

A MESSAGE FROM OUR

Chief Financial Officer



MARK R. BARTLETT
Executive Vice President
and Chief Financial Officer

For nearly 80 years, Blue Cross Blue Shield of Michigan has been able to deliver on our wide-ranging commitments because they are backed by our strong financial foundation. Achieving and maintaining strength and stability assures our stakeholders they can continue to rely on us as a trusted partner and advisor.

In 2017, our business performance continued to strengthen our ability to provide security to our members. We increased membership for the seventh year in a row, delivered high-quality, competitively priced products and advanced our work as a leading champion of value-based care. We worked diligently to manage administrative costs and sharpen the focus of our care management initiatives. As a result, our core health business achieved positive net results within our consolidated revenue base of nearly \$27 billion.

We also experienced strong results in our subsidiaries. Our subsidiary AF Group, one of the leading workers' compensation insurance carriers in the country, continued to perform at an elite level. Our Medicaid subsidiary, Blue Cross Complete, now serves over 200,000 members. Our minority ownership of Medicaid managed care company, AmeriHealth Caritas, continued to see strong growth as that organization grew its footprint to serve populations in several additional states.

Blue Cross' investment portfolio performed well, providing positive income that contributed to our 2017 financial results. We also benefited from a change in federal tax law, which, in the short term, allows tax benefits to be recognized as assets, improving both net income and capital. Those tax benefits, combined with our investment and business performance, resulted in a 20 percent improvement in our risk-based capital (or RBC) measurement.

A strong RBC means Blue Cross has adequate statutory reserves and financial capital to support the insurance products we sell. In short, it means our stakeholders can rest assured we will be there for them in good and bad times to help them navigate the complexity of health care. It also means we are upholding, and will continue to uphold, our commitments to the people of the state of Michigan.

A handwritten signature in black ink that reads "Mark Bartlett". The signature is fluid and cursive.

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.