



Walking the Talk

We're making strides toward a healthier tomorrow.

2011 Annual Report



What does it mean
to “walk the talk?”

It means taking the lead as an
industry innovator...



and taking action for a brighter future.

In 2011, as we made important strides toward our mission — enhancing the health and wellness of those we serve — we also continued to lead our industry into the age of reform, raising the bar for service, innovation, and accountability.

Walking the talk means
keeping our promises...



and keeping your health
at the forefront of everything we do.

Why do other insurers look to Independence Blue Cross as a model and a leader? We think it's because behind IBC are people who really care — about you, your family, and your business — people whose everyday actions are based on a commitment to keeping you well.

Making decisions that make your life better...



That's what we mean by
walking the talk.

We're making a difference in your life with new products that fit your budget and bring you peace of mind ... technologies that keep you in touch with the changing world of health care ... opportunities for fun and fitness that help keep you healthy ... and cutting-edge programs that improve the quality of your care.



Moving boldly toward the future

Letter from the chairman and the president

Dear customers, colleagues, and community members:

We are a company on the move, and in 2011 we made great strides toward our mission of enhancing the health of the people and communities we serve. As the theme of this year's annual report makes clear, we truly "walked the talk," creating products and programs that imaginatively responded to our changing health care environment; successfully meeting the diverse needs of our customers and members; partnering collaboratively with physicians, hospitals, and brokers; and boldly leading our community and our industry toward a healthier future.

Though confronted with a weakened economy, the continually rising cost of medical care, and an evolving federal health care reform program that still holds many unknowns, we successfully navigated 2011 and continued to move forward. Driven by an exuberant spirit of innovation, our steadfast commitment to our members, customers, and community has never been stronger.

In this report, you'll read about flexible new products we created to make health care work for our customers and members, including new, low-cost plans for individuals and small business groups. You'll see how we took our well-known commitment to fitness even further, using technology to make getting in shape more fun and convenient for our members.

Working closely with some of our largest hospital systems, including Abington Health and Crozer-Keystone Health System, we successfully negotiated new contracts that focus on hospital and physician performance and support the highest quality of care for our members. In addition, in our effort to provide access to comprehensive, accountable care, we continue to lead our industry in the establishment and growth of groundbreaking patient-centered medical homes — primary care practices that work closely with specialists and hospitals to provide

more personal, better-coordinated care, particularly for our chronically ill members.

In a still-challenging economic environment, we showed growth. In 2011, with total revenues of \$9.2 billion, we saw a modest net income margin of 3.4 percent. This positive performance will allow our company to remain financially stable, invest in better serving our customers, and prepare for changes that federal health care reform brings.

Our continued growth relies on our ability to serve more people in more places. In 2011, we partnered with Blue Cross Blue Shield of Michigan and purchased one of the country's largest Medicaid companies — AmeriHealth Mercy Family of Companies, a top-tier Medicaid managed care organization in Philadelphia — which will now offer Medicaid coverage to other insurers, including Blue Cross and Blue Shield companies, in many states.

“ Our mission requires unwavering commitment, progressive thinking, and the ability to bring our ideas to life through bold action. ”



Daniel J. Hilferty, president and CEO (left) and M. Walter D'Alessio, chairman of the board. **Find out more in our online video at ibx.com/annualreport.**

Just as our relationship with AmeriHealth Mercy allows us to collaborate with other Blues nationwide, our vendor agreements to utilize Highmark Inc.'s state-of-the-art operating platform benefit our customers and members. Our Highmark vendor agreements also give us access to Highmark's national account capabilities, which will enable us to expand our own national accounts and give us the opportunity to strengthen ancillary services, including vision and dental plans and stop-loss reinsurance, while keeping your costs down.

Even as we expand to other areas of the nation through our subsidiaries, the well-being of our hometown will always be our highest priority. We are continually seeking opportunities to enhance the health of the people in our region, and that will never change.

That's why we launched our new \$42 million Independence Blue Cross Foundation in 2011. The IBC Foundation is committed to transforming health care through innovation in the Philadelphia region, and targets four areas: caring for our community's most vulnerable, leading innovative approaches to health care, developing the health care workforce of the future, and building healthy communities.

The many accomplishments of 2011 would not have occurred without the tireless efforts of our talented associates. It is fitting that this year we completed our new state-of-the-art Joseph A. Frick Conference and Learning Center, which will directly benefit our associates as they pursue their educational dreams. Named in honor of our former CEO for his years of dedication to our associates, the center will help employees gain knowledge and valuable skills, enabling them to better serve our customers.

Throughout our nearly 75 years as a major employer and most preferred health insurer in our region, we have continually sought new ways to exceed customer and member expectations while nurturing the health of our community. Yet, as we strive to meet the challenges of today, we never lose sight of tomorrow. Our mission requires unwavering commitment, progressive thinking, and the ability to bring ideas to life through bold action. As we plan to serve the next generations of your family and ours, we will continue to "walk the talk" in everything we do.



M. Walter D'Alessio
Chairman



Daniel J. Hilferty
President and Chief Executive Officer

Our mission, vision, and values

Our mission

Enhancing the health and wellness of the people and communities we serve

Our vision

The best-performing Blue by 2016 ... admired for our people, growth, and innovative leadership

Our value proposition

Exceeding customers' expectations ... through innovative health and wellness solutions

Our core values

- Integrity
- Customer commitment
- Excellence
- Accountability
- Courage
- Teamwork





We're making strides
toward a healthy future

Your well-being is always our focus. In the next four sections of this report, you'll read about how we're walking the talk by keeping you well, taking the lead, thinking ahead, and making health care work for you. The numbers below detail just a few of the ways we made a difference in your health in 2011.

\$4.3 million

reimbursed to our members for making healthy choices such as joining a gym or enrolling in a weight-loss or tobacco-cessation program through our Healthy LifestylesSM programs

1,626,449

number of times people interacted with our social media sites, including Facebook and Twitter, to receive practical, positive messages related to better health

3,280

Independence Blue Cross volunteers who donated more than 9,700 hours to 200 community service projects to contribute to the well-being of our community

515 percent

increase in the number of patient-centered medical home practices in our network — from 32 in 2010 to 198 in 2011. We are strongly committed to supporting the growth and expansion of these models of high-quality, coordinated primary care as we change the way health care is delivered in our region

30 percent

potential savings for small-business owners with 50 or fewer employees who purchased new Blue Solutions[®] plans starting in December 2011

#1

preferred health insurance brand in our region

40 million

number of calories burned during our three annual fitness events — National Walk @ Lunch Day, the Blue Cross[®] Broad Street Run, and Step Out: Walk to Stop Diabetes — which is more than the calories in 43,000 Philadelphia cheesesteaks



Employer groups throughout our city and region hit the road for our record-breaking 2011 National Walk @ Lunch Day.



Keeping you well

We're providing dynamic opportunities in your backyard for you to get fit and stay healthy.

In 2011, our three annual fitness events drew more participants than ever — 42,400 in all — demonstrating that our commitment to community health is alive, well, and on the move.

On May 1, more than 25,200 runners took on the challenge of the 32nd annual Blue Cross Broad Street Run, now the largest ten-mile race in the country. On this delightfully cool Sunday, regional residents joined runners from across the country and around the world for a triumphant finish at the Philadelphia Navy Yard. Among them were more than 9,000 of our members. Over the past ten years, the race has raised more than \$564,000 for the American Cancer Society, all of which has gone directly to research and patient care.

For the fourth straight year, area residents walked to improve their health as part of National Walk @ Lunch Day. The 2011 event broke records, with 111 employer groups actively participating in the event. More than 14,000 people throughout our region joined walkers in all 50 states to show that it is possible, and rewarding, to fit a walk at lunchtime into a busy workday.

With record numbers of walkers and funds raised, our 478-member Team IBC surpassed its goals for the 2011 American Diabetes Association Step Out: Walk to Stop Diabetes, held on October 1. Team IBC raised more than \$50,000, joining 340 other corporate teams and 3,200 participants in a cumulative donation of more than \$577,500 to the American Diabetes Association. Of 132 participating cities, Philadelphia had the highest-grossing Step Out walk in the nation.

Our signature fitness events — the Blue Cross® Broad Street Run, National Walk @ Lunch Day, and Step Out: Walk to Stop Diabetes — brought our members and our community together for fun, inspiration, and exercise.

“The run promotes health, wellness, and well-being. It doesn't matter if you've been running for a decade or if this is your first run. The fact is that anyone can enter and anyone can be healthy. That's what this is all about.”

— Brian Lang, 2011 Blue Cross Broad Street Run participant



Runners from around the world competed in the 32nd annual Blue Cross Broad Street Run, the nation's largest ten-miler.

Walking the Talk — 2011 Annual Report

Find out more in our online video at ibx.com/annualreport.

Our IBX Healthy Steps program not only informs and encourages members on the journey to good health, but it also provides free opportunities to relax, exercise, and learn in unique environments.

One such opportunity was “Yoga and Nutrition in the Garden,” a healthy eating and yoga class offered free of charge to the community last August and September. The hour-long weekly sessions featured a dynamic instructor and expert nutrition advice in a remarkable location: a tranquil garden, bursting with flowers and wildlife, in the middle of a city block. Our members gathered for the class at 20th and Market Streets in the Pennsylvania Horticultural Society’s (PHS) colorful Pops Up Garden, part of an inaugural PHS program to bring seasonal gardens to empty lots citywide.

The classes, which gave more than 300 participants a chance to safely stretch muscle groups and relieve tension during the workday, were offered as part of our IBX Healthy Steps program, which emphasizes the importance of incremental

changes in lifestyle — like taking a yoga class — that can greatly improve overall health. IBX Healthy Steps also keeps members connected through social media, with Facebook and Twitter messages that offer easy and convenient tips and discounts for working out and eating well. In 2011, more than 5,200 positive, practical health messages were sent to our friends and followers through social media.

IBC associates — the folks who work hard each day to help you live a healthier life — are walking the talk by making healthy choices of their own ... and writing about them. Several of our associates who are tackling real health challenges have taken to the Internet with their stories and tips on weight loss, fitness, and nutrition through our IBX Healthy Steps Walk the Talk blog. Follow their exploits, triumphs, and learning experiences — and share your own — at www.ibxwalkthetalk.com.

In 2011, we hosted free community yoga classes, piloted innovative community health programs, and used social media to support members in making healthy choices.





Healthy learning on the go

Travelers and employees at Philadelphia International Airport had a chance to learn something new about their health last spring through two pilot projects: the IBX Healthy Steps kiosk and the IBX Healthy Steps Health Fair, each the first of its kind. The digital, interactive kiosk offered 24/7 access to wellness facts and travel-related health information, including how many calories could be burned by walking between terminals, and allowed kiosk users to contact an Independence Blue Cross representative. At the health fair, about 3,000 people learned about eating well and staying fit while traveling, and stretching for good circulation. Both programs explored new ways to reach more people with critical wellness messages.





Taking the lead

We're leading our industry, our customers, and our community into a new age of reform and responsibility.

In 2008, we announced our intention to improve the quality of patient care and reduce costs in our region by introducing the patient-centered medical home, a nationally recognized model that focuses on a team approach to well-coordinated primary care. Practices that follow this model promote preventive care, manage chronic illnesses more effectively, offer rewards for good outcomes, and reduce costs by avoiding complications. By 2010, we had 32 such practices successfully up and running. In 2011, that number grew 515 percent to 198 practices in the Philadelphia five-county region. These practices account for 6 percent of all patient-centered medical homes nationally — the largest concentration of recognized patient-centered medical home practices in the nation.

With this solid foundation in place, we are now focusing on our next goal — integrating primary care physicians, specialists, and hospitals in our region so that all levels of health care are equally well-informed about a patient's needs and equally accountable for healthy results. Through our Integrated Provider Performance Incentive Plan (IPPIP), we have created a strong performance-based incentive program that motivates doctors and hospitals to work together to make decisions that put patients' needs first and keep costs down.

"It's about putting our members first," says Dr. Richard L. Snyder, chief medical officer at Independence Blue Cross. "We are creating a system that delivers the right care at the right time."

**By creating nearly 200 patient-centered medical homes —
models of high-quality, coordinated primary care —
we're changing the face of health care in our region.**



Dr. Linda Good and her staff at Mt. Airy Family Practice, a patient-centered medical home, provide high-quality coordinated care to help patients like Morris Johnson manage their chronic illness, stay well, and avoid unnecessary hospitalizations. **Find out more in our online video at ibx.com/annualreport**

“Practicing medicine with a patient-centered team is satisfying, effective, and highly personalized. With health coaches trained to support and encourage our patients, and a care management nurse on our staff, we are able to emphasize preventive health and proactive management of chronic illnesses to meet our primary goal: keeping patients like Morris well.”

— Linda Good, M.D., Mt. Airy Family Practice,
Philadelphia, Pa.

In 2011, we took our dedication to the health of our region a big step further with the creation of our \$42 million Independence Blue Cross Foundation, a private charitable organization whose goal is to transform health care in the communities we serve through funding in four main areas: caring for our most vulnerable, enhancing health care delivery, leading innovation in health care, and building healthy communities.

Through the foundation's Blue Safety Net, 145,000 uninsured and underinsured residents are receiving the much-needed care they deserve at 34 clinics in the Philadelphia five-county region. These clinics provide routine primary care and valuable preventive care, dental care, and medication, as well as a range of specialty services, screenings, and health education sessions.

Nurses for Tomorrow is the IBC Foundation's multifaceted plan to prepare the health care workforce of the future, addressing our national and regional shortage of nurses and nurse educators and ensuring that they are specially trained to care for the elderly, especially as baby boomers age and need more care. The foundation will also provide fellowships for much-needed teachers to educate these nurses.

The IBC Foundation's Innovation Grants will reward fresh ideas for identifying critical health issues, creating novel solutions, and implementing them effectively, such as the school wellness clinic featured on the facing page. And the foundation will build healthy communities by funding programs that address the needs of unique populations, such as the homeless and children, in our region.

Through our Independence Blue Cross Foundation and innovative partnerships with other Blue companies, we're transforming the delivery of health care in our region and the nation.





A powerful Blue partnership

Through a unique partnership with Blue Cross Blue Shield of Michigan, we purchased AmeriHealth Mercy Family of Companies, one of the country's largest Medicaid companies, and have taken a leading role in expanding access to Medicaid in states across the country. This creative collaboration is helping us expand our national footprint while providing a valuable service to other health insurers nationwide. Since last fall, AmeriHealth Mercy, a top-tier Medicaid managed care organization based in Philadelphia, has partnered with health insurers in Florida, Louisiana, and Nebraska.



Thinking ahead

We're using innovation and technology to solve problems, save you money, and keep you informed.

In 2011, we launched two new smartphone applications, both available free at Apple's App Store and the Android Market, and both designed to help you get fast, accurate health information, anytime and anywhere.

Through IBX Mobile, members can manage their health care whenever and wherever the need arises — at home, at a doctor's office, or on the go. IBX Mobile provides a streamlined view of ibxpress.com, our member website, so you can quickly and conveniently view your Personal Health Record, find a doctor, or check the balance of your Health Savings Account. You can also contact Customer Service, get a quote for health care coverage, compare prescription drug prices, check the status of a claim, and access benefits information. More than 370,080 members used IBX Mobile during its first year.

You can keep your workout on the right track with the IBX Healthy Steps Pedometer app, the first of its kind from a health insurer. If you run or walk — or if you want to start — this innovative app is easy to use and supports your commitment to get in shape. More than 3,840 people have used it to track the speed and distance of a walk or run; monitor their route using a GPS-enabled map; calculate their body mass index, hydration needs, and other health stats; or share thoughts on their workout with friends through integrated Facebook, Twitter, and text messaging.

Retrieving useful health information through smartphones and tablets is the latest way our members are connecting with us, thanks to our free apps.



Log on to ibxpress.com, our member website, anytime and anywhere with IBX Mobile, our free, convenient app. **Find out more in our online video at ibx.com/annualreport.**

When physicians prescribe medicine or order tests and screenings, they hope their patients are complying with their recommendations. But until now, they had no simple way of making sure. The Clinical Care Report is a confidential, comprehensive electronic snapshot of a patient's health, designed to allow physicians access to valuable information that streamlines medical decision-making and helps avoid redundant care, which can be unsafe and costly.

The Clinical Care Report was introduced in 2011 to give the 32,000-plus physicians in our network a detailed health history of each of our members they treat, using information from medical and pharmacy claims, lab results, and other information we collect in our ordinary course of business. By having accurate, up-to-date information at their fingertips, physicians can more easily follow up on test results, communicate with a patient's other doctors, track a patient's overall progress, and encourage noncompliant patients to take their medication or show up for screenings. The right information means better, safer care. It's

one more way we're focusing on helping doctors deliver more coordinated care to our members.

Our customers always come first. At Independence Blue Cross, taking full advantage of resources and technologies that will benefit our customers is always a core strategy, one that was behind our 2011 decision to enter into a series of vendor agreements with Highmark Inc., the Blue health insurer based in western Pennsylvania. Through these agreements, we will utilize Highmark's state-of-the-art operating platform, allowing us to reduce our operating costs and focus on offering new capabilities and services for customers. We will also gain an increased ability to compete for new national business and to expand and enhance other benefits we offer, such as dental and vision plans and stop-loss reinsurance. Through innovative collaborations like this one, we're thinking outside the box to meet — and exceed — our customers' expectations.

Easy-to-use online reports for physicians and a collaborative national account strategy are innovations that help us improve the quality of care — and keep an eye on the bottom line.



“ We check the Clinical Care Report for every patient who comes in for a visit. The report tells us if the patient has seen a specialist or had any testing we were not aware of, and lists all of the prescriptions that the patient had filled. This accurate, up-to-date information is extremely valuable to give us a clearer picture of the patient’s history since the last visit. ”

— Vicki Bralow, D.O., G.S. Peter Gross D.O., PC,
Philadelphia, Pa.



Making health care work for you
We're creating flexible plans and services to fit your lifestyle.

As small and mid-sized businesses battling the recession began to rebuild and regroup in 2011, their message to us was clear: We need new health insurance options that meet our evolving needs and keep costs down. At Independence Blue Cross, we took their requests seriously, enhancing plans within our popular Blue Solutions portfolio specifically for businesses that employ 2 to 50 people.

We added new high-deductible plans as well as a wider range of cost-saving prescription options. And, starting in December, we offered new plans and new rates to small-business owners with 50 or fewer employees, saving them up to 30 percent for high-quality coverage.

We also introduced Blue Solutions Plus, which offers flexible, cost-effective plans for businesses of 51 to 99 employees. Based on feedback from our mid-sized customers and our brokers, we offered 28 new Blue Solutions Plus plans available in copay, deductible, and high-deductible Health Savings Account options. Three of the new plans include a built-in prescription drug benefit, while others allow customers to select from multiple prescription offerings to meet their specific needs.

All Blue Solutions and Blue Solutions Plus prescription plans promote the use of safe, cost-saving generic prescription drugs. In addition, all plans are backed by our world-class network of doctors and hospitals and offer innovative services like our Healthy LifestylesSM incentive programs, which reimburse members for making healthy choices such as joining a gym or enrolling in a weight-loss or tobacco-cessation program. Learn more at plansthatfit.com.

Small- and mid-sized-business owners concerned with cost now have more choices than ever through our enhanced Blue Solutions[®] and new Blue Solutions[®] Plus options.

“As a business, offering health benefits helps us attract and retain the best employees. I’m happy we were able to find a flexible plan that protects my employees — and that we can afford.”

Timothy Ireland, VMD, Newtown Veterinary Hospital, Newtown, Pa.



Timothy Ireland, VMD, owner of Newtown Veterinary Hospital, shown here with his golden retriever, Sandy, turned to Blue Solutions for a cost-effective small-business health plan. **Find out more in our online video at ibx.com/annualreport.**

Things change. At Independence Blue Cross, we understand that people's priorities and lifestyles shift, and so do their health insurance needs. To support members throughout their lives, we've expanded our product suite to 13 medically underwritten health plans for individuals and families providing the features they've requested most: flexibility, affordability, and incentives to stay well. Individuals (including the self-employed) and families have access to the high level of benefits they need, with value-added services such as our Healthy LifestylesSM programs, which reimburse members for making healthy choices like joining a gym or enrolling in a weight-loss program; a variety of prescription plans, all emphasizing the use of generic drugs, including a money-saving mail-order option; and coverage for preventive care services like X-rays, lab tests, and 24/7 access to a Health Coach. Among our new plans is a Personal Choice PPO that can cost as little as \$68 per month, the lowest individual premium we've ever offered. In 2011, nearly 62,600 individuals and families bought their insurance directly from us, not through an employer.

For business owners choosing a health plan that serves the varied needs of their employees, an insurance broker can be an important advocate and an invaluable source of information and advice. We recognize the critical role that brokers play in customer satisfaction, and in 2011 we launched a new initiative to enhance the support we give to brokers and, in doing so, improve service to our customers. The IBC Broker Care Center is a team of our Customer Service associates selected from across all business areas, including claims and billing, enrollment, and benefits, who work together to answer brokers' questions quickly and accurately, resolve issues effectively, and follow up if more information is needed. The approach is working — a survey of brokers showed that nearly 100 percent reported increased satisfaction in interacting with us.

In 2011, we introduced flexible, affordable plans for individuals and families and innovative services for our brokers.

We have a variety of health insurance plans tailored to fit our customers' needs:

Individual: For families and individuals under 65

Senior: For Medicare-eligible individuals, providing Medicare Advantage, a managed care Medicare program, and Medicare supplemental benefits coverage

Local employers: For locally owned businesses with two to 40,000 employees

National employers: For employers headquartered in our five-county southeastern Pennsylvania region with employees working in other states

Federal employee program: For U.S. government employees and their dependents in southeastern Pennsylvania

Prescription drug, vision, and dental: Pharmacy benefits coverage administered by FutureScripts®, an affiliate of Catalyst Rx; vision coverage administered by Davis Vision; and dental coverage administered by United Concordia®. All are independent companies

International coverage: For businesses that need health coverage for employees traveling or living in other countries; offered through GeoBlueSM, an independent licensee of the Blue Cross and Blue Shield Association

Stop-loss: For businesses that self-insure their own employees' health benefits plans. Provides protection against unexpectedly high claims cost; offered with HM Insurance Group, an independent company

Low-income: For low-income children and adults, providing Medicaid and State Children's Health Insurance Programs



Independence Blue Cross At a glance

For nearly 75 years, Independence Blue Cross and its companies have been committed to enhancing the health and wellness of the people we serve, in the Philadelphia region and across the nation. Through changes in the economy and in health care, we remain a steadfast community partner, striving to meet your evolving needs through flexible, cost-effective plans that fit your lifestyle and budget.

\$9.2 billion

in total revenue

\$7.7 billion

paid annually to physicians, hospitals, and other health care professionals for our members' care

\$210.4 million

paid in federal, state, and local nonpayroll taxes

3.1 million

members nationwide, including 2.2 million in our region

6,987

people employed at
Independence Blue Cross

13,770

inquiries received by our associates
each business day — by mail,
by phone, and online — from
customers, physicians, and hospitals

21,250,167

members' claims processed in 2011

**157 hospitals and
40,904 physicians**

and other health care professionals in
our network, offering our members
the widest selection in quality care

37,061

employer groups served,
95 percent with fewer than
100 employees

\$59 million

invested in the health and
well-being of our community,
including tens of millions
to hold down the cost of
providing health insurance

\$42 million

invested in transforming
health care through the
Independence Blue Cross
Foundation





Strengthening our financial health

Our financial stability allows us to invest in better serving our customers and keeping them well.

Our financial performance

At Independence Blue Cross, walking the talk financially means providing the resources that are essential to fulfilling our mission — enhancing the health and wellness of the people and communities we serve — and to fueling our ability to continue exceeding our customers' expectations.

After financial losses in 2008 and 2009, we produced positive results in 2010 and 2011. Returning to profitability over the past two years has been critical for our company to remain financially stable, invest in better serving our customers, and prepare for the changes that federal health care reform brings. Over the last five years, which includes four years of economic uncertainty, our net income margin averaged 1.1 percent.

Consolidated Balance Sheet

December 31, 2011, and December 31, 2010 (\$ in thousands)

	2011	2010
Cash and investments	\$3,278,151	\$2,657,093
Premiums and other receivables	1,262,936	1,162,959
Intangibles and other assets	<u>805,898</u>	<u>675,923</u>
Total assets	\$5,346,985	\$4,495,975
Claim liabilities	1,611,199	1,166,069
Unearned income	550,832	584,580
Accrued expenses	567,994	380,857
Other liabilities	<u>368,543</u>	<u>544,627</u>
Total liabilities	\$3,098,568	\$2,676,133
Independence Blue Cross surplus	2,106,619	1,819,842
Noncontrolling interest surplus	141,798	-
Total surplus	\$2,248,417	\$1,819,842
Total liabilities and surplus	\$5,346,985	\$4,495,975

Consolidated Statement of Operations

December 31, 2011, and December 31, 2010 (\$ in thousands)

	2011	2010
Premium revenue	\$8,876,219	\$9,337,784
Management services & other revenue	<u>335,318</u>	<u>325,275</u>
Total revenue	\$9,211,537	\$9,663,059
Claims incurred	7,711,901	8,266,724
Operating expenses	<u>1,138,217</u>	<u>1,126,606</u>
Total expenses	\$8,850,118	\$9,393,330
Net operating income (loss)	\$361,419	\$269,729
Investment and other income	138,061	127,361
Restructuring costs and other income/expense	<u>(10,510)</u>	<u>(109,247)</u>
Net income (loss) before taxes	\$488,970	\$287,843
Income tax benefit (expense)	(177,643)	(77,038)
Discontinued operations, net of tax	<u>3,476</u>	<u>372</u>
Net income (loss)	\$314,803	\$211,177

Unlike publicly traded health insurance companies, we do not have to use our net income to reward stockholders. Rather, we use our net income to:

- respond to our customers' needs for new products and services;
- continually improve our already high level of service;
- invest in technology to speed and simplify doing business with us;
- support initiatives to enhance the health of the community.

Maintaining financial stability

To achieve positive results, we continued to strengthen our performance in three critical areas:

- enhancing our core health insurance business with innovative products and services;
- investing in our company to modernize and become more efficient;
- managing our business with fiscal discipline.

In 2011, we also focused on offering new capabilities and services to our customers, improved the quality of our members' care, attracted new customers, reduced operating costs, and worked collaboratively with other Blue health insurers on strategic initiatives. For example, we partnered with Blue Cross Blue Shield of Michigan to purchase one of the country's largest Medicaid companies, AmeriHealth Mercy Family of Companies, an investment that will expand services to Medicaid beneficiaries nationally through this top-tier Medicaid managed care organization headquartered in Philadelphia.




Unlike publicly traded health insurance companies, we do not have to use our net income to reward stockholders. Rather, we use our net income to respond to our customers' needs for new products and services, continually improve our already high level of service, invest in technology to speed and simplify doing business with us, support initiatives to enhance the health of the community, and maintain an adequate surplus to weather serious financial downturns or medical crises such as epidemics or natural disasters.

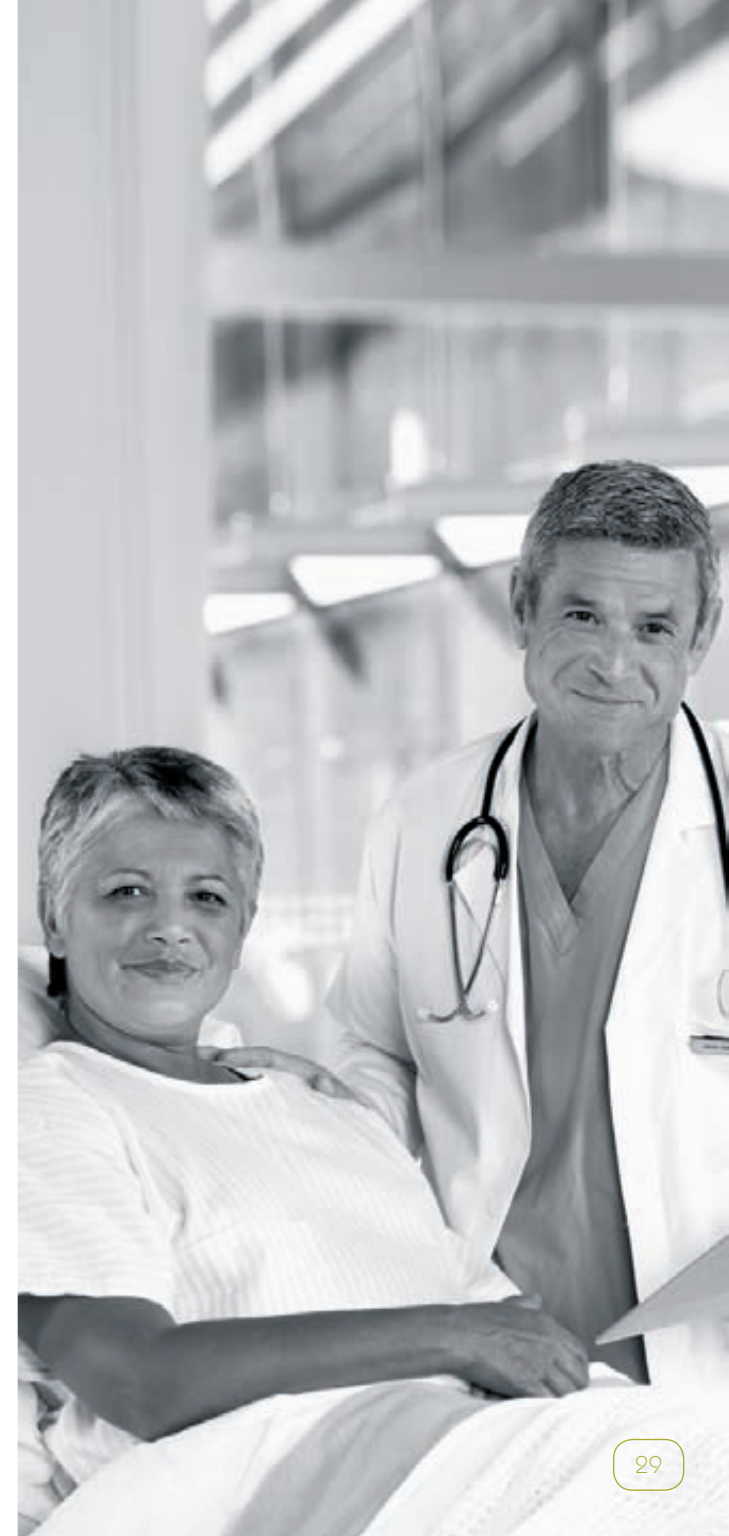
Maintaining our financial health allows us to continue to serve our customers in tough economic times and invest for the future. With sound fiscal management and positive performance, we're walking the talk for the 3.1 million members who depend on us.

Your premium dollar and how it's spent

We spent 86.9 cents of each premium dollar on our members' health care in 2011. We used 9.7 cents to run our business and pay taxes. We paid \$210.4 million in federal, state, and local nonpayroll taxes in 2011, including \$39.2 million in state premium taxes.



-  **86.9%** Hospital, physician, and pharmacy bills for our members' care
-  **9.7%** Other (includes operating expenses and taxes)
-  **3.4%** Margin



Founded in 1938, Independence Blue Cross is the region's leading health care insurer. We provide a range of health plans and supplemental health specialty services through our affiliates and subsidiaries, which include:



QCC Insurance Company. This wholly owned subsidiary offers quality, cost-effective preferred provider plans, including Personal Choice[®] PPO and Personal Choice 65SM PPO. QCC also offers the Select Option[®] PDP, a Medicare Part D Plan.



Keystone Health Plan East. This wholly owned subsidiary health maintenance organization offers a flexible suite of products that includes Keystone Health Plan East, Keystone Point of Service, and Keystone 65.



Independence Administrators. Serving self-funded health plans for groups of 100 or more in the five-county southeastern Pennsylvania region, this wholly owned subsidiary is a third-party administrator that offers tailored, cost-effective benefits management services, including claims payment, health management, and consumer-directed health plan options.

The companies of
Independence Blue Cross



AmeriHealth. These AmeriHealth companies operate outside the five-county southeastern Pennsylvania region and in two adjacent states, and they provide AmeriHealth HMO, AmeriHealth POS, AmeriHealth PPO, traditional coverage, and AmeriHealth 65® products.



AmeriHealth Administrators. Serving self-funded health plans for groups of 100 or more outside the five-county southeastern Pennsylvania region, this wholly owned subsidiary is a national third-party administrator that provides comprehensive benefits management services, such as claims payment, health management, and consumer-directed health plan options.



AmeriHealth Casualty Services. This wholly owned insurance agency offers workers' compensation insurance, life and disability insurance, third-party claims administration, and integrated disability management in Pennsylvania, New Jersey, Delaware, and Maryland.



AmeriHealth Mercy Family of Companies. Majority-owned by Independence Blue Cross along with Blue Cross Blue Shield of Michigan, this company is one of the country's largest Medicaid organizations, serving 800,000 members in Medicaid managed care plans in three states. The company also offers pharmacy benefits management, behavioral health care, and other services to an additional 3.2 million Medicaid, Medicare, and State Children's Health Insurance Program beneficiaries in 11 states.



CompServices, Inc. Operating in Pennsylvania, New Jersey, and Delaware, this wholly owned subsidiary offers administrative services for self-insured workers' compensation programs, such as case management and claims administration.

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Blue goes green

The recycled paper we used in this annual report* is just one part of our commitment to promoting sustainability and reducing our carbon footprint. Through our membership in the Greater Philadelphia Green Business Program, a consortium of local companies that have promised to change their daily business practices to decrease their impact on the environment, we've achieved positive change in areas like energy, operations, transportation, waste reduction and recycling, and water management.

Day to day, that means improvements like using recycled paper towels in our restrooms; installing fluorescent and LED lights on timers throughout our building; using eco-friendly flooring and other building materials; initiating cleaning and drinking methods that minimize water use; and encouraging employees to walk, bike, ride mass transit, or carpool to work.

Find out more: View our Carbon Footprint Summary and our Green Business Program Self-Certification Report at www.ibx.com/about_ibc/business_issues/green_business.html.



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