



we ask.
we listen.
we act.

2007 ANNUAL REPORT



Independence
Blue Cross



What do you want from your health insurance company?

At **Independence Blue Cross**, we make it our business to find out what's important to you.

Whether you are a customer, a member, a physician, a nurse, a hospital, a broker, or a consultant, your viewpoint helps shape our products, services, and direction.

So in 2007, **we asked** questions.

We listened carefully to your answers.

And **we acted** with innovative programs, helpful new services, and problem-solving products to support our mission:

To build the health of our members; provide access to affordable, quality care when they need it; and strengthen the wellbeing of our community where we live, work, and raise our families.

Thank you for being a part of Independence Blue Cross.

We're here for you every step of the way.



**Independence
Blue Cross**

Dear Friends and Associates,

Why are progressive companies able to rise to challenges, overcome adversity, seize opportunities, and come out better than before? To me, there is one driving force behind these remarkable organizations: passion. A passionate commitment to people – to customers, to business partners, and to employees. A passionate obsession with excellence and innovation. And a passion for doing the right thing. Passion sets successful organizations apart, and Independence Blue Cross (IBC) is one such organization.

The ability to respond to people – to ask, to listen, and then to act – is another hallmark of a great company, and one that IBC strives to demonstrate each day. That's why the input of our customers, members, physician and hospital partners, associates, health care consultants, and brokers formed the basis for IBC 2010, a compelling strategic plan that is driving our future.

In 2007, we made great strides toward our goals. We implemented plans to address the specific opportunities for change and growth identified in our strategy. For example, a critical finding was that increasing our scope and scale is paramount to our long-term growth and vibrancy. We all know the nation's health care system continues to undergo rapid change. In recent years, as they face advancing medical technology, an aging population, rising health care costs, and an increasing number of uninsured, many health insurers have joined together to create new, larger companies aimed at operating more efficiently and offering a broader choice of products and services, some on a national scale.

With this in mind, we undertook a careful, systematic analysis of potential Blue health plan partners, a process that led us to Highmark Inc. in Pittsburgh. In 2007, two things happened – the boards of directors of both organizations unanimously approved combining our two companies, and a comprehensive integration plan began taking shape.

We look forward to building a dynamic new organization for the people of Pennsylvania and finding additional ways to strengthen our passionate commitment to asking, listening, and acting.

Finally, another trait that allows organizations to survive and thrive is tenacity. In 2007, with determination and grace, Joe Frick battled colon cancer, diagnosed a little more than two years after he became our CEO. Through surgery, chemotherapy, and the challenging aftermath, he maintained his indomitable energy and passion. With his talented and experienced leadership team, he forged ahead at IBC with the dynamic new initiatives that made 2007 such an important year for us. Though it is now hopefully in the rearview mirror, Joe used his personal health crisis as a learning experience, which I believe has made him an even more compassionate and skillful leader. Joe's experience underscores for us all the importance of regular screenings, a point that he and everyone at IBC work hard to drive home to our members every chance we have.

IBC's passion, responsiveness, and tenacity make it a truly successful organization and made 2007 a year on which to reflect with admiration. With leadership excellence, the solid support of accomplished associates, and a dedicated Board of Directors, we look to a bright future.



M. Walter D'Alessio

Chairman



Dear Customers, Colleagues, and Community Members,

As I think back over 2007, I am incredibly proud of the many ways in which Independence Blue Cross worked toward goals, solved problems, and translated ideas into action for our 3.4 million members and the communities we serve.

Critical to our success in 2007 are the many longstanding partnerships we've established over the years with our members, customers, brokers, and consultants, as well as with our health care providers with whom we work to improve the quality of health care and lower its cost. With the help of these fine partners and our talented associates, Independence Blue Cross (IBC) ended 2007 fiscally sound, with \$11 billion in revenue and \$171 million in net income.

In a year when health care costs have continued to rise, when fewer businesses can afford health insurance, and when more people are uninsured, I am proud of how IBC fought to hold the line on costs, made it easier and faster to do business with us, and developed innovative wellness initiatives that allow members to take control of their own health.

But most important, I take pride in the intensely focused commitment with which we strive to satisfy each customer and member every day. "We ask. We listen. We act." It's not only the theme of this annual report, but it's also the working model

we use to respond to each individual we touch.

In 2007, we frequently asked our customers, members, and business partners – and ourselves every day – how IBC could do its job better. We listened carefully to their concerns and responded with initiatives that have strengthened the health of our members and our customers. Their stories, and others you will read in this report, reflect the thought and care behind every decision we make. The creation of FutureScripts®, our new pharmacy benefits management company, and Informatics, an extensive initiative to make health information clearer and more accessible, are just two examples of progressive actions that have resulted from IBC asking, listening, and acting.

At the foundation was our strategic decision to position our organization for growth. On March 28, 2007, the boards of directors of Independence Blue Cross and Highmark Inc. announced their agreement to combine our two organizations. By bringing together the best practices of the two companies, we will remain a Pennsylvania-based company, with headquarters in both Philadelphia and Pittsburgh, and we'll work to make health insurance more affordable, improve the quality of medical care, and strengthen the health of the communities we serve. We continue to work closely with the Pennsylvania Insurance Department and public officials in a thorough and open review of the enormous opportunities the new company would provide.

I was very pleased to learn that a recent assessment of both corporate cultures showed that the top five values the employees of Highmark and IBC wish to see reflected in our new company are accountability, customer satisfaction, continuous improvement, commitment, and teamwork. I can't think of a better platform from which to launch our new partnership and our future.

In 2008, our ultimate goal remains the same: to provide the best quality health insurance to the most people at the most reasonable cost. To this end, we will continue to ask, to listen, and to act.



Joseph A. Frick

President and Chief Executive Officer



we ask.

How can we serve you better?

Through a groundbreaking partnership with the Delaware Valley Health Care Coalition, thousands of local workers will stay healthier and save money on premiums.

Over the last ten years in America, health insurance premiums have increased 73 percent. Today, employers and unions throughout the Philadelphia region are determined to find ways to slow the rising cost of health insurance without asking workers to pay an even bigger share of the expense. The key, say health care consultants, is keeping people healthy. If employers and unions help their people stay well, premium increases stay lower.

In an innovative partnership to help slow the rise of health insurance premiums, Independence Blue Cross (IBC) and the Delaware Valley Health Care Coalition have signed a groundbreaking health insurance contract that directly links how well members take care of themselves and stay healthy to substantial premium savings – as much as \$38 million over five years.

Founded in 1995, the Delaware Valley Health Care Coalition is an association of 150 union health-and-welfare funds created to develop quality benefit programs for union members at discounted group rates. Across our region, thousands of painters, plumbers, police officers, firefighters, sheet metalworkers, steamfitters, and other union members receive benefits through the coalition.

“We are going to improve the health of the 250,000 people in our coalition in the five-county region,” says coalition president James Buckley. “Independence Blue Cross can assess the overall health risks of our members, and then with early diagnosis and prompt treatment of any medical problems discovered, we may keep them from needing complex medical care or, even better, preventing an illness from becoming life-threatening.”



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we listen.



The new contract offers incentives for the coalition's member funds to help their workers get healthier by taking advantage of IBC's sophisticated health-risk assessment tools, comprehensive programs to manage more than 22 chronic illnesses, and expanding incentive program to reward healthy behavior. Each year, the coalition's health-and-welfare funds will receive substantial savings on the administrative fees in IBC premiums when they demonstrate member participation in our programs designed to keep them well, says Lawrence J. Kissner, IBC's vice president of marketing and sales.

"We've put our money where our mouth is," says Kissner. "Many aspects of health care are out of our control, but what we can do is keep costs down by helping people take good care of themselves, whether they have chronic health conditions like heart disease or a sudden problem like a herniated disc.

"We are also using tangible rewards to encourage members to take control of their health," says Kissner. "For example, through our Healthy LifestylesSM program, when a member goes to the gym 120 times a year, he or she receives a check from us for \$150."

Says Buckley: "IBC worked hard with the DVHCC Negotiating Committee to find a way that together we could achieve our goals for savings and wellness. In return, we are passing these benefits on to our funds' rank-and-file members and their families, and everybody wins."

"We are going to improve the health of the 250,000 people in our coalition in the five-county region."

JAMES BUCKLEY

President, Delaware Valley Health Care Coalition

Unlocking a lifetime of health

No one knows exactly what the future holds, but IBC is helping some members with significant health risks predict their future health – and change it for the better. How? Through the Healthy LifestylesSM Keys to Wellness program. We use a sophisticated predictive tool to analyze medical and pharmacy claims, identifying members who have not received care for diagnosed conditions, aren't filling prescriptions, or make frequent visits to the ER – situations that, if not addressed, are likely to lead to poorer health and hospitalization. Our outreach nurses contact these members and offer education and support for making healthy changes in lifestyle and following their doctors' treatment plan. In 2007, hundreds of people took control of their futures through Keys to Wellness.



Cost-effectiveness and convenience

With anticipation in the air, a team of IBC eBusiness enrollment experts gathered at the offices of Philadelphia's Tasty Baking Company in October to launch electronic enrollment – a new tool available through ibxpress.com, our member website. Now Tasty Baking's nearly 900 employees can enroll in benefits plans and make changes to those plans online, a service we will offer the majority of our customers during 2008. "IBC's enrollment system has taken a lot of the paper-shuffling out of the process," says Amy Shuler, Tasty Baking's manager of benefits, compensation, and HR information systems. "This was truly a team effort between Tasty Baking and IBC. Our employees have had a smooth transition and a very positive response."

we act.

Service with a smile *In an era when it's rare for an insurance company to serve subscribers face to face, Ed Gambale (right) and his team in Walk-In Services do just that. They are the friendly faces inside our front doors at 1901 Market Street ready to exceed our subscribers' expectations – in person. They are just a few of the hundreds of carefully trained IBC customer service specialists who, in 2007, responded to millions of inquiries. Whether helping a worried mother understand her ill child's benefits or reassuring a senior citizen about prescription coverage, our customer service representatives are devoted to their division's motto: "We ask. We listen. We act." This concept so perfectly summarizes IBC's efforts in 2007 that it's the title of this annual report.*



we ask.



How can we lower your costs?

Our No Pay Copay initiative saved members millions of dollars while educating them on the value of generic drugs.

Personal Choice® subscriber Maureen Janthor was driving to work when she first noticed an Independence Blue Cross billboard advertising No Pay Copay. No copays for generic prescription drugs? It seemed too good to be true.

Once at work, however, she confirmed our offer. All she had to do was request the generic equivalents of her family's brand-name drug prescriptions, and her copays would be waived. Her husband, John, immediately called his doctor to get approval for the generic substitutes and began using generics to control his cholesterol – for free. Soon the Janthors, who live in Morrisville, Bucks County, were also saving money on prescriptions for their two children, Tricia, 22, a college student, and Ryan, 16, a high school sophomore and soccer player.

"On average, I'd say we saved about \$100 a month," says Maureen, an educational aide. "We were thrilled!"

At Independence Blue Cross (IBC), we are passionate about finding ways to save our customers money, and No Pay Copay is just one of the many ways we did in 2007. "No Pay Copay lowered out-of-pocket costs for thousands of our members, helping them afford the medications they need and educating them that generics can be safe, effective, and less expensive alternatives to brand-name drugs," says I. Steven Udvarhelyi, M.D., IBC chief medical officer and senior vice president.

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“On average, I’d say we saved about \$100 a month,” says Maureen Janthor, whose family made a permanent switch to generic drugs through our No Pay Copay program.

we listen.

Originally scheduled for three months from January to March, No Pay Copay was so successful that we extended it to a full year through December 2007. During 2007, No Pay Copay saved members nearly \$50 million in waived generic copays, an investment in keeping our members healthy and lowering costs. No Pay Copay increased the use of generics among eligible members by more than eight percent.

Like many members across the region who tried No Pay Copay, the Janthors learned that generics provide the same therapeutic benefits as their brand-name counterparts and meet the same health and safety standards set by the U.S. Food and Drug Administration. For instance, John’s doctor substituted the generic cholesterol drugs simvastatin and niacin for the brand-name drugs Zocor® and Niaspan® that John had been taking before No Pay Copay. John was pleased to find that his cholesterol level was controlled with equal effectiveness by the generics. Maureen also found that she could substitute generics for prescription antibiotics and other medications the family needed last winter.

“We believe once people make the change to generics, they will keep using them and lower their long-term drug expenses while getting equally effective treatment,” says Dr. Udvarhelyi. In fact, 87 percent of our members surveyed reported that they would continue to ask their doctors for generic prescriptions after No Pay Copay ended, and three-quarters believed that generics are as safe and effective as their brand-name counterparts.

The Janthors agree: They plan to keep using generics whenever possible. With two children to put through college, says Maureen, “every little bit helps!”



Increasing convenience, reducing costs, and going green

Always looking for ways to save customers money and increase convenience, in 2007, we began making welcome kits for our new Personal Choice and Keystone Health Plan East HMO members available online through ibxpress.com. By offering kits online, we’re giving members a more convenient way to get health plan information through an eco-friendly business process. We know that creating a healthy environment creates healthier people. We’re also lowering paper and mailing expenses to help hold down our administrative costs and minimize premium increases. A new member may now see online a summary of how his health plan works, an up-to-date customized benefits booklet, and the latest information on incentive and reimbursement programs. To view benefits information, visit www.ibxpress.com.



Making pharmacy affordable

Today, more than 22 cents of every U.S. health care dollar is spent on prescription drugs. We are moving aggressively to fight rising pharmacy costs and help our members get the medicines their doctors prescribe. FutureScripts®, our pharmacy benefits management subsidiary launched in 2006 that serves 1.3 million members, slowed the growth of customer pharmacy costs by 2.3 percent in 2007 and is expected to provide \$100 million in savings to group customers by 2011. "We share our customers' increasing concern about the rising cost of staying healthy, and we are pleased at how effectively FutureScripts is helping to drive down costs for our customers," says FutureScripts' Senior Vice President Paul N. Urick, R.Ph. Find out more at www.FutureScripts.com.

we act.

Strengthening our customers' bottom line

Our Worksite Wellness program helps our customers' employees take better care of themselves. Bio-Imaging Technologies, a medical imaging company in Newtown, Pa., is building a healthier staff and reducing premium increases through our Worksite Wellness program. Last year, our nurses gave Bio-Imaging's employees onsite flu shots, as well as cholesterol, body mass index, and skin screenings, which help detect health problems early to speed treatment, says Kathleen Ketcha, human resources generalist at Bio-Imaging. In addition, the staff enjoys free presentations from our health educators on managing stress, healthy eating, cancer prevention, and heart health. "These programs help employees prevent illness and be more productive," says Ketcha. Learn more at www.ibx.com/worksite_wellness.





we

How can we
improve the
quality of
health care?

ask.

Once barely able to climb stairs without stopping to catch her breath, heart transplant recipient Janet Dennis is now a medal-winning swimmer.

Our experienced, compassionate case managers help members navigate the health care system to achieve the best possible outcome ...and often inspiring results.

Janet Dennis forced herself to open her eyes. Her niece was crying. A member of her church was praying. And her new heart was beating. If she could have moved a muscle, she would have smiled.

"I was in grateful mode," she remembers. "I had survived a heart transplant."

In 2004, Janet, 48 years old, a new grandmother, and a member of Independence Blue Cross's Keystone Health Plan East HMO, was becoming shorter and shorter of breath. Doctors found that her heart, damaged by a virus, was enlarged, working at only 15 percent capacity, and beating irregularly. She began using a defibrillator. But her heart continued to fail.

On her doctor's advice, Janet enrolled in the heart transplant program at the Hospital of the University of Pennsylvania, which has been recognized as a Blue Distinction Center for TransplantsSM by the Blue Cross and Blue Shield Association.

To help Janet successfully travel the challenging road ahead, IBC offered Janet a case manager, Doris Williams-Cadell. Doris, a nurse for 22 years, reached out to Janet right away.

She understood the seriousness of Janet's condition and that a successful transplant was her only hope.

As Janet became increasingly ill, she was admitted to the hospital. In the spring of 2005, after only a six-week wait, her new heart arrived.

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we listen.

Recovery was difficult and painful. Among other unpleasant side effects, the steroids Janet needed to reduce inflammation caused weight gain and triggered the onset of type 2 diabetes. Through it all, her case manager called regularly with information and encouragement.

“My case manager, Doris, and I would go over my medications, side effects, and symptoms,” Janet says. “I needed support, and she listened.”

Over the next few months, Janet began to feel stronger. In the hospital, she had read a brochure about the Transplant Games, a

national Olympics-style event for transplant recipients held every other year. In 2006, she traveled to Louisville, Ky., with Team Philadelphia and swam the 50-meter backstroke, the 50-meter breaststroke, and the 100-meter backstroke, for which she won a silver medal.

Through the Gift of Life, the organization that coordinated her transplant and for which she now serves as a motivational speaker, Janet has sent messages of thanks to the family that chose to donate her new heart. Although she did not receive a reply and does not know whose heart saved her life, nonetheless through Gift of Life, Janet sent the family her first silver medal. And if she places in this year’s Transplant Games, her medals will go straight to that special family.

Today, Janet no longer needs a case manager. To get information on staying well, she works with an IBC Health Coach.

“You have to have vision,” says Janet, who swims three days a week, is active in her church, and has returned to work, something many transplant recipients are not well enough to do. “I visualized myself doing the things I wanted to do. And then I did them.”

Showing the human side *“You expect your insurance company to pay the bills. You don’t expect it to keep offering additional ways to improve your health,” says Michael Wanner, a 62-year-old Personal Choice® member who was diagnosed with rheumatoid arthritis in 2005. Through the special help that our ConnectionsSM program offers people with chronic illnesses, Michael talked regularly with the disease management nurse we provided to assist him. He gained critical information about his treatment, such as why he needed to take his medication with food and how to prevent common complications of rheumatoid arthritis. His health has improved so much that in 2007 he traveled to Australia. With a group of fellow tourists, Michael climbed the ladders and catwalks to the top of the world’s largest steel-arch bridge across Sydney Harbour. He was exhilarated by the spectacular view and his newfound energy. “With IBC, I discovered the human side of the health care equation,” he says.*

Educating parents-to-be

Pregnancy is a time of excitement and anticipation, and, more than ever, a time to be vigilant about good health. That's why we offer Baby BluePrints®, an award-winning maternity management program that helps educate pregnant members and their spouses about prenatal health and risk factors. Baby BluePrints' case managers are experienced obstetrical nurses who carefully review each member's medical history and current health status, identifying potential problems and providing the support and information to help solve them. In 2007, more than 20,500 women took advantage of Baby BluePrints and gave their babies a healthier start. For more information, visit www.ibx.com/members/health_resources/healthy_lifestyles.html.



we act.



Rewarding quality

Pay-for-performance programs promote quality of care by measuring hospitals' and physicians' accomplishments – such as managing chronic diseases and reducing surgical complications – and rewarding top-quality care with higher compensation. In 2007, we completed agreements that included quality incentive payment provisions with hospitals and physicians across the region. One of our most progressive pay-for-performance partnerships is with the Renaissance Medical Management Company, Inc., a coalition of more than 200 Main Line primary care practices. Says Renaissance member Dr. Kenneth Goldblum (left) of Gateway Medical Associates in Coatesville, “I now have the support to provide

the best possible care to my patients with diabetes and other chronic diseases, and I can demonstrate that they are healthier as a result.”

we ask.

Our Health eTools for Schools program helps schools promote student wellness and combat the obesity epidemic among children.

During the 20 years that Pat DiNenno has been a nurse in the Norristown School District, she has seen student lifestyles change dramatically. Families are busier. More parents are working – and working more. Kids aren't home as much, and when they are, they are more likely to be sitting at a computer or in front of the TV. Eating habits have changed, too, and not for the better.

"There has been a dramatic shift in the way kids eat because of prepackaged and processed foods," DiNenno says. "Kids' snacks and lunches are quick and convenient, but they're not always healthy." Eating more fat- and calorie-laden foods and exercising less have produced an obesity epidemic that affects children not only in Norristown but throughout America.

According to the Centers for Disease Control and Prevention, 16 percent of Americans ages 6 to 19, more than nine million in all, are obese or overweight. Shockingly, this figure has tripled since 1980. Childhood obesity is a known risk factor for type 2 diabetes, high blood pressure, and high cholesterol in adulthood, and in extreme cases these conditions can strike in childhood as well.

That's why, in 2005, Pennsylvania adopted a state law that requires schools to identify overweight, at-risk children by measuring the body mass index (BMI) of all students, calculating each child's BMI percentile, and giving the family the results. For nurse DiNenno, who works with more than 800 children at Norristown's Paul V. Fly and St. Theresa elementary schools, this work consumed much of her time – until the fall of 2007.

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How can we tackle health in our





issues
community?



we listen.

According to the Centers for Disease Control and Prevention, 16 percent of Americans ages 6 to 19, more than nine million in all, are obese or overweight. Thanks to Health eTools for Schools, kids in the Philadelphia region can grow up healthier.

Last autumn, IBC introduced Health eTools for Schools, designed to help schools promote student wellness and combat the childhood obesity epidemic. We are providing free, innovative software that handles BMI data gathering

and communications. We are also providing an educational curriculum that helps students understand the relationship between weight and diet and exercise and why it's dangerous to be obese. And we are offering to fund Health eTools through September 2010 for all of the 665,000 students in the 625 public, private, and parochial schools in the five-county Philadelphia region.

Now, when DiNenno and other school nurses enter a student's height and weight into a computer, Health eTools software calculates the child's BMI, determines the BMI percentile, and generates a customized letter giving the child's parents the valuable information. If the child is significantly overweight or underweight, parents are encouraged to contact their pediatrician or family doctor for consultation. Health eTools also makes it easy for school nurses to complete required state reporting. With the portable handheld computer that comes with Health eTools, nurses can travel from their offices to gyms and classrooms to measure children – just another time-saving feature Health eTools offers to help keep children well.

"It's a wonderful program that's really helping us help kids," says DiNenno. "If we can catch overweight, at-risk children early, they can make positive changes in their exercise and eating that will affect them throughout their childhoods – and throughout their lives."

Fighting deadly infections *In 2007, a frightening statistic became public:*

The antibiotic-resistant strain of staph known as MRSA kills 19,000 people a year in the U.S. alone. Acting quickly, we joined with hospitals, public health departments, nursing homes, and schools in our region to form Fight MRSA!, a first-of-its-kind coalition dedicated to stopping the spread of the potentially deadly infection. Fight MRSA! focuses on identifying, preventing, containing, and treating MRSA infections, as well as educating the public about the dangers. This innovative effort is part of the Partnership for Patient Care, a three-year collaboration between IBC and more than 60 southeastern Pennsylvania hospitals.



Reducing the shortage of nurses

The U.S. Department of Health and Human Services estimates that almost one million nursing jobs in America will be vacant by 2020, posing a serious threat to the quality and cost of health care. That's why IBC developed our Nurse Scholars Program with \$10.75 million in funding through 2010 to educate promising undergraduates and future nursing faculty members at 26 area nursing schools. Since 2004, we have provided 2,300 student scholarships and 10 IBC Nurse Faculty Chair grants, and hosted 45 nursing students in our dynamic summer internship program. "My internship gave me an inside look at health care that most nurses never get to see," says LeRai Martin (left), a Nurse Scholar at Community College of Philadelphia and one of our 2007 summer interns.

we act.

Promoting lifetime fitness

A key aspect of our mission at IBC is strengthening the wellbeing of our community, and we are proud to sponsor dozens of community events and activities that encourage exercise and wellness. In 2007, almost 16,000 runners completed a 28-year Philadelphia tradition: the Blue Cross Broad Street Run. More than 225,000 residents and visitors enjoyed the lifetime sport of ice skating at our Blue Cross RiverRink at Penn's Landing. This year also saw the opening of a cutting-edge IBC-sponsored fitness center at Thomas Jefferson University, joining the existing centers we sponsor at Temple, Drexel, and La Salle universities and Chestnut Hill College. Visiting Philadelphia's Franklin Institute Science Museum? Check out the popular interactive SportsChallenge exhibit that our support helped create.



A young girl with dark hair, wearing a white floral-patterned shirt, is being examined by a healthcare worker. The healthcare worker, a woman with dark hair wearing a pink long-sleeved shirt and a stethoscope, is smiling and holding the girl's arm. In the background, another woman with dark hair, wearing a blue jacket, is also smiling. The scene is set in a brightly lit room with blue walls.

we ask.

How can we
make health care
available to
more people?



We are helping fund 31 privately run, nonprofit health clinics that provide quality care to 91,000 uninsured and underinsured patients throughout our region.

It's 8 a.m., and the day begins at Esperanza Health Center in North Philadelphia. With diabetes, substance abuse, mental health issues, HIV, and countless other health concerns large and small, patients stream through the door, family members in tow, eager for treatment. Though their medical needs differ, most have something significant in common: no health insurance.

For uninsured families, receiving treatment for even the most routine medical problems is often difficult at best. While Pennsylvania has one of the lowest rates of uninsured residents in the United States, nearly 265,000 people lack health care coverage in southeastern Pennsylvania alone. To address this problem head-on, we are helping fund 31 privately run, nonprofit health clinics through our Charitable Medical Care Grant Program, which began in 2003 and is now a \$14 million commitment through 2010. These clinics provide quality care to more than 91,000 uninsured and underinsured patients in all five counties in our region. By supporting the clinics, we expand access to quality care and help reduce the number of unnecessary, uncompensated emergency room visits, which lowers medical costs for everyone.

Esperanza, a word that means "hope" in Spanish, is one of the region's fastest-growing private nonprofit clinics. With a caring and tenacious staff of more than 70 doctors, nurses, social workers, and case managers, Esperanza serves Philadelphia's Hunting Park, Fairhill, and Kensington neighborhoods. For many area residents who work long hours to support their families, quality health care is only a few blocks or a phone call away, with fees based on ability to pay.

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we listen.

The majority of Esperanza's staff speaks English and Spanish. "Sometimes it's hard enough to talk to your doctor in your own language," says Executive Director Susan Post, who, like many of her fellow staff members, lives in the community she serves. "With no language barrier, patients are much more likely to ask questions, understand the answers, and do what the doctor recommends." Patients may reach the staff by phone 24 hours a day, seven days a week.

Esperanza had a big year in 2007. With funding from IBC and others, the center moved into new offices at Kensington and Allegheny avenues, and opened a second branch on North 5th Street. Last year, Esperanza treated 5,000 people – a center record.

Post is particularly proud of Esperanza's new dental suite and medication dispensary, the center's HIV department (which currently treats 170 patients), and a new support program for local diabetics.

As another busy day ends and Esperanza's doors close behind the last patient, Post reflects on a year of growth and expansion. She is overwhelmed by the support she has received in the fight to treat the uninsured: "There is no way the services we offer at Esperanza could have come this far without partners like Independence Blue Cross."

"There is no way the services we offer at Esperanza could have come this far without partners like Independence Blue Cross."

SUSAN POST

Executive Director, Esperanza Health Center

Covering all kids

In 2007, IBC covered almost 50,000 uninsured children by providing free or reduced-cost health insurance through Pennsylvania's Children's Health Insurance Program (CHIP). Until this year, CHIP covered only children meeting specific poverty guidelines, but through Pennsylvania's 2007 Cover All Kids initiative, all children are now eligible, with premiums based on income. For some children whose families' incomes are slightly above the poverty guidelines, we provide subsidies to lower their premiums through the Caring Foundation, created by IBC and Highmark Blue Shield, Inc. By providing children with access to check-ups, vaccinations, and other basic preventive care, we reduce the number of uncompensated emergency room visits in our region – which ultimately helps control medical costs for everyone. Moreover, we are helping raise stronger and healthier adults. For information, visit www.ibx.com/social_mission.

Caring for low-income adults

By providing health insurance to uninsured adults, we offer access to preventive care to keep people well and avoid expensive, uncompensated hospital stays. In 2007, we subsidized basic health care coverage for 29,500 uninsured, low-income adults. We provided more than 19,000 eligible adults with adultBasic, which is partially funded by Pennsylvania's class-action lawsuit settlement with the tobacco industry. Also, we partnered with Highmark Blue Shield Inc. to provide another 10,500 eligible adults with coverage through Special Care^{SM}. These plans include doctor's office visits, inpatient hospitalization, surgery, diagnostic testing, and maternity and newborn care. For more information, visit www.ibx.com/social_mission.*

*Special Care is not affiliated with SPECIAL CARE, Inc., a home care company.

we act.

Taking it to the streets

What's white and blue and may be coming soon to your workplace, school, or neighborhood? Independence Blue Cross's Wellness Vans. These two high-tech vans made 144 appearances in our region in 2007. The vans offered smoking prevention education at elementary schools as well as health screenings to employees at our customers' worksites and to the public at the Blue Cross Broad Street Run, Penn's Landing festivals, and many other activities. The vans are equipped to measure height, weight, body mass index, and blood pressure, and do bone density screening, cholesterol testing, skin screening for sun damage, and vision and hearing testing – all offered free to van visitors by our nurses and health educators. We hope these services lead to earlier diagnoses and treatment, saving dollars and lives.



2007 Honors

At Independence Blue Cross, we work tirelessly to provide the highest quality health insurance plans and the most effective wellness and disease management services at the most reasonable cost. We also go out of our way to make it pleasant and easy to work with us. We are pleased to share the ways in which our efforts were recognized in 2007:

- Received the **Blue Cross and Blue Shield Association's 2007 Brand Excellence Award for Member Recommendation**, confirming our role as the most preferred health insurer in the Philadelphia region, given the high number of our members who said in a survey they would recommend our plans to friends and family;
- Recognized by the **Pennsylvania Immunization Coalition with its 2007 Champion Award** for our efforts to reduce whooping cough, a rising threat to newborns and adolescents in our region. As part of our continued commitment to community health, we developed a comprehensive educational campaign to increase awareness of this vaccine-preventable disease;
- Saluted by the **Anti-Defamation League (ADL) with its Americanism Award** for our commitment to promoting diversity in our community, our support of ADL's mission to "secure justice and fair treatment for all," and our adoption of two local schools, Plymouth Whitmarsh High School in Montgomery County and Ludlow Elementary School in Philadelphia, through ADL's No Place for Hate program;
- Honored by the **Blue Cross and Blue Shield Association's 2007 Brand Excellence Award for Unaided Brand Awareness** for the greatest year-over-year positive change in the percentage of consumers who, with no prompting, were aware of our Blue Cross brand;
- Received the **Corporate Campaign Performance Award from the United Way of Southeastern Pennsylvania** in recognition of our contribution to the 2006 – 2007 United Way Campaign. More than 90 percent of our associates contributed to the United Way in 2007, raising more than \$1.1 million, which we matched with corporate dollars for a total contribution of \$2.2 million;
- Recognized by **Philadelphia Academies**, a not-for-profit dedicated to strengthening academic and occupational skills among public school children, with its **Stand and Deliver Award** for 2007 for our efforts to provide business leadership support to expand options for students by preparing them for employment or college;
- Saluted by Gaudenzia, Inc., Pennsylvania's largest chemical dependency rehabilitation organization, with the **Gaudenzia Community Champion Award** for exemplary service, commitment, and support of Philadelphia community-based programs.



2007 Achievements

In 2007, our associates worked creatively and cooperatively to accomplish many noteworthy goals. Specifically, we showed our passion for service, our dedication to cost-effectiveness, and our commitment to community by:

- Creating **22 new flexible health plans**, known as the Flex series, for Keystone Health Plan East HMO, POS, Direct POS, and Personal Choice® to provide customers and members with even more coverage options;
- Expanding the **tailored data we provide our customers** to guide business decision making about health care, including reports that explain the impact of medical management programs on health and costs;
- Lowering administrative expenses by approximately \$30 million, or 3.2 percent, compared to 2006, **helping slow the rise of health care premiums**;
- Launching **Independence Administrators**, to offer **customized, cost-effective third-party administration** for organizations that self-fund health benefits, including comprehensive health management, consumer-driven health care options, and an exceptional commitment to customer service;
- Piloting the Care Level Management Program, which features **house calls by board-certified physicians to homebound seniors**, resulting in improved medical care and a reduction in hospital and emergency room visits;
- Successfully completing **new contract arrangements with 19 hospitals** in our health care provider network; together, these facilities generate more than 40 percent of our annual hospital claims in Pennsylvania and Delaware;
- Introducing the **SilverSneakers® fitness program** to Medicare Advantage members, providing seniors with free access to fitness centers and specially designed fitness classes.

Asking the experts

In 2007, we invited 11 of our leading brokerage agencies to form the Independence Blue Cross Broker Advisory Board to provide insight into what capabilities and products we need to develop to better serve our customers. The advisory board members represent the more than 3,500 Pennsylvania brokers who consult regularly with many local businesses and associations about the optimal health insurance plans to meet their organizations' health needs and budget.

Investing in Philadelphia's future

As chairman of the board of the Greater Philadelphia Chamber of Commerce, our President and CEO Joseph A. Frick is committed to investing in the future of our city's at-risk youth. In the fall of 2006, the Chamber and our business community pledged to provide 1,000 paid summer internships for Philadelphia high school juniors and seniors – more than double the number ever provided in the city. The Chamber partnered with WorkReady Philadelphia to create the intern program Working Solutions, which exceeded its goal in 2007 by providing 1,049 internships citywide with the help of 138 area businesses. We at IBC hosted 50 students, including Trudyann Bryan, a student at Delaware Valley Charter School, pictured here. In addition, we provided intern experiences for 21 nursing students and 60 college students, for a total of 131 summer internships in 2007.

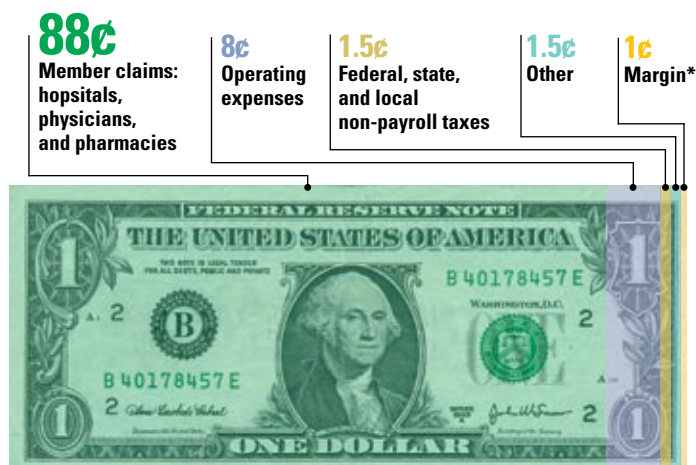
Financial Highlights

The overall financial position of the Independence Blue Cross Family of Companies continued positive throughout 2007. Cash and investments remained relatively stable at approximately \$2.9 billion, representing just under 70 percent of total assets at year-end. Positive operating results for the year increased surplus to more than \$1.7 billion. Net income of \$170.9 million in 2007 resulted in a net margin on gross underwriting income of 1.6%. Medical costs in 2007 accounted for 88 cents of every premium dollar. Operating expense control in our core five-county market lowered administrative expenses by approximately \$32 million compared to 2006.

Operating Surplus

As required by the insurance commissioner of the Commonwealth of Pennsylvania, Independence Blue Cross maintains an operating surplus on which we can draw to meet financial obligations in the event that claims we are called upon to pay exceed current income. At the close of 2007, our surplus totaled just over \$1.7 billion. As determined by the Pennsylvania Insurance Department, this level of surplus placed Independence Blue Cross squarely in the "efficient" surplus range, which the department considers prudent and responsible.

The Premium Dollar and How It's Spent



* This one-cent margin comes from premiums. In addition, income from investments adds another 0.6 cent of margin, bringing the total margin up to 1.6 percent, as shown above in Financial Highlights.

Consolidated Balance Sheets

DECEMBER 31, 2007, AND DECEMBER 31, 2006
(\$ in thousands)

| | 2007 | 2006 |
|---|---------------------|------------------|
| Cash and investments | \$ 2,885,596 | 2,926,291 |
| Premium and other receivables | 675,812 | 665,377 |
| Intangible and other assets | <u>600,589</u> | <u>557,074</u> |
| Total assets | \$ 4,161,997 | 4,148,742 |
| Claim liabilities | \$ 1,205,484 | 1,342,490 |
| Unearned income | 465,021 | 431,637 |
| Accrued expenses | 315,305 | 275,296 |
| Other liabilities | <u>428,068</u> | <u>435,260</u> |
| Total liabilities | 2,413,878 | 2,484,683 |
| Surplus: | | |
| Blue Cross Blue Shield minimum guideline | 1,210,520 | 1,131,772 |
| Unallocated | 585,992 | 493,866 |
| Accumulated comprehensive (loss) income, net of taxes | <u>(48,393)</u> | <u>38,421</u> |
| Total surplus | 1,748,119 | 1,664,059 |
| Total liabilities and surplus | \$ 4,161,997 | 4,148,742 |

Consolidated Statements of Operations

FOR THE YEARS ENDED DECEMBER 31, 2007, AND 2006
(\$ in thousands)

| | 2007 | 2006 |
|---|------------------|----------------|
| Gross underwriting income | \$ 11,008,491 | 10,742,938 |
| Broker commissions and premium taxes | <u>244,125</u> | <u>224,223</u> |
| Net underwriting income | 10,764,366 | 10,518,715 |
| Claims incurred | 9,694,857 | 9,366,532 |
| Operating expenses | <u>897,793</u> | <u>929,731</u> |
| Net operating income | 171,716 | 222,452 |
| Investment and other income, net | <u>93,358</u> | <u>138,908</u> |
| Income before tax | 265,074 | 361,360 |
| Provision for income taxes | <u>94,200</u> | <u>150,500</u> |
| Net income | 170,874 | 210,860 |
| Other comprehensive (loss) gain | (19,880) | 24,725 |
| Cumulative effect of Accounting Change (SFAS No. 158) | <u>(66,934)</u> | <u>—</u> |
| Comprehensive income | \$ 84,060 | 235,585 |

IBC by the Numbers

| | |
|-----------------|--|
| 1938 | <i>Year Independence Blue Cross was founded</i> |
| 39 | <i>Number of individual, independent Blue Cross and Blue Shield companies in the United States</i> |
| 3.4 MILLION | <i>Members we served in 2007</i> |
| 51,655 | <i>Employers we served in 2007</i> |
| 96.3% | <i>Percentage of our group customers with fewer than 100 employees</i> |
| 280,709 | <i>The number of members with chronic conditions like diabetes or heart disease who are supported 24/7 through our award-winning ConnectionsSM program that helps members manage one or more of 22 chronic illnesses and stay healthy</i> |
| 163 | <i>Hospitals in our health care provider network</i> |
| 34,206 | <i>Physicians and other health care professionals in our network</i> |
| \$11 BILLION | <i>Our revenue in 2007</i> |
| \$171 MILLION | <i>Our net income in 2007</i> |
| 1.6% | <i>Our profit margin in 2007</i> |
| \$182.5 MILLION | <i>Federal, state, and local non-payroll taxes we paid in 2007</i> |
| 88 | <i>Cents out of each premium dollar paid to us that we spend on our members' medical care</i> |
| 12,080 | <i>Hours our associates volunteered in 2007, serving in our corporate volunteer program, the Blue Crew, staffing dozens of community outreach efforts, and serving on more than 50 area nonprofits' boards</i> |
| \$55.1 MILLION | <i>Dollars we contributed to the health and wellbeing of our community</i> |
| COUNTLESS | <i>Number of plans we can tailor to your needs from our comprehensive product list:</i> <ul style="list-style-type: none">• Personal Choice[®]• Keystone Health Plan East HMO• Traditional indemnity coverage• Individual plans• Medicare• Medicaid• CHIP• adultBasic• Special Care |

Note: All numbers above are as of December 31, 2007.

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Corporate and Public Affairs*

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and Corporate Secretary*

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ELIZABETH A. WILLIAMS
*Vice President
Corporate and Public Affairs*



Thank you to all of the members, customers, neighbors, associates, and friends who agreed to have their photographs included in “We ask. We listen. We act.”

PAGES 4-5

From left to right, firefighters Andrew Lauletta, Alex Bane, Larry Clark, and Andrew Addeo at the Engine 8 firehouse in Philadelphia

PAGE 6

Firefighter Kevin Pullman

PAGE 7

(top) IBC members and Tasty Baking employees Linda Thomas, Daisy Cruz, and Carol Schweitzer making Butterscotch Krimpets

(bottom) Ed Gambale, manager, Customer Service

PAGES 8-9

IBC members Ryan, Maureen, and John Janthor at their home in Morrisville, PA

PAGE 10

Ryan and Maureen Janthor

PAGE 11

(top) Dan Tang, Song Tang, and Lidia Kim at Tang's Pharmacy in Northeast Philadelphia

(bottom) Bio-Imaging Technologies employees Kim Salgueiro, Jennifer Larkin, and Scott Hudson

PAGES 12-13

IBC member Janet Dennis

PAGE 14

Janet Dennis

PAGE 15

(top) IBC member JeanHee Moon with son Dean Moon

(bottom) Dr. Kenneth Goldblum with patient Mariann O'Brien

PAGES 16-17

Nurse Pat DiNenno at the Paul V. Fly School in Norristown with students Kailah Cooper, Michael Kinsey, Vidhi Patel, and Francesca DiSante

PAGE 18

Paul V. Fly School students Michael Kinsey, Vidhi Patel, and Lamont Sanford

PAGE 19

(top) Nurse Scholar LeRai Martin

(bottom) Blue Cross Broad Street Run finisher Jamie Delong

PAGES 20-21

Esperanza Health Center client Zoraida Villalongos with her daughter Arianna Nunez, pediatrician Tonya Arscott-Mills, M.D., and student physician assistant Karen In

PAGE 22

Esperanza client Arianna Nunez

PAGE 23

Neighborhood kids ride past the IBC Wellness Van

PAGE 24

IBC high school intern Trudyann Bryan, a student at Delaware Valley Charter School



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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.

