



A MESSAGE

FROM THE CHIEF FINANCIAL OFFICER

At Blue Cross Blue Shield of Michigan, our mission is our members. To fulfill our mission, we need to be financially strong, while functioning as a nonprofit mutual insurance company, meeting the requirements of federal and state laws, and committing to provide affordable and innovative coverage. It's a balancing act, for sure. I'm pleased to say that we rose to the challenge in 2014. Our financial performance reflects a nonprofit company that is strong, successful and true to its purpose.

The combined revenues of Blue Cross Blue Shield of Michigan and its subsidiaries (the Corporation) totaled \$23 billion in 2014 with more than 87 percent going to fund benefits on behalf of customers and members. This equates to an average of \$55 million in benefits paid each day.

With a strong investment portfolio — primarily a diverse mix of high-quality, short- and long-term bonds — the Corporation's net investment earnings were \$290 million, achieving a rate of return of 5.6 percent. Solid investments and our continued cost-management initiatives contributed to a positive financial margin of 1 percent in 2014, which translates into \$272 million in addition to reserves on a consolidated basis. And the Corporation experienced an \$83 million underwriting gain on our core insurance products.

The Corporation's risk-based capital ratio, or RBC, which is the state's measure of insurance company financial health, decreased slightly to 677 percent from 719 percent in 2013. RBC is used by the National Association of Insurance Commissioners to measure the amount of capital needed to operate an insurance company, based on its size and its business risk profile. Despite this slight decrease, our reserves remain sufficient for a company of our size. This financial security is good for our members.

In 2014, as we became "75 years new," we saw immediate results from our transition to a nonprofit mutual. We operated successfully on the new Health Insurance Marketplace created by the Affordable Care Act. We achieved a 4-star rating for our Medicare Advantage PPO business operation and a 4.5-star rating for our Medicare Advantage HMO business. We launched new marketing arrangements for ancillary lines of insurance. And we continued offering service for Medicaid beneficiaries through our investment in AmeriHealth Caritas®. This growth and diversification of our business represents positive change, strengthening our ability to serve our members for many years to come.

Sincerely,

Mark R. Bartlett

Executive Vice President, Chief Financial Officer
and President of Emerging Markets
Blue Cross Blue Shield of Michigan

Historically, Blue Cross Blue Shield of Michigan has used generally accepted accounting principles, known as GAAP, for its annual report of financial results. GAAP is the accounting method used in this report. BCBSM also files a required financial report earlier in the year with the state regulators, who require use of statutory accounting principles, known as SAP. GAAP and SAP are both accepted methods but use different accounting rules for measurement and reporting. GAAP reflects our subsidiary operations and their investments — it's a full consolidation of parent and subsidiary financial results on an enterprise basis. SAP numbers reflect BCBSM performance only. SAP numbers also do not include the gross amounts for administrative services contracts revenue or benefit costs paid, but instead nets these amounts in the statement of revenue and expenses. GAAP and SAP also differ in the recognition of assets where certain assets that may not be easily converted to cash are partially or wholly disallowed for SAP accounting.