A message from the Chief Financial Officer

To say that the health care industry has changed is an understatement. With the Affordable Care Act in full effect and Blue Cross Blue Shield of Michigan becoming a nonprofit mutual insurance company on January 1, 2014, we've had to make changes to meet the requirements of federal and state laws.

A critical component of any organization's ability to successfully manage change is financial strength. We are very pleased that in 2013 our corporate financial performance enabled BCBSM to implement required changes to our operations, while protecting the affordability of coverage. We accomplished this by managing insurance margins to levels commensurate with a nonprofit approach to health care and contributing reasonably to the reserves that serve to protect our members.

The combined revenues of Blue Cross Blue Shield of Michigan Mutual Insurance Company and its subsidiaries (the Company) totaled $21.3 billion in 2013 (up from nearly $21 billion in 2012) with $18.8 billion — more than 88 percent of total revenue — going to fund benefits on behalf of customers and members. This equates to an average of $51.6 million in benefits paid per day.

With a conservative portfolio primarily invested in a diverse mix of high-quality, short- and long-term bonds, the Company had a better-than-average investment year with net investment earnings of $417 million recorded on our statement of operations and achieving a rate of return of just over two percent. Solid investments and aggressive cost-management initiatives contributed to a positive financial margin of one percent in 2013, which translates into $265 million in additions to reserves on a consolidated basis.

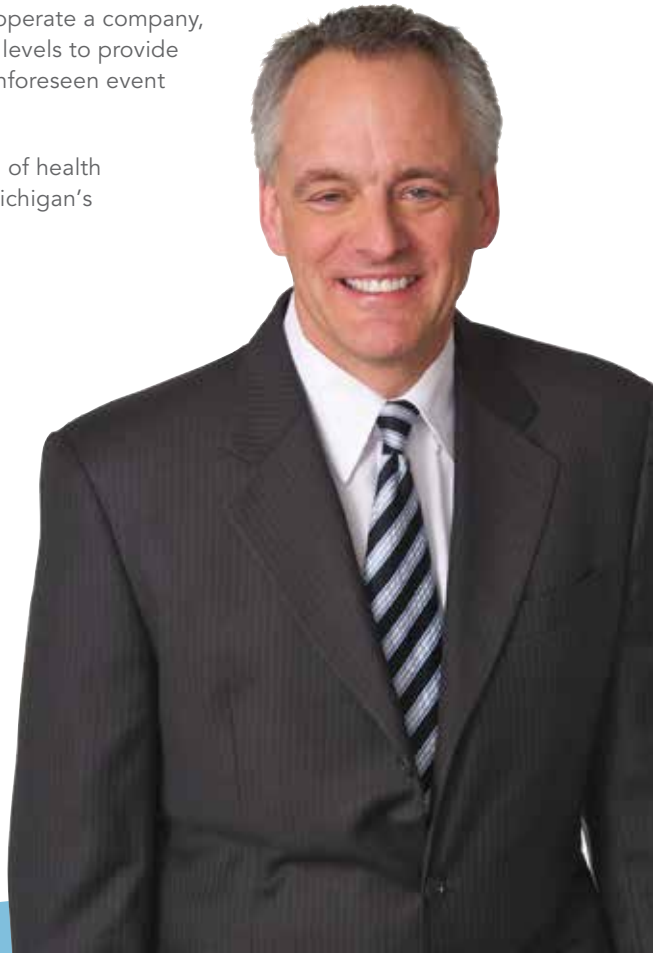
The Company experienced a $117 million underwriting loss largely due to our individual insurance products, the primary losses coming from our Medigap product, which provides complementary coverage to traditional Medicare subscribers. This loss on health insurance plans was mostly offset by our investment performance.

The Company's risk-based capital ratio, which is the state's measure of financial health, improved slightly to 719 percent. Risk-based capital ratio is the measure used by the National Association of Insurance Commissioners to measure the amount of capital needed to operate a company, based on its size and business risk profile. Our reserves are at appropriate levels to provide a safety net that ensures we can pay members' claims in the event of an unforeseen event or crisis.

Over the past year, we have readied ourselves for this new, complex world of health care. We are financially stable and strong, and poised to continue to be Michigan's health care leader.

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 service 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.