance on mammograms, to reimbursement for parenting classes through Baby BluePrints[®], our healthy pregnancy program.

The potential of Healthy Lifestyles to achieve an even greater impact is enormous, and we are working aggressively to expand the number of employers and members who take full advantage of the program. Recent steps include the release of our Healthy Lifestyles Promotion Guide, an outstanding multimedia toolkit supporting employers in launching workplace wellness campaigns.

THE ENEMIES OF WELLNESS

The leading causes of preventable death in the United States are tobacco use, alcohol use, and physical inactivity.

*Nearly two-thirds of American adults are overweight.
One-third are obese.*

Smoking remains the No.1 cause of preventable death, claiming some 440,000 lives annually and fueling some \$75 billion in medical spending.

KEEPING CHILDREN FIT

Since the 1970s, the percentage of American children who are obese has tripled, contributing to increased prevalence of diabetes, asthma, and hypertension. One way Independence Blue Cross is responding is by endorsing H.I.P. (Health Intervention Program) Kids, a 12-week program for children 8 and older offered at select YMCA locations. H.I.P. Kids features professionally led exercise and nutrition sessions and includes activities for both children and their parents. Through Healthy Lifestyles, we reimburse members up to \$200 for taking part; that's nearly the full cost of the program fee.

Kennett YMCA, Kennett Square, PA



WELLNESS IN THE WORKPLACE

Through Wellness Partners®, part of our Healthy Lifestyles initiative, Independence Blue Cross brings health promotion programs directly into the workplace. Wellness Partners offers activities tailored to meet the needs of individual employer groups, including screenings, worksite seminars, and personal health profiles. For the 9000 employees of SEPTA and those of 290 other area organizations, Wellness Partners means access to sessions on nutrition and stress management, fitness and weight-loss programs, mammography, flu shots, and more. For the employer groups, it means the chance to directly lower their premiums by promoting the health of their employees.

SEPTA's Midvale Depot, Philadelphia, PA



INDEPENDENCE BLUE CROSS IS WORKING WITH
PHYSICIANS AND HOSPITALS TO CONSTANTLY IMPROVE
THE QUALITY OF CARE FOR OUR MEMBERS.

Promoting and Rewarding Quality

With access to a wealth of data and with professional relationships across the health care community, Independence Blue Cross is uniquely positioned to identify and promote best practices in clinical care. These include evidence-based medicine — the use of hard data on the effectiveness of treatment options when making decisions about patient care. We support physicians in practicing evidence-based medicine by providing data on quality indicators to most of the 900 internal medicine specialists who are part of our network. This information, related to patient satisfaction and the success of past treatments, helps doctors assess the care they provide and supports their ongoing medical education through a program of the American Board of Internal Medicine.

The Partnership for Patient Care provides another excellent example of our work with physicians and hospitals. It unites Independence Blue Cross with the members of the Delaware Valley Healthcare Council,

including 68 local hospitals, to take on the challenge of preventing hospital-acquired infections. These infections claim the lives of some 14,000 Pennsylvanians annually. A 2006 report shows that the Partnership is delivering measurable results in a number of areas, from improvement in the pre-operative use of antibiotics to the control of blood sugar levels in surgical patients, a factor important in their immune response.

Independence Blue Cross also participates actively in the Blue Cross and Blue Shield Association's Blue Distinction program, which helps inform our members' decisions regarding health care providers. In 2006, we joined with the BCBSA to identify Blue Distinction Centers in three key areas: hospitals that have demonstrated consistently high quality in performing transplants, providing cardiac care, and performing gastric bypass surgery, an increasingly common procedure.

"Experience has shown me that Independence Blue Cross genuinely cares about promoting quality and improving the patient experience. I have been consistently impressed by their level of commitment and spirit of collaboration."

CHARLES CUTLER, M.D.

Internal Medicine
Fornance Physicians, Norristown, PA

MEASURING QUALITY

As health care discussions have focused on pay for performance and quality improvement, a pivotal question has emerged: How do we measure quality in the most meaningful way? To find the answer, Independence Blue Cross has joined with hospitals and health systems statewide, with the Pennsylvania Medical Society, and with the state's other three Blue organizations to form the Pennsylvania Health Care Quality Alliance. The goal is to evaluate the many quality criteria now in use and agree upon a standard approach, reducing the time physicians spend completing reports and providing patients and the public with more useful information.

Dr. Jack Kelly, Abington Memorial Hospital



THE RADIOLOGY QUALITY INITIATIVE

With digital imaging topping the list of the fastest growing medical expenses, the American College of Radiology (ACR) has called for “scientifically based appropriateness criteria” to aid physicians in making imaging decisions. In response, Independence Blue Cross has worked with members of the ACR's Pennsylvania chapter and other experts to develop the Radiology Quality Initiative. It offers guidelines on the use of CT scans, MRIs, nuclear cardiology studies, and other types of imaging, identifying a set of best practices for physicians and working to avoid unnecessary procedures with preauthorization for discretionary scans.

Southeast Medical Imaging, Glen Mills, PA





SERVING EVERYONE

Unlike some insurers that focus on the healthiest and most profitable segments of the market, Independence Blue Cross believes in serving everyone. Our customers range from large corporations to small businesses, to individuals purchasing their own coverage, to needy families insured through subsidized programs. We are strongly committed to seniors: Our company has been an active participant in Medicare since the program began in 1966, and today we serve more than 181,000 Medicare members. We maintained our commitment to the senior population when some national health plans stopped offering Medicare a few years ago because government reimbursements dropped. In short, Independence Blue Cross seeks to offer coverage options that meet the needs of everyone in the Philadelphia region — including, we are proud to say, three thriving generations of the Goodman-Danig family.

Independence Blue Cross members Jean Goodman, her daughter and son-in-law, Leslie and Joseph Danig, and their children, Joseph and Emily.

WE ARE TARGETING THE MANY FACTORS THAT FUEL HEALTH CARE SPENDING AND, IN TURN, DRIVE UP HEALTH INSURANCE PREMIUMS.

Working for Affordable Health Care

At Independence Blue Cross, we are taking on the issue of health care costs by addressing every category of expense competing for our members' premium dollar. This means increasing the efficiency of our own operations in order to decrease administrative costs. It also means working with partners across health care to focus on larger cost factors, from the utilization of hospital and physician services to the use of new medical technologies to expensive prescription drugs. Without exception, our work in containing costs also focuses on improving the quality of care. The reality is that helping providers and patients to diagnose conditions early and accurately, choose therapies proven safe and effective, and avoid unnecessary risks and interventions all add up to better health care and lower costs.

In 2006, some of our most significant progress in controlling costs related to prescription drugs, which account for more than 15 cents of each premium

dollar our members pay. Our pharmacy strategy is comprehensive and innovative. We are providing an attention-getting incentive for the use of generic drugs through our No Pay Copay promotion that provides generic drugs at no cost to our members. We are expanding our e-prescribing pilot program through which 350 physicians now order patient medications using wireless handhelds. This saves time and money, reduces errors, and has resulted in a one percent increase in the use of generics by doctors in the pilot group. We are continuing implementation of our injectable drug strategy, which addresses the costs of this increasingly common and often very expensive form of medication. And we have created a new company to administer our pharmacy benefits programs. Called FutureScripts™, it will allow us to manage pharmacy benefits more directly and effectively and promises to save our group customers \$100 million over the next five years.

THE MAGNITUDE OF THE CHALLENGE

Health care spending accounts for the largest component of the U.S. Gross Domestic Product, outranking housing, food, and national defense.

By 2010, health care spending will consume 17 percent of the U.S. Gross Domestic Product — roughly twice the percentage in Japan, Canada, or Great Britain.

In current polls on public concerns, health care and its costs routinely outrank every other domestic issue.



FOCUSING ON PHARMACY

In response to escalating prescription drug costs, our comprehensive pharmacy strategy aims to provide members with the medications they need while maximizing safety and efficiency. In 2006, we took the major step of establishing FutureScripts, a new pharmacy benefits management company. Doing so enables us to manage every aspect of our prescription drug programs more directly — from negotiating prices with pharmaceutical companies, to updating our formulary of approved drugs, to promoting the appropriate use of generics.

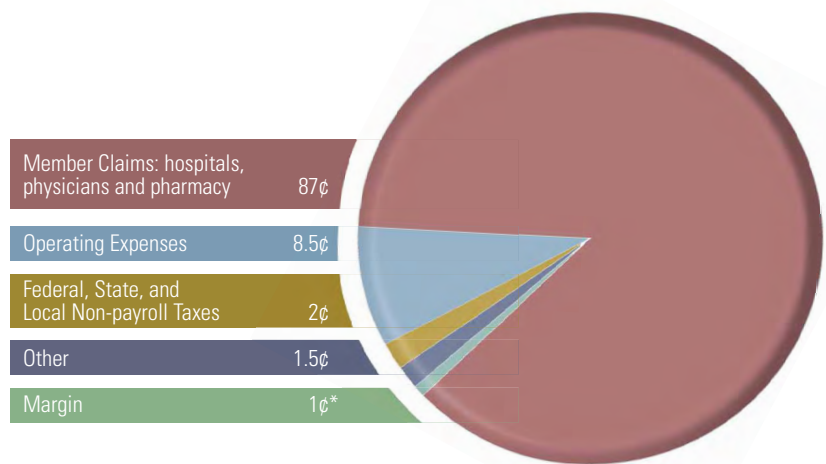
Pickwick Pharmacy, Philadelphia, PA

PROTECTING PREMIUM DOLLARS

As Independence Blue Cross works for more affordable health care, our first priority is to contain the small segment of costs directly within our control — the money we spend to administer claims and serve our customers. Identified in this pie chart as “Operating Expenses,” this overhead represents 8.5 percent of the gross revenue we take in. More than 87 cents of every premium dollar our members pay goes directly to reimbursing member claims.

The Premium Dollar and How It's Spent

Based on Independence Blue Cross 2006 Data



** This one-cent margin comes from premiums. In addition, income from investments adds another one cent of margin, bringing the total margin up to two cents, or two percent, as shown in Financial Highlights on page 26.*



PROVIDING POWERFUL INCENTIVES TO MEMBERS

Financial incentives stand out as one of our most effective tools in controlling health care spending. Through our Healthy Lifestyles program, we reimburse members for regular use of fitness centers, for smoking cessation classes, and for other choices that make good sense both medically and financially. Announced in 2006, our successful No Pay Copay program eliminates the out-of-pocket cost for generic prescriptions, providing a powerful incentive for members and their physicians to try generic alternatives. These typically cost 30 to 70 percent less than brand-name counterparts.

FROM ANSWERING SIMPLE QUESTIONS TO DESIGNING COST-EFFECTIVE
BENEFITS OPTIONS, WE STRIVE TO MEET THE HIGHEST EXPECTATIONS
OF MEMBERS AND EMPLOYERS.

Serving Customers Responsively

Within our organization, responsiveness to customers takes many forms. It's the training, support, and recognition we provide our frontline associates. It's our commitment to shape benefits programs meeting employers' unique needs through our customizable Flex product and Flex Plus Series, which debuted in 2006. It's also our readiness to react to customer needs with new plans. In 2006, we did just that with our Keystone Individual HMO, which offers medically underwritten coverage perfect for students, sole proprietors, and former COBRA participants. We also continued to address a national trend toward consumer-directed products with our BlueSaverSM Health Account Solutions, a new series of health savings accounts and other options that allow members greater flexibility in controlling their health care spending.

Last year was marked by progress in the key area of informatics, as well. Our informatics project, involving a team of 150 associates, is enhancing our IT capabilities in order to offer employers, members, and providers more information that they can use in their decision making about health care and health benefits. As a pilot project, we introduced a Web-based reporting tool for large employers, providing detailed and timely data on the health care services used by their employees and their families. We also rolled out a new capability to offer standard electronic extracts of medical data, often requested for review by consultants. Finally, we joined Blue Health Intelligence, a secure and HIPAA-compliant database of the Blue Cross and Blue Shield Association. With data on 80 million Blue plan members, this is the largest resource of its kind in the nation and promises to provide unparalleled insights into the best practices of health care for our customers.

ON THE INFORMATICS HORIZON

Personal Health Records — electronic medical records created with Independence Blue Cross data, updated by members, and available for members to send physicians.

Electronic Reminders — emails on preventive care and screenings sent automatically to members and their doctors.

Greater Transparency — more data on physician and hospital quality easily accessible to members and employers.

"Independence Blue Cross listened to our situation and responded immediately with an innovative 'one-stop-shop' solution that really met our needs. Our billing and claims processes across 10 states have all been streamlined, and our employees are more than pleased with the multitude of Blue network physicians, health care facilities, and Healthy Lifestyles rewards to choose from."

SUSAN NELTHROPP

Manager of Employment and Benefits
Herr Foods



"Some people may not realize that Independence Blue Cross employs case managers like us whose role is to reach out to members in need of support. Our job is to help them understand complex medical issues, manage chronic health conditions, and connect with resources in the community. We do everything we can to help our members improve their health and quality of life."

MIKE AGOLINO, L.S.W.
Case Management Social Worker

TONYA LIGHTER, R.N.
Case Manager
Care Management and Coordination
Independence Blue Cross



"This is a small business, yet Independence Blue Cross treats us as an important customer. That starts with our account representative, who is extremely professional and knowledgeable. If I call with a question, I have the answer before I'm off the phone. The people at Blue Cross treat us exactly the way we treat our customers. I know I can rely on them, just as my customers rely on me."

MIKE "ROGO" ROGOZINSKI

Finish Carpenter and Cabinetmaker
ROG Millwork, Philadelphia, PA







MAKING PROGRESS THROUGH PARTNERSHIP

Some of Independence Blue Cross's most impressive achievements result from our reaching out to work with partners across the health care community. These range from schools of nursing to nonprofit clinics, hospitals, and health systems across the state, the Pennsylvania Medical Society, and others. The Partnership for Patient Care, several of whose members are pictured, stands out as an exemplary alliance. Members, including our chief medical officer, I. Steven Udvarhelyi, M.D., join forces to promote quality care through a variety of projects, from better coordinating the medications patients receive on an inpatient and outpatient basis to improving the management of blood-thinning drugs to reduce strokes.

Representatives of the Partnership for Patient Care (left to right):

Ana Pujols-McKee, M.D., Chief Medical Officer,
Penn Presbyterian Medical Center

I. Steven Udvarhelyi, M.D., Chief Medical Officer, Independence Blue Cross

Michael P. Halter, CEO, Hahnemann University Hospital

Stanton Smullens, M.D., Chief Medical Officer, Jefferson Health System

Delinda Pendleton, R.N., M.S.N., CPHQ, Director,
Quality Management and Infection Control, Fox Chase Cancer Center

Michael B. Laign, President and CEO, Holy Redeemer Health System

Joseph Morris, Vice President, Health Care Improvement Foundation

INDEPENDENCE BLUE CROSS REACHES INTO THE COMMUNITY, IMPROVING HEALTH AND HEALTH CARE WITH AN EXCEPTIONAL LEVEL OF COMMITMENT.

Investing in the Health of Our Community

Independence Blue Cross is a force for positive change in the world of health care and in our community. Through a series of well-established programs, we invest more than \$53 million annually to extend coverage to the uninsured and strategically address issues at the heart of health care quality and cost. We describe this work as fulfilling our Social Mission, a commitment to making a difference in our community that is an integral and permanent part of our company's identity.

In 2006, our achievements in community outreach included expanding two key initiatives. The first, our Charitable Medical Care Grant Program, helps fund 28 privately run, nonprofit clinics in southeastern Pennsylvania. These clinics serve 100,000 needy patients a year, most uninsured or underinsured. By supporting them, Independence Blue Cross extends access to care and also helps reduce the number

of unnecessary, uncompensated emergency room visits, which drive up medical costs for everyone. Our increased support to these clinics is helping them extend their hours, treat more patients, and assist more people in obtaining free and low-cost insurance.

Through our Nurse Scholars Program, Independence Blue Cross is addressing another vital issue, the severe and growing shortage of nurses and nursing instructors. This shortage, particularly acute in Pennsylvania, has clear implications for the quality of patient care. In addition, it fuels rising costs, as hospitals and other institutions compete for qualified nurses and are forced to fund increasing budgets for overtime. With the Pennsylvania Higher Education Foundation, Independence Blue Cross is increasing funding for the Nurse Scholars Program to \$9.5 million over five years, providing more than 800 scholarships each year.

"Through my involvement in the American Cancer Society's Coaches vs. Cancer program, I've seen what a leader Independence Blue Cross is in our community. Their support from the start helped propel the program to success. They are more than a business — they're a champion for causes vital to the health of people in our region."

FRAN DUNPHY

Head Basketball Coach
Temple University

SERVING THE UNINSURED

Independence Blue Cross is a leader in extending opportunities for low-cost and no-cost health insurance to those in need. Through our Caring Foundation, cofounded with Highmark Blue Shield, we administer two state programs, the Children's Health Insurance Program (CHIP), which covers more than 30,000 children, and adultBasic. The Foundation covers costs for these programs that exceed the state's administrative payments. It also offers a subsidy that reduces CHIP premiums roughly by half, covering the full cost for some families.

*Johari Crews, C.R.N.P., and patient
11th Street Family Health Services
of Drexel University*



SUPPORTING FUTURE NURSES

Pennsylvania faces a shortage of nearly 11,000 nurses. Meanwhile, thousands of nursing school applicants nationwide are turned away each year due to a shortage of faculty. Independence Blue Cross and the Pennsylvania Higher Education Foundation are responding to this problem through the Nurse Scholars Program, providing grants to fund scholarships, internships, and nursing faculty positions. In 2006, the program was recognized with two national awards: the American Association of Colleges of Nursing's *Corporate Citizen Award* and the *Community Leadership Award* from America's Health Insurance Plans Foundation.

*Nicole Roskowski
Villanova University College of Nursing student
at her clinical rotation at Thomas Jefferson
University Hospital*







CELEBRATING COMMITMENT, COMMUNITY, AND FITNESS

A record-breaking total of 13,550 runners crossed the finish line at the 2006 Blue Cross® Broad Street Run in May. The event brought together elite international competitors and local participants running to get fit, support the American Cancer Society, and prove themselves equal to the challenge. Holly Kelly, an Independence Blue Cross member, summed up the spirit of the event for many: "It's not about time for me. It's about being there and being capable of completing a 10-mile run." A former smoker who started with quarter-mile walks before running, Ms. Kelly completed her first Blue Cross Broad Street Run in 2003 and has her sights set on next year's run, the 28th annual, expected to be another record-breaker. "I am training," she says, "but I already have what I need — the knowledge that I can."

THE IMPACT OF INDEPENDENCE BLUE CROSS AS A CORPORATE CITIZEN
AND GOOD NEIGHBOR TAKES A MULTITUDE OF FORMS.

Enriching Life in Philadelphia and the Region

Last year, more than 2000 Independence Blue Cross volunteers donated their time to 110 community service projects across the Delaware Valley. Together, these volunteers — including both Independence Blue Cross employees and family members — are known as the Blue Crew, and they are among the most visible signs of our commitment to our neighbors across Philadelphia and throughout our region.

We put this commitment into action through a broad range of activities. In 2006, nearly 90 percent of our employees contributed to the United Way. The total impact of this support, including the company's dollar-for-dollar match, exceeded \$2 million. Also in 2006, for the fourth year, we served as the lead sponsor of One Book, One Philadelphia, a program of the Free Library and the City of Philadelphia to promote literacy and community. In June, we pledged \$3.5 million to build the Independence Blue Cross Cardiovascular Research Center at the Temple University School of Medicine, an

investment in a vital area of medical exploration and in one of our city's many great institutions of medical education. We also support several area colleges and universities with Independence Blue Cross Wellness Centers: Chestnut Hill College, Drexel University, La Salle University, Temple University, and, new this year, Thomas Jefferson University. Meanwhile, the Blue Cross® RiverRink continues to attract skaters of all ages to Penn's Landing, promoting fitness and fun.

In addition to volunteer service and philanthropy, Independence Blue Cross has a significant economic impact. Because we are headquartered in the region we serve, the benefits of the jobs we support, the taxes we pay, and the economic activity we generate are all focused here as well. A recent study by an independent consulting firm put the total annual value of our direct and indirect economic contribution within the state of Pennsylvania at \$1.68 billion.

ECONOMIC IMPACT

The total economic impact of Independence Blue Cross over 12 months was \$1.68 billion across Pennsylvania, including \$1 billion in the five counties of Greater Philadelphia.

We employed 7140 people in the state and indirectly supported more than 16,080 additional jobs.

We paid \$42 million in local taxes within our region and indirectly generated \$83 million more in government revenue.



PITCHING IN

More than 2000 Independence Blue Cross volunteers put their concern for others into action as part of our Blue Crew community service team. Members give their time and talent to help organizations ranging from the Alzheimer's Association and Habitat for Humanity to Philadelphia Reads. At MANNA, they support a vital mission of delivering nourishment to people living with HIV/AIDS.

FINANCIAL HIGHLIGHTS

The overall financial position of Independence Blue Cross and its family of companies continued positive throughout 2006. Cash and investments increased by \$430 million to more than \$2.9 billion, representing more than 70 percent of total assets at year-end. Positive operating results for the year increased surplus to almost \$1.7 billion. Net income of \$210.9 million in 2006 was better than the \$167.5 million earned in 2005, and represents a net margin on gross underwriting income of 2 percent. Medical costs in 2006 accounted for 87 cents of every premium dollar. Operating expense control in our core five-county market, improved investment earnings, and the slightly lower medical loss ratio all contributed to better results during 2006.

OPERATING SURPLUS

As required by the Insurance Commissioner of the Commonwealth of Pennsylvania, Independence Blue Cross maintains an operating surplus which we can draw on to meet financial obligations in the event that claims we are called upon to pay exceed current income. At the close of 2006, our surplus totaled just under \$1.7 billion. As determined by the Pennsylvania Insurance Department, this level of surplus places Independence Blue Cross squarely in the "efficient" surplus range, which the department considers prudent and responsible.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2006 AND DECEMBER 31, 2005
(\$ In Thousands)

	2006	2005
Cash and investments	\$ 2,926,291	2,496,225
Premium and other receivables	665,377	772,392
Intangible and other assets	557,074	574,438
Total assets	\$ 4,148,742	3,843,055
Claim liabilities	\$ 1,342,490	1,521,127
Unearned income	431,637	408,672
Accrued expenses	275,296	252,427
Other liabilities	435,260	232,355
Total liabilities	2,484,683	2,414,581
Surplus:		
Blue Cross Blue Shield minimum guideline	1,131,772	1,077,513
Unallocated	493,866	337,265
Accumulated comprehensive gain, net of taxes	38,421	13,696
Total surplus	1,664,059	1,428,474
Total liabilities and surplus	\$ 4,148,742	3,843,055

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(\$ In Thousands)

	2006	2005
Gross underwriting income	\$ 10,742,938	10,195,276
Broker commissions and premium taxes	224,223	206,689
Net underwriting income	10,518,715	9,988,587
Claims incurred	9,366,532	8,915,277
Operating expenses	929,731	872,500
Net operating income	222,452	200,810
Investment and other income, net	138,908	78,375
Income before tax	361,360	279,185
Provision for income taxes	150,500	111,700
Net income	210,860	167,485
Other comprehensive (loss) gain	24,725	(23,850)
Comprehensive income	\$ 235,585	143,635

INDEPENDENCE BLUE CROSS: AN OVERVIEW

HISTORY

Founded in 1938, with the employees of Philadelphia's Independence Hall as the first customer group.

IDENTITY

A tax-paying, nonprofit corporation, part of a nationwide network of 39 independent Blue Cross and Blue Shield companies.

MEMBERS SERVED

3.4 million nationwide, including more than 2.6 million in Pennsylvania, making Independence Blue Cross the region's leading health insurer.

EMPLOYERS SERVED

54,700 organizations, from businesses with two employees to multinational corporations.

PROVIDER NETWORK

171 hospitals and 34,553 physicians and other health care professionals.

WELLNESS PROGRAM

Healthy Lifestyles, providing a comprehensive array of health-promotion incentives and an award-winning disease management program for the chronically ill.

PRODUCTS

Personal Choice PPO and Keystone Health Plan East HMO, both awarded the highest ratings from the National Committee for Quality Assurance, plus traditional indemnity coverage, Medicare and Medicaid products, and subsidized programs for the needy.

FINANCIAL PERFORMANCE

Revenues of \$10.7 billion in 2006, with net income of \$210.9 million.

TAX IMPACT

\$167.6 million in local, state, and federal non-payroll taxes paid in 2006.

ADMINISTRATIVE EFFICIENCY

More than 87 cents of every premium dollar go directly to paying member claims; 8.5 cents go to administrative costs.

SERVING THE COMMUNITY

Donating more than 10,000 staff hours and contributing more than \$53 million annually to the health and well-being of our community.

BOARD OF DIRECTORS

as of March 1, 2007



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Vice President, Corporate
and Public Affairs

THANKS TO OUR PARTNERS, COLLEAGUES, AND FRIENDS

A) David Cohen and his colleagues at Comcast Corporation.

B) Dr. Donald Parks and the staff of Parkstone Medical Associates.

C) Members of the Daniels-Coleman family: Doris Daniels, Howard Coleman, Antione Felder, Kai Coleman, and Treyden Coleman.

D) Kennett YMCA, Kennett Square, PA.

E) SEPTA and the employees at its Midvale Depot, Philadelphia, PA.

F) Dr. Jack Kelly and the staff of Abington Memorial Hospital, Abington, PA.

G) Dr. Kurt Muetterties and his colleagues at Southeast Medical Imaging, Glen Mills, PA.

H) Members of the Danig-Goodman family: Jean Goodman, Joseph Danig, Leslie Danig, Joseph Danig, and Emily Danig, Warminster, PA.

I) Nasir Fahham and the Pickwick Pharmacy, Philadelphia, PA.

J) Susan Nelthropp and her colleagues at Herr Foods, Nottingham, PA.

K) Mike "Rogo" Rogozinski and ROG Millwork, LLC, Philadelphia, PA.

L) Key participants in Partnership for Patient Care, the Delaware Valley Healthcare Council, and the Health Care Improvement Foundation.

M) Johari Crews and the staff and patients of 11th Street Family Health Services of Drexel University.

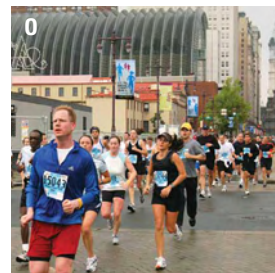
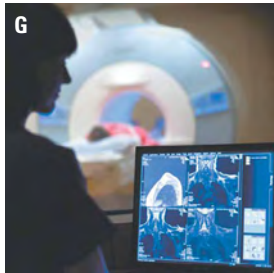
N) Villanova University nursing student Nicole Roskowski and the staff of Thomas Jefferson University Hospital, Philadelphia, PA.

O) The City of Philadelphia, the race volunteers, and the 13,550 committed runners who made the 2006 Blue Cross Broad Street Run a success.

P) MANNA and the 2000 members of Independence Blue Cross's Blue Crew, Philadelphia, PA.

The many Independence Blue Cross associates whose ideas and efforts came together to shape this report.

On the cover:
A picture of health — James McClung with granddaughter Chloe Grant, Independence Blue Cross members.





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Independence Blue Cross offers products directly, through its subsidiaries Keystone Health Plan East and QCC Insurance Company, and with Highmark Blue Shield— independent licensees of the Blue Cross and Blue Shield Association.