Anthem Insurance Companies, Inc.

Consolidated Financial Statements
as filed with Form S-1 on August 16, 2001

Years ended December 31, 2000, 1999 and 1998
with Report of Independent Auditors

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Consolidated Financial Statements

Years ended December 31, 2000, 1999 and 1998

Contents

Report of Independent Auditors

Board of Directors
Anthem Insurance Companies, Inc.

We have audited the accompanying consolidated balance sheets of Anthem Insurance Companies, Inc. as of December 31, 2000 and 1999, and the related consolidated statements of income, policyholders' surplus and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Anthem Insurance Companies, Inc. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Indianapolis, Indiana
January 29, 2001,
except for Note 17, as to which
the date is June 18, 2001

Anthem Insurance Companies, Inc.
Consolidated Balance Sheets

December 31 (*In Millions*)	**2000**	**1999**
Assets		
Current assets:		
Investments available-for-sale, at fair value:		
Fixed maturity securities	**$ 3,048.2**	$ 2,280.3
Equity securities	**463.1**	487.7
	3,511.3	2,768.0
Cash and cash equivalents	**203.3**	204.4
Premium and self funded receivables	**477.5**	388.1
Reinsurance receivables	**105.1**	179.7
Other receivables	**272.4**	168.1
Income tax receivables	**11.0**	37.6
Other current assets	**32.2**	59.5
Total current assets	**4,612.8**	3,805.4
Other noncurrent investments	**18.0**	15.8
Restricted cash and investments	**89.6**	99.6
Property and equipment	**428.8**	408.5
Goodwill and other intangible assets	**498.9**	398.5
Other noncurrent assets	**60.4**	88.4
Total assets	**$ 5,708.5**	$ 4,816.2
Liabilities and policyholders' surplus		
Liabilities		
Current liabilities:		
Policy liabilities:		
Unpaid life, accident and health claims	**$ 1,393.0**	$ 1,145.5
Future policy benefits	**186.5**	172.4
Other policyholder liabilities	**118.8**	113.2
Total policy liabilities	**1,698.3**	1,431.1
Unearned income	**262.8**	226.3
Accounts payable and accrued expenses	**262.7**	178.6
Bank overdrafts	**250.5**	146.7
Income taxes payable	**25.7**	4.7
Other current liabilities	**307.5**	249.6
Total current liabilities	**2,807.5**	2,237.0
Long term debt, less current portion	**597.5**	522.0
Retirement benefits	**175.1**	181.2
Other noncurrent liabilities	**208.6**	215.1
Total liabilities	**3,788.7**	3,155.3
Policyholders' surplus		
Surplus	**1,848.6**	1,622.6
Accumulated other comprehensive income	**71.2**	38.3
Total policyholders' surplus	**1,919.8**	1,660.9
Total liabilities and policyholders' surplus	**$ 5,708.5**	$ 4,816.2

See accompanying notes.

Anthem Insurance Companies, Inc.
Consolidated Statements of Income

Year ended December 31 *(In Millions)*	2000	1999	1998
Revenues			
Premiums	**$ 7,737.3**	$ 5,418.5	$ 4,739.5
Administrative fees	**755.6**	611.1	575.6
Other revenue	**50.6**	51.0	74.6
Total operating revenue	**8,543.5**	6,080.6	5,389.7
Net investment income	**201.6**	152.0	136.8
Net realized gains on investments	**25.9**	37.5	155.9
	8,771.0	6,270.1	5,682.4
Expenses			
Benefit expense	**6,551.0**	4,582.7	3,934.2
Administrative expense	**1,808.4**	1,469.4	1,420.1
Interest expense	**54.7**	30.4	27.9
Amortization of goodwill and other intangible assets	**27.1**	12.7	12.0
Endowment of non-profit foundations	**-**	114.1	-
	8,441.2	6,209.3	5,394.2
Income from continuing operations before income taxes and minority interest	**329.8**	60.8	288.2
Income taxes	**102.2**	10.2	110.9
Minority interest (credit)	**1.6**	(0.3)	(1.1)
Income from continuing operations	**226.0**	50.9	178.4
Discontinued operations, net of income taxes			
Loss from discontinued operations prior to disposal	**–**	–	(3.9)
Loss on disposal of discontinued operations	**–**	(6.0)	(2.1)
Net income	**$ 226.0**	$ 44.9	$ 172.4

See accompanying notes.

Anthem Insurance Companies, Inc.
Consolidated Statements of Policyholders' Surplus

(In Millions)	Surplus	Accumulated Other Comprehensive Income	Total Policyholders' Surplus
Balance at December 31, 1997	$ 1,405.3	$ 119.4	$ 1,524.7
Net income	172.4	–	172.4
Change in net unrealized gains on securities	–	5.4	5.4
Comprehensive income			177.8
Balance at December 31, 1998	1,577.7	124.8	1,702.5
Net income	44.9	–	44.9
Change in net unrealized gains on securities	–	(88.5)	(88.5)
Change in additional minimum pension liability	–	2.0	2.0
Comprehensive loss			(41.6)
Balance at December 31, 1999	1,622.6	38.3	1,660.9
Net income	**226.0**	**–**	**226.0**
Change in net unrealized gains on securities	**–**	**36.8**	**36.8**
Change in additional minimum pension liability	**–**	**(3.9)**	**(3.9)**
Comprehensive income			**258.9**
Balance at December 31, 2000	**$ 1,848.6**	**$ 71.2**	**$ 1,919.8**

See accompanying notes.

Anthem Insurance Companies, Inc.
Consolidated Statements of Cash Flows

Year ended December 31 *(In Millions)*	**2000**	**1999**	**1998**
Operating activities			
Net income	**$ 226.0**	$ 44.9	$ 172.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Realized gains on investments	**(25.9)**	(37.5)	(155.9)
Depreciation, amortization and accretion	**102.1**	61.8	58.3
Deferred income taxes	**36.6**	23.0	32.0
Loss from discontinued operations	**–**	6.0	6.0
Loss on sale of assets	**0.5**	0.2	2.6
Changes in operating assets and liabilities, net of effect of purchases and divestitures:			
Restricted cash and investments	**10.0**	(2.1)	93.7
Receivables	**(70.7)**	6.0	(76.8)
Other assets	**25.3**	80.7	(31.4)
Policy liabilities	**124.1**	105.6	(40.3)
Unearned income	**22.3**	15.9	22.8
Accounts payable and accrued expenses	**69.9**	(7.5)	27.2
Other liabilities	**119.0**	(40.1)	23.3
Income taxes	**47.5**	(20.4)	10.1
Net cash provided by continuing operations	**686.7**	236.5	144.0
Net cash used in discontinued operations	**(2.2)**	(16.7)	(24.1)
Cash provided by operating activities	**684.5**	219.8	119.9
Investing activities			
Purchases of investments	**(3,544.8)**	(2,331.1)	(3,286.8)
Sales or maturities of investments	**2,925.2**	2,308.3	3,217.2
Purchases of subsidiaries, net of cash acquired	**(85.1)**	(246.8)	(35.2)
Sales of subsidiaries, net of cash sold	**5.4**	2.3	79.3
Proceeds from sale of property and equipment	**11.5**	7.2	5.9
Purchases of property and equipment	**(73.3)**	(96.7)	(89.2)
Cash used in investing activities	**(761.1)**	(356.8)	(108.8)
Financing activities			
Proceeds from borrowings	**295.9**	220.1	0.4
Payments on borrowings	**(220.4)**	–	(4.2)
Cash provided by (used in) financing activities	**75.5**	220.1	(3.8)
Change in cash and cash equivalents	**(1.1)**	83.1	7.3
Cash and cash equivalents at beginning of year	**204.4**	121.3	114.0
Cash and cash equivalents at end of year	**$ 203.3**	$ 204.4	$ 121.3

See accompanying notes.

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation: The accompanying consolidated financial statements of Anthem Insurance Companies, Inc. ("Anthem"), a mutual insurance company, and its subsidiaries (collectively, the "Company") have been prepared in conformity with generally accepted accounting principles. All significant intercompany accounts and transactions have been eliminated in consolidation. Anthem or its subsidiary insurance companies are licensed in all states and are Blue Cross Blue Shield Association licensees in Indiana, Kentucky, Ohio, Connecticut, Maine, New Hampshire, Colorado and Nevada. Products include health and group life insurance, managed health care, and government health program administration.

Minority interest represents other shareholders' interests in subsidiaries, which are majority-owned by Anthem, or its subsidiaries.

Use of Estimates: Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Investments: All fixed maturity and equity securities are classified as "available-for-sale" securities and investments in equity securities that have readily determinable fair values and all fixed maturity securities are reported at fair value. The Company has determined that all investments in its portfolio are available to support current operations and, accordingly, has classified such investment securities as current assets. The unrealized gains or losses on these securities are included in accumulated other comprehensive income as a separate component of policyholders' surplus unless the decline in value is deemed to be other than temporary, in which case the loss is charged to income.

Realized gains or losses, determined by specific identification of investments sold, are included in income.

Cash Equivalents: All highly liquid investments with maturities of three months or less when purchased are classified as cash equivalents.

Premium and Self Funded Receivables: Premium and self funded receivables include the uncollected amounts for insured and self funded groups, less an allowance for doubtful accounts of $35.1 and $38.7 as of December 31, 2000 and 1999, respectively.

Reinsurance Receivables: Reinsurance receivables represent amounts recoverable on claims paid or incurred, and amounts paid to the reinsurer for premiums collected but not yet earned, and are estimated in a manner consistent with the liabilities associated with the reinsured policies. These receivables have been reduced by an allowance for uncollectible amounts of $0.0 and $1.7 as of December 31, 2000 and 1999, respectively.

Other Receivables: Other receivables include amounts for interest earned on investments, government programs, pharmacy sales and other miscellaneous amounts due to the Company. These receivables have been reduced by an allowance for uncollectible amounts of $33.4 and $29.4 as of December 31, 2000 and 1999, respectively.

Restricted Cash and Investments: Restricted cash and investments represent fiduciary amounts held under an insurance contract and other agreements.

Property and Equipment: Property and equipment is recorded at cost. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets.

1. Basis of Presentation and Significant Accounting Policies (continued)

Goodwill and Other Intangible Assets: Goodwill represents the excess of cost of acquisition over the fair value of net assets acquired. Other intangible assets represent the values assigned to non-compete agreements, and licenses and agreements. Goodwill and other intangible assets are amortized using the straight-line method over periods ranging from two to 20 years.

Accumulated amortization of goodwill and other intangible assets at December 31, 2000 and 1999 was $58.4 and $27.3, respectively.

The carrying value of goodwill and other intangible assets is reviewed annually to determine if the facts and circumstances indicate that they may be impaired. The carrying value of these assets is reduced to its fair value if this review, which includes comparison of asset carrying amounts to expected cash flows, indicates that such amounts will not be recoverable.

Policy Liabilities: Liabilities for unpaid claims include estimated provisions for both reported and unreported claims incurred on an undiscounted basis. The liabilities are adjusted regularly based on historical experience and include estimates of trends in claim severity and frequency and other factors, which could vary as the claims are ultimately settled. Although it is not possible to measure the degree of variability inherent in such estimates, management believes these liabilities are adequate.

The life future policy benefit liabilities represent primarily group term benefits determined using standard industry mortality tables with interest rates ranging from 3.0% to 5.5%

Premium deficiency losses are recognized when it is probable that expected claims expenses will exceed future premiums on existing health and other insurance contracts without consideration of investment income. For purposes of premium deficiency losses, contracts are grouped in a manner consistent with the Company's method of acquiring, servicing and measuring the profitability of such contracts.

Retirement Benefits: Retirement benefits represent outstanding obligations for retiree health, life and dental benefits and any unfunded liability related to defined benefit pension plans.

Comprehensive Income: Comprehensive income includes net income, the change in unrealized gains (losses) on investments and the change in the additional minimum pension liability.

Revenue Recognition: Gross premiums for fully insured contracts are prorated over the term of the contracts, with the unearned premium representing the unexpired term of policies. For insurance contracts with retrospective rated premiums, the estimated ultimate premium is recognized as revenue over the period of the contract. Actual experience is reviewed once the policy period is completed and adjustments are recorded when determined. Premium rates for certain lines of business are subject to approval by the Department of Insurance of each respective state.

Administrative fees include revenue from certain groups contracts that provide for the group to be at risk for all, or with supplemental insurance arrangements, a portion of their claims experience. The Company charges self-funded groups an administrative fee which is based on the number of members in a group or the group's claim experience. Under the Company's self-funded arrangements, amounts due are recognized based on incurred claims paid plus administrative and other fees. In addition, administrative fees include amounts received for the administration of Medicare or certain other government programs. Administrative fees are recognized in accordance with the terms of the contractual relationship between the Company and the customer. Such fees are based on a percentage of the claim amounts processed or a combination of a fixed fee per claim plus a percentage of the claim amounts processed. All benefit payments under these programs are excluded from benefit expenses.

1. Basis of Presentation and Significant Accounting Policies (continued)

Other revenue principally includes amounts from the sales of prescription drugs and revenues are recognized as prescription drug orders are delivered or shipped.

Federal Income Taxes: Anthem files a consolidated return with its subsidiaries that qualify as defined by the Internal Revenue Code.

Reclassifications: Certain prior year balances have been reclassified to conform to the current year presentation.

2. Acquisitions, Divestitures and Discontinued Operations

Acquisitions:

2000

On June 5, 2000, the Company completed its purchase of substantially all of the assets and liabilities of Associated Hospital Service of Maine, formerly d/b/a Blue Cross and Blue Shield of Maine ("BCBS-ME"), in accordance with the Asset Purchase Agreement dated July 13, 1999. The purchase price was $95.4 (including direct costs of acquisition) and resulted in $92.6 of goodwill and other intangible assets which are being amortized over periods which range from ten to 20 years. The application of purchase accounting for this acquisition is subject to further refinement based on final valuation studies and post-closing adjustments in certain circumstances. This acquisition was accounted for as a purchase and the net assets and results of operations have been included in the Company's consolidated financial statements from the purchase date. The pro forma effects of the BCBS-ME acquisition would not be material to the Company's consolidated results of operations for periods preceding the purchase date.

1999

On October 27, 1999, the Company completed its purchase of the assets and liabilities of New Hampshire-Vermont Health Services, formerly d/b/a Blue Cross Blue Shield of New Hampshire ("BCBS-NH"), in accordance with the Asset Purchase Agreement entered into on February 19, 1999. The purchase price was $125.4 (including direct costs of acquisition), which resulted in $107.9 of goodwill and other intangible assets which are being amortized over periods which range from two to 20 years.

On November 16, 1999, the Company completed its purchase of the stock of Rocky Mountain Hospital and Medical Service, formerly d/b/a Blue Cross and Blue Shield of Colorado and Blue Cross and Blue Shield of Nevada ("BCBS-CO/NV"). The purchase price was $160.7 (including direct costs of acquisition) and resulted in $152.1 of goodwill and other intangible assets which are being amortized over periods which range from five to 20 years.

These acquisitions were accounted for as purchases and the net assets and results of operations have been included in the Company's consolidated financial statements from the respective purchase dates. During 2000, purchase price allocations for these acquisitions were refined based on final valuation studies resulting in increases to goodwill and other intangible assets of $33.8.

2. Acquisitions, Divestitures and Discontinued Operations (continued)

Unaudited pro forma results of operations assuming the 1999 acquisitions occurred on January 1, 1999 would have resulted in total revenues of $7,186.4, income from continuing operations of $83.3 and net income of $5.5 for 1999, respectively.

1998

During 1998, the Company made acquisitions with purchase prices aggregating $35.2. All acquisitions were accounted for as purchases and the purchase prices were allocated to the assets and liabilities of the acquired entities based upon their estimated fair values. The total purchase price for these acquisitions exceeded the fair value of the net tangible assets acquired by approximately $28.3, which was assigned to goodwill and other intangible assets and are being amortized over periods not to exceed 20 years. The pro forma effects of these acquisitions are insignificant to the Company's consolidated results of operations.

Divestitures:

1999

During 1999, the Company divested of several small business operations, which were no longer deemed strategically aligned with the Company's core business. The Company recognized a loss of $14.2 (net of income tax benefit of $6.1) on these disposals. The pro forma effects of these divestitures are insignificant to the consolidated results of operations.

Discontinued Operations:

1999

During 1999, the Company recognized additional losses of $6.0, net of income tax benefit of $6.2, resulting from sales agreement contingency adjustments relating to the discontinued operations sold in prior years.

1998

In March 1998, the Company made the decision to exit principally all of its non-Blue Cross and Blue Shield health businesses as follows:

In May 1998 the Company principally completed its exit from its non-health insurance related businesses through the sale of its durable medical equipment business for $23.3, resulting in a gain of $12.9 (net of income tax expense of $8.4).

In June 1998, the Company completed the sale of two of its HMO businesses for $10.1 resulting in a gain of $3.3 (net of income tax expense of $1.8). Further, in July 1998, the Company completed the sale of Anthem Health and Life Insurance Company for $77.5 resulting in a gain of $1.1 (including income tax benefit of $14.1). In September 1998, the Company made a provision of $10.4 (net of income tax benefit of $3.4) for the estimated loss on the disposal of its remaining non-Blue Cross and Blue Shield health businesses.

2. Acquisitions, Divestitures and Discontinued Operations (continued)

During 1998, the Company disposed of its health finance and management operations and its integrated health delivery operations resulting in a net loss of $7.9 (including income tax expense of $2.7) greater than the reserve of $43.2 (net of income tax benefit of $23.3) which was reported as discontinued operations in 1997.

Additionally, during 1998 the Company recognized a loss of $1.1, with no income tax benefit, relating to all other operations discontinued in 1997.

Operating results from discontinued operations prior to disposal in 1998 (none in 2000 or 1999), exclusive of the aforementioned provisions, were as follows: operating revenues $190.8, loss before provision for income taxes $(5.6) and loss from discontinued operations net of income taxes $(3.9).

3. Endowment of Non-Profit Foundations

During 1999, Anthem reached agreements in the states of Kentucky, Ohio and Connecticut to resolve any questions as to whether Anthem or the predecessor/successor entities were in possession of property that was impressed with a charitable trust.

In 1999, contributions of $45.0, $28.0 and $41.1, respectively, were made for the benefit of charitable foundations in Kentucky, Ohio, and Connecticut, respectively, from Anthem's subsidiaries, Anthem Health Plans of Kentucky, Inc., Community Insurance Company and Anthem Health Plans, Inc., respectively.

4. Investments

The following is a summary of available-for-sale securities:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
December 31, 2000				
Fixed maturity securities:				
United States Government securities	**$ 723.4**	**$ 25.6**	**$ (2.5)**	**$ 746.5**
Obligations of states and Political subdivisions	**0.8**	**–**	**–**	**0.8**
Corporate securities	**1,041.4**	**19.4**	**(20.1)**	**1,040.7**
Mortgage-backed securities	**1,250.3**	**21.1**	**(13.0)**	**1,258.4**
Preferred stocks	**1.9**	**–**	**(0.1)**	**1.8**
Total fixed maturity securities	**3,017.8**	**66.1**	**(35.7)**	**3,048.2**
Equity securities	**376.2**	**162.0**	**(75.1)**	**463.1**
	$ 3,394.0	**$ 228.1**	**$ (110.8)**	**$ 3,511.3**

4. Investments (continued)

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
December 31, 1999				
Fixed maturity securities:				
United States Government securities	$ 550.1	$ 0.2	$ (29.3)	$ 521.0
Obligations of states and political subdivisions	34.2	–	(2.1)	32.1
Corporate securities	816.8	0.4	(35.6)	781.6
Mortgage-backed securities	975.3	0.9	(32.1)	944.1
Preferred stocks	1.9	–	(0.4)	1.5
Total fixed maturity securities	2,378.3	1.5	(99.5)	2,280.3
Equity securities	329.6	186.0	(27.9)	487.7
	$ 2,707.9	$ 187.5	$ (127.4)	$ 2,768.0

The amortized cost and fair value of fixed maturity securities at December 31, 2000, by contractual maturity, are shown below. Expected maturities may be less than contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	**$ 48.2**	**$ 48.4**
Due after one year through five years	**611.7**	**618.1**
Due after five years through ten years	**439.3**	**451.9**
Due after ten years	**666.4**	**669.6**
	1,765.6	**1,788.0**
Mortgage-backed securities	**1,250.3**	**1,258.4**
Preferred stocks	**1.9**	**1.8**
	$ 3,017.8	**$ 3,048.2**

The major categories of net investment income are as follows:

	Year ended December 31		
	2000	1999	1998
Fixed maturity securities	**$ 178.8**	$ 137.0	$ 121.1
Equity securities	**6.1**	6.3	7.4
Cash, cash equivalents and other	**21.5**	12.8	11.9
Investment revenue	**206.4**	156.1	140.4
Investment expense	**(4.8)**	(4.1)	(3.6)
Net investment income	**$ 201.6**	$ 152.0	$ 136.8

Proceeds from sales of fixed maturity and equity securities during 2000, 1999 and 1998 were $2,911.8, $2,336.8 and $3,162.8, respectively. Gross gains of $71.3, $86.8 and $175.3 and gross losses of $45.4, $49.3 and $19.4 were realized in 2000, 1999 and 1998, respectively, on those sales.

5. Long Term Debt and Commitments

Debt consists of the following at December 31:

	2000	**1999**
Surplus notes at 9.00% due 2027	**$ 197.2**	$ 197.0
Surplus notes at 9.125% due 2010	**295.5**	-
Senior guaranteed notes at 6.75% due 2003	**99.5**	99.3
Bank credit agreements	**-**	220.0
Other	**5.5**	5.9
Long term debt	**597.7**	522.2
Current portion of long-term debt	**(0.2)**	(0.2)
Long-term debt, less current portion	**$ 597.5**	$ 522.0

On January 28, 2000, Anthem issued $300.0 principal amount of 9.125% surplus notes due April 1, 2010. On February 3, 2000, a portion of the proceeds was used for repayment of the $220.0 outstanding under the revolving bank credit agreement discussed below. The remainder of the proceeds was used for general corporate purposes including the acquisition of BCBS-ME (see Note 2).

The Company has a $300.0 revolving credit agreement with a syndicate of banks which is available for general corporate purposes and to support the Company's commercial paper program. The facility matures in 2002. In 1999, the Company borrowed $220.0 to facilitate the acquisitions of BCBS-NH and BCBS-CO/NV as described in Note 2. No additional borrowings were made under this credit agreement during 2000 and 1999 borrowings were paid in February 2000. Availability under this facility is reduced by the amount of any commercial paper outstanding.

The Company has a $300.0 commercial paper program available for general corporate purposes. Commercial paper is sold through a dealer, in denominations greater than $150 thousand dollars with a maturity not to exceed 270 days from date of issuance, at then available market rates. Availability under the commercial paper program is reduced by the amount of any borrowings outstanding under the Company's revolving credit agreement. There were no commercial paper notes outstanding at December 31, 2000 or 1999.

The Company must maintain certain financial covenants including limits on minimum net worth, maximum consolidated debt, and maximum asset dispositions annually.

Any payment of interest or principal on the surplus notes may be made only with the prior approval of the Indiana Department of Insurance ("DOI"), and only out of policyholders' surplus funds that the DOI determines to be available for the payment under Indiana insurance laws. For statutory accounting purposes, the surplus notes are considered a part of policyholders' surplus.

Interest paid during 2000, 1999 and 1998 was $54.7, $28.2 and $28.0, respectively.

Future maturities of debt are as follows: 2001, $0.2; 2002, $0.3; 2003, $99.9; 2004, $1.4 ; 2005, $0.5 and thereafter $495.4.

6. Fair Value of Financial Instruments

Considerable judgment is required to develop estimates of fair value for financial instruments. Accordingly, the estimates shown are not necessarily indicative of the amounts that would be realized in a one time, current market exchange of all of the financial instruments.

The carrying values and estimated fair values of certain financial instruments are as follows at December 31:

	2000		**1999**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Fixed maturity securities	**$ 3,048.2**	**$ 3,048.2**	$ 2,280.3	$ 2,280.3
Equity securities	**463.1**	**463.1**	487.7	487.7
Restricted investments	**42.7**	**42.7**	38.8	38.8
Debt	**597.7**	**562.2**	522.2	507.0

The carrying value of all other financial instruments approximates fair value because of the relatively short period of time between the origination of the instruments and their expected realization. Fair values for securities and restricted investments are based on quoted market prices, where available. For securities not actively traded, fair values are estimated using values obtained from independent pricing services. The fair value of debt is estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

7. Property and Equipment

Property and equipment includes the following at December 31:

	2000	**1999**
Land and improvements	**$ 21.0**	$ 17.2
Building and components	**251.3**	222.2
Data processing equipment, furniture and other equipment	**407.6**	425.2
Leasehold improvements	**37.2**	39.2
	717.1	703.8
Less accumulated depreciation and amortization	**288.3**	295.3
	$ 428.8	$ 408.5

Property and equipment includes non-cancelable capital leases of $7.4 and $8.7 at December 31, 2000 and 1999, respectively. Total accumulated amortization on these leases at December 31, 2000 and 1999 was $3.7 and $4.5, respectively. The related lease amortization expense is included in depreciation and amortization expense. Depreciation and leasehold improvement amortization expense for 2000, 1999 and 1998 was $75.3, $47.1, and $43.7, respectively.

8. Unpaid Life, Accident and Health Claims

The following table provides a reconciliation of the beginning and ending balances for unpaid life, accident and health claims:

	2000	1999	1998
Balances at January 1, net of reinsurance	**$ 1,036.3**	$ 734.6	$ 707.8
Business combinations	**113.9**	190.4	–
Incurred related to:			
Current year	**6,611.1**	4,608.9	3,960.0
Prior years	**(60.1)**	(30.9)	(32.8)
Total incurred	**6,551.0**	4,578.0	3,927.2
Paid related to:			
Current year	**5,381.2**	3,785.1	3,245.4
Prior years	**956.0**	681.6	655.0
Total paid	**6,337.2**	4,466.7	3,900.4
Balances at December 31, net of reinsurance	**1,364.0**	1,036.3	734.6
Reinsurance recoverables at December 31	**29.0**	109.2	92.2
Reserve gross of reinsurance recoverables on unpaid claims at December 31	**$ 1,393.0**	$ 1,145.5	$ 826.8

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately settled. Negative amounts reported for incurred related to prior years resulted from claims being settled for amounts less than originally estimated.

9. Reinsurance

The Company reinsures certain of its risks with other companies and assumes risk from other companies and such reinsurance is accounted for as a transfer of risk. The Company is contingently liable for amounts recoverable from the reinsurer in the event that it does not meet its contractual obligations.

The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The details of net premiums written and earned are as follows for the years ended December 31:

	2000		1999		1998	
	Written	**Earned**	**Written**	**Earned**	**Written**	**Earned**
Consolidated:						
Direct	**$ 7,993.0**	**$ 7,961.5**	$ 5,674.8	$ 5,693.7	$ 4,956.8	$ 4,945.6
Assumed	**0.7**	**1.9**	23.9	26.9	12.4	11.6
Ceded	**(229.2)**	**(226.1)**	(305.6)	(302.1)	(218.6)	(217.7)
Net Premiums	**$ 7,764.5**	**$ 7,737.3**	$ 5,393.1	$ 5,418.5	$ 4,750.6	$ 4,739.5

9. Reinsurance (continued)

	2000		1999		1998	
	Written	**Earned**	**Written**	**Earned**	**Written**	**Earned**
Reportable segments:						
Midwest	**$ 4,240.4**	**$ 4,203.1**	$ 3,708.6	$ 3,729.3	$ 3,554.4	$ 3,533.3
East	**2,753.0**	**2,768.9**	1,490.3	1,495.4	1,076.2	1,088.3
West	**571.1**	**569.6**	64.5	64.2	-	-
Specialty	**123.7**	**123.7**	96.3	96.3	90.3	90.3
Other	**76.3**	**72.0**	33.4	33.3	29.7	27.6
Total	**$ 7,764.5**	**$ 7,737.3**	$ 5,393.1	$5,418.5	$ 4,750.6	$ 4,739.5

The effect of reinsurance on policyholder benefits is as follows for the years ended December 31:

	2000	1999	1998
Benefits assumed – increase in policyholder benefits expense	**$ 8.6**	$ 27.4	$ 2.5
Benefits ceded – decrease in policyholder benefits expense	**233.0**	299.8	208.3

The effect of reinsurance on certain assets and liabilities is as follows at December 31:

	2000	1999
Policy liabilities assumed	**$ 28.6**	$ 30.6
Unearned premiums assumed	**0.2**	0.2
Premiums payable ceded	**8.5**	36.3
Premiums receivable assumed	**0.3**	0.7

10. Income Taxes

The components of deferred income taxes are as follows:

	December 31	
	2000	**1999**
Deferred tax assets:		
Pension and postretirement benefits	**$ 84.7**	$ 87.9
Accrued expenses	**85.2**	69.5
Alternative minimum tax and other credits	**83.7**	35.4
Insurance reserves	**33.0**	32.3
Net operating loss carryforwards	**174.5**	57.4
Bad debt reserves	**35.1**	30.1
Other	**31.5**	24.1
Total deferred tax assets	**527.7**	336.7
Valuation allowance	**(338.7)**	(148.2)
Total deferred tax assets, net of valuation allowance	**189.0**	188.5
Deferred tax liabilities:		
Unrealized gains on securities	**41.4**	21.0
Goodwill and other tax intangibles	**55.1**	57.7
Other	**72.4**	52.2
Total deferred tax liabilities	**168.9**	130.9
Net deferred tax asset	**$ 20.1**	$ 57.6

10. Income Taxes (continued)

The resolution of an Internal Revenue Service examination during 2000 resulted in certain subsidiaries having an increase in alternative minimum tax credits and net operating loss carryforwards. Due to the uncertainty of the realization of these deferred tax assets, the Company increased its valuation allowance accordingly. The net change in the valuation allowance for 2000, 1999 and 1998 totaled $190.5, $(14.4) and $1.1, respectively.

Deferred tax assets and liabilities reported with other current assets and other noncurrent assets on the accompanying consolidated balance sheets are as follows:

	December 31	
	2000	**1999**
Deferred tax assets – current	**$ 10.5**	$ 29.4
Deferred tax assets – noncurrent	**9.6**	28.2
Net deferred tax assets	**$ 20.1**	$ 57.6

Significant components of the provision for income taxes consist of the following:

	Year ended December 31		
	2000	**1999**	**1998**
Current tax expense (benefit):			
Federal	**$ 53.9**	$ (2.6)	$ 63.0
State and local	**3.9**	(7.0)	9.8
Total current tax expense (benefit)	**57.8**	(9.6)	72.8
Deferred tax expense	**44.4**	19.8	38.1
Total income tax expense	**$ 102.2**	$10.2	$ 110.9

Current federal income taxes consisted of amounts due for alternative minimum tax and tax obligations of subsidiaries not included in the consolidated return of Anthem. During 2000, 1999 and 1998 federal income taxes paid totaled $26.3, $0.0 and $23.7, respectively.

A reconciliation between actual income tax expense and the amount computed at the statutory rate is as follows:

	Year ended December 31					
	2000		**1999**		**1998**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Amount at statutory rate	**$ 115.4**	**35.0**	$ 21.3	35.0	$ 100.9	35.0
State and local income taxes (benefit) net of federal tax benefit	**2.6**	**0.8**	(4.8)	(7.9)	7.0	2.4
Amortization of goodwill	**5.6**	**1.7**	3.1	5.1	3.0	1.1
Dividends received deduction	**(1.2)**	**(0.4)**	(1.3)	(2.1)	(1.7)	(0.6)
Deferred tax valuation allowance change, net of net operating loss carryforwards and other tax credits	**(20.0)**	**(6.0)**	(14.4)	(23.7)	1.1	0.4
Other, net	**(0.2)**	**(0.1)**	6.3	10.4	0.6	0.2
	$ 102.2	**31.0**	$10.2	16.8	$ 110.9	38.5

At December 31, 2000, the Company had unused federal tax net operating loss carryforwards of approximately $498.7 to offset future taxable income. The loss carryforwards expire in the years 2001 through 2019.

11. Accumulated Other Comprehensive Income

The following is a reconciliation of the components of accumulated other comprehensive income at December 31:

	2000	1999
Gross unrealized gains on securities	**$ 228.1**	$ 187.5
Gross unrealized losses on securities	**(110.8)**	(127.4)
Total pretax net unrealized gains on securities	**117.3**	60.1
Deferred tax liability	**(41.4)**	(21.0)
Net unrealized gains on securities	**75.9**	39.1
Additional minimum pension liability	**(7.2)**	(1.2)
Deferred tax asset	**2.5**	0.4
Net additional minimum pension liability	**(4.7)**	(0.8)
Accumulated other comprehensive income	**$ 71.2**	$ 38.3

A reconciliation of the change in unrealized and realized gains (losses) on securities included in accumulated other comprehensive income follows:

	2000	1999	1998
Change in pretax net unrealized gains on securities	**$ 83.1**	$ (99.2)	$ 185.6
Less change in deferred taxes	**(28.4)**	36.9	(64.0)
Less net realized gains on securities, net of income taxes (2000, $8.0; 1999, $11.3; 1998, $54.6), included in net income	**(17.9)**	(26.2)	(101.3)
Change in net unrealized gains of discontinued operations	**–**	–	(14.9)
Change in net unrealized gains on securities	**$ 36.8**	$ (88.5)	$ 5.4

12. Leases

The Company leases office space and certain computer equipment using noncancelable operating leases. Related lease expense for 2000, 1999 and 1998 was $64.0, $60.9, and $42.9, respectively.

At December 31, 1999, future lease payments for operating leases with initial or remaining noncancelable terms of one year or more consisted of the following: 2001, $48.7; 2002, $38.6; 2003, $31.7; 2004, $25.1; 2005, $22.9; and thereafter $136.7.

13. Retirement Benefits

Anthem and its subsidiaries, Anthem Health Plans of New Hampshire, Inc. (which acquired the business of BCBS-NH), Rocky Mountain Hospital and Medical Service, Inc. ("RMHMS") (formerly known as BCBS-CO/NV) and Anthem Health Plans of Maine, Inc. (which acquired the business of BCBS-ME), all sponsor defined benefit pension plans. These plans generally cover all full-time employees who have completed one year of continuous service and attained the age of twenty-one.

The Company plan, which includes all affiliates except for Anthem Health Plans of New Hampshire, Inc., RMHMS, and Anthem Health Plans of Maine, Inc., is a cash balance arrangement where participants have an individual account balance and will earn a pay credit equal to three to six percent of compensation, depending on years of service. In addition to the pay credit, participant accounts earn interest at a rate based on the 10-year Treasury notes.

Anthem Health Plans of New Hampshire, Inc. sponsors a plan that is also a cash balance arrangement where participants have an individual account balance and will earn a pay credit equal to five percent of compensation. The participant accounts earn interest at a rate based on the lesser of the 1-year Treasury note or 7%.

RMHMS sponsors a pension equity plan where the participant earns retirement credit percentages based on their age and service when the credit was earned. A lump sum benefit is calculated for each participant based on this formula. Effective December 31, 2000, the RMHMS plan was frozen and its participants became participants of the Company's plan on January 1, 2001.

Anthem Health Plans of Maine, Inc. sponsors a final average pay defined benefit plan with contributions made at a rate intended to fund the cost of benefits earned. The plan's benefits are based on years of service and the participant's highest five year average compensation during the last ten years of employment. Effective December 31, 2000, the Anthem Health Plans of Maine, Inc. plan was merged into the Company's plan and its participants became participants of the Company's plan on January 1, 2001.

All of the plans' assets consist primarily of common and preferred stocks, bonds, notes, government securities, investment funds and short-term investments. The funding policies for all plans are to contribute amounts at least sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act plus such additional amounts as are necessary to provide assets sufficient to meet the benefits to be paid to plan members.

The effect of the above acquisitions on the consolidated benefit obligation and plan assets is reflected through the business combination lines of the tables below.

In addition to the Company's defined benefit and defined contribution plans, the Company offers most active and retired employees certain life, health, vision and dental benefits upon retirement. There are several plans that differ in amounts of coverage, deductibles, retiree contributions, years of service and retirement age. The Company funds certain benefit costs through contributions to a Voluntary Employees' Beneficiary Association ("VEBA") trust and others are accrued, with the retiree paying a portion of the costs. Postretirement plan assets held in the VEBA trust consist primarily of bonds and equity securities.

13. Retirement Benefits (continued)

The reconciliation of the benefit obligation for the years ended December 31 is as follows:

	Pension Benefits		Other Benefits	
	2000	**1999**	**2000**	**1999**
Benefit obligation at beginning of year	**$ 471.8**	$ 473.3	**$ 117.1**	$ 91.8
Service cost	**27.3**	26.6	**1.3**	2.1
Interest cost	**36.6**	31.4	**8.4**	6.2
Plan amendments	**(1.2)**	–	**(5.2)**	(13.5)
Actuarial (gain) loss	**35.4**	(47.9)	**(11.0)**	9.1
Business combinations	**50.8**	73.2	**9.0**	28.9
Benefits paid	**(53.1)**	(84.8)	**(8.0)**	(7.5)
Benefit obligation at end of year	**$ 567.6**	$ 471.8	**$ 111.6**	$ 117.1

The changes in plan assets were as follows:

	Pension Benefits		Other Benefits	
	2000	**1999**	**2000**	**1999**
Fair value of plan assets at beginning of year	**$ 557.5**	$ 445.4	**$ 23.2**	$ 21.2
Actual return on plan assets	**75.3**	80.5	**3.1**	8.3
Employer contributions	**30.0**	37.0	**1.2**	1.2
Business combinations	**40.9**	79.4	**4.6**	–
Benefits paid	**(53.1)**	(84.8)	**(3.7)**	(7.5)
Fair value of plan assets at end of year	**$ 650.6**	$ 557.5	**$ 28.4**	$ 23.2

The reconciliation of the funded status to the net benefit cost accrued is as follows:

	Pension Benefits		Other Benefits	
	2000	**1999**	**2000**	**1999**
Funded status	**$ 83.0**	$ 85.7	**$ (83.2)**	$ (93.9)
Unrecognized net gain	**(61.5)**	(68.7)	**(44.1)**	(33.1)
Unrecognized prior service cost	**(22.8)**	(24.9)	**(41.9)**	(43.3)
Unrecognized transition asset	**(1.0)**	(2.8)	**–**	–
Additional minimum liability	**(7.2)**	(1.2)	**–**	–
Accrued benefit cost at September 30	**(9.5)**	(11.9)	**(169.2)**	(170.3)
Payments made after the measurement date	**1.0**	0.5	**2.6**	0.5
Accrued benefit cost at December 31	**$ (8.5)**	$ (11.4)	**$ (166.6)**	$ (169.8)

13. Retirement Benefits (continued)

The weighted average assumptions used in calculating the accrued liabilities for all plans are as follows:

	Pension Benefits			Other Benefits		
	2000	**1999**	**1998**	**2000**	**1999**	**1998**
Discount rate	**7.50%**	7.50%	6.75%	**7.50%**	7.50%	6.75%
Rate of compensation increase	**4.50%**	4.50%	4.50%	**4.50%**	4.50%	4.50%
Expected rate of return on plan assets	**9.00%**	9.00%	9.55%	**6.27%**	6.50%	6.50%

The assumed health care cost trend rate used in measuring the other benefit obligations is generally 6% in 2000 and is assumed to decrease to 5% in 2001, and remain level thereafter. For 1999, the rates were generally 7% decreasing by 1% per year, to 5% in 2001.

The health care cost trend rate assumption can have a significant effect on the amounts reported. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total of service and interest cost components	$ 0.4	$ (0.4)
Effect on the postretirement benefit obligation	5.2	(4.3)

Below are the components of net periodic benefit cost:

	Pension Benefits			Other Benefits		
	2000	**1999**	**1998**	**2000**	**1999**	**1998**
Service cost	**$ 27.3**	$ 26.6	$ 27.5	**$ 1.3**	$ 2.1	$ 2.5
Interest cost	**36.6**	31.4	32.2	**8.4**	6.2	6.9
Expected return on assets	**(49.9)**	(39.6)	(42.2)	**(1.4)**	(1.2)	(1.2)
Recognized actuarial (gain) loss	**2.8**	1.2	0.3	**(1.7)**	(2.4)	(2.1)
Amortization of prior service cost	**(3.3)**	(3.3)	(3.6)	**(6.5)**	(5.4)	(5.6)
Amortization of transition asset	**(1.7)**	(2.0)	(2.1)	**–**	–	–
Net periodic benefit cost before curtailments	**11.8**	14.3	12.1	**0.1**	(0.7)	0.5
Net settlement/curtailment credit	**–**	(7.9)	(3.3)	**–**	–	(5.4)
Net periodic benefit cost (credit)	**$ 11.8**	$ 6.4	$ 8.8	**$ 0.1**	$ (0.7)	$ (4.9)

The net settlement/curtailment credits in 1999 and 1998 result from the divestitures of several non-core businesses as previously discussed in Note 2.

The Company has several qualified defined contribution plans covering substantially all employees. Eligible employees may only participate in one plan. Voluntary employee contributions are matched at the rate of 40% to 50% depending upon the plan subject to certain limitations. Contributions made by the Company totaled $10.3, $8.7 and $10.0 during 2000, 1999 and 1998, respectively.

14. Contingencies

Litigation:

A number of managed care organizations have recently been sued in class action lawsuits asserting various causes of action under federal and state law. These lawsuits typically allege that the defendant managed care organizations employ policies and procedures for providing health care benefits that are inconsistent with the terms of the coverage documents and other information provided to their members, and because of these misrepresentations and practices, a class of members has been injured in that they received benefits of lesser value than the benefits represented to and paid for by such members. Two such proceedings which allege various violations of the Employee Retirement Income Security Act of 1974 ("ERISA") have been filed in Connecticut against the Company or its Connecticut affiliate. One proceeding, brought by the Connecticut Attorney General on behalf of a purported class of HMO and Point of Service members in Connecticut, seeks to enjoin the policies and practices that are alleged to violate ERISA. No monetary damages are sought. A second proceeding, brought on behalf of a purported class of HMO and Point of Service members in Connecticut and elsewhere, seeks injunctive relief and monetary damages (both compensatory and punitive).

In addition, the Company's Connecticut affiliate is a defendant in three class action lawsuits brought on behalf of professional providers in Connecticut. The suits allege that the Connecticut affiliate has breached its contracts by, among other things, failing to pay for services in accordance with the terms of the contracts. The suits also allege violations of the Connecticut Unfair Trade Practices Act, breach of the implied duty of good faith and fair dealing, negligent misrepresentation and unjust enrichment. Two of the suits seek injunctive relief and monetary damages (both compensatory and punitive). The third suit, brought by the Connecticut State Medical Society, seeks injunctive relief only.

The Company intends to vigorously defend these proceedings. All of the proceedings are in the early stages of litigation, and their ultimate outcomes cannot presently be determined. Accordingly, no provision has been made in the accompanying consolidated financial statements for liability, if any, that may result from these proceedings.

Following the purchase of BCBS-ME, appeals have been filed by two parties that intervened in the administrative proceeding before Maine's Superintendent of Insurance (the "Superintendent"), challenging the Superintendent's decision approving the conversion of BCBS-ME to a stock insurer, which was a required step before the acquisition. In one appeal, Maine's Attorney General is requesting the Court to modify the Superintendent's decision, by requiring BCBS-ME to submit an update to the statutorily mandated appraisal of its fair market value and to deposit into the charitable foundation the difference between the net proceeds that have been transferred to the foundation and the final value of BCBS-ME, if greater. In the other appeal, a consumers' group is also challenging that portion of the Superintendent's decision regarding the value of BCBS-ME. While the appeals are still pending, Anthem does not believe that the appeals will have a material adverse effect on its consolidated financial position or results of operations.

On March 11, 1998, Anthem and a subsidiary were named as defendants in a lawsuit, *Robert Lee Dardinger, Executor of the Estate of Esther Louise Dardinger v. Anthem Blue Cross and Blue Shield, et al.*, filed in the Licking County Court of Common Pleas in Newark, Ohio. The plaintiff sought compensatory damages and unspecified punitive damages in connection with claims alleging wrongful death, bad faith and negligence arising out of the Company's denial of certain claims for medical treatment for Ms. Dardinger. On September 24, 1999, the jury returned a verdict for the plaintiff, awarding $1,350 (actual dollars) for compensatory damages, $2.5 for bad faith in claims handling and appeals processing, $49.0 for punitive damages and unspecified attorneys' fees in an amount to be determined by the court. The court later granted attorneys' fees of $0.8. An appeal of the verdict was filed by the defendants on November 19, 1999, and as part of the appeal, a bond in the amount of $60.0 was posted to secure the judgement and interest and attorneys' fees. The ultimate outcome of this appeal can not be determined at this time. (See Note 17, fourth paragraph.)

14. Contingencies (continued)

In addition to the lawsuits described above, the Company is involved in other pending and threatened litigation of the character incidental to the business transacted, arising out of its insurance and investment operations and is from time to time involved as a party in various governmental and administrative proceedings. The Company believes that any liability that may result from any one of these actions is unlikely to have a material adverse effect on its financial position or results of operations.

Other Contingencies:

The Company, like a number of other Blue Cross and Blue Shield companies, serves as a fiscal intermediary for Medicare Part A and B. The fiscal intermediaries for these programs receive reimbursement for certain costs and expenditures, which are subject to adjustment upon audit by the Health Care Finance Administration. The laws and regulations governing fiscal intermediaries for the Medicare program are complex, subject to interpretation and can expose an intermediary to penalties for non-compliance. Fiscal intermediaries may be subject to criminal fines, civil penalties or other sanctions as a result of such audits or reviews. In the last five years, at least eight Medicare fiscal intermediaries have made payments to settle issues raised by such audits and reviews. These payments have ranged from $0.7 to $51.6, plus a payment by one company of $144.0. While the Company believes it is currently in compliance in all material respects with the regulations governing fiscal intermediaries, there are ongoing reviews by the federal government of the Company’s activities under certain of its Medicare fiscal intermediary contracts.

On December 8, 1999, Anthem Health Plans, Inc. (“AHP”), a subsidiary of Anthem, reached a settlement agreement with the Office of Inspector General, Department of Health and Human Services (“OIG”), in the amount of $41.9, to resolve an investigation into misconduct in the Medicare fiscal intermediary operations of Blue Cross and Blue Shield of Connecticut, Inc. (“BCBS-CT”), AHP’s predecessor. The period investigated was before Anthem merged with BCBS-CT. The resolution of this case involved no criminal penalties against the Company nor any suspension or exclusion from federal programs. This expense was included in administrative expenses in the statement of consolidated income for the year ended December 31, 1999.

AdminaStar Federal, Inc., an affiliate of Anthem, has received two subpoenas from the OIG, one seeking documents and information concerning its responsibilities as a Medicare Part B contractor in its Kentucky office, and the other requesting certain financial records of AdminaStar Federal, Inc. and Anthem related to the Company’s Medicare fiscal intermediary (Part A) and carrier (Part B) operations. The Company has made certain disclosures to the government of issues relating to its Medicare Part B work in Kentucky. The Company is not in a position to predict either the ultimate outcome of this review or the extent of any potential exposure should claims be made against the Company. However, the Company believes any fines or penalties that may arise from this review would not have a material adverse effect on the consolidated financial condition of the Company.

Anthem guarantees certain financial contingencies of its subsidiary, Anthem Alliance Health Insurance Company (Anthem Alliance), under a contract between Anthem Alliance and the United States Department of Defense. Under that contract, Anthem Alliance manages and administers the TRICARE Managed Care Support Program for military families. The contract requires Anthem Alliance, as the prime contractor, to assume certain risks in the event, and to the extent, the actual cost of delivering health care services during the five-year contract period exceeds the health care cost proposal submitted by Anthem Alliance (“the Health Care Risk”). Anthem has guaranteed Anthem Alliance’s assumption of the Health Care Risk, which is capped by the contract at $20.0 annually and $75.0 cumulatively over the five-year contract period. Anthem Alliance has subcontracts with two other Blue Cross and Blue Shield companies not affiliated with the Company by which the subcontractors have agreed to provide certain services under the contract and to assume approximately 50% of the Health Care Risk. Effective January 1, 2001, one of those subcontracts will terminate by mutual agreement of the parties. As a result, Anthem Alliance would then have one Blue Cross and Blue Shield subcontractor assuming 10% of the Health Care Risk.

14. Contingencies (continued)

Vulnerability from Concentrations:

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of investment securities and premiums receivable. All investment securities are managed by professional investment managers within guidelines authorized by the board of directors. Such policies limit the amounts that may be invested in any one issuer and prescribe certain investee company criteria. Concentrations of credit risk with respect to premiums receivable are limited due to the large number of employer groups that constitute the Company's customer base in the geographic regions in which we conduct business. As of December 31, 2000, there were no significant concentrations of financial instruments in a single investee, industry or geographic location.

15. Segment Information

The Company's principal reportable segments are strategic business units primarily delineated by geographic areas that essentially offer similar insurance products and services. They are managed separately because each geographic region has unique market, regulatory and healthcare delivery characteristics. The geographic regions are: the Midwest region, which operates primarily in Indiana, Kentucky and Ohio; the East region, which operates primarily in Connecticut, New Hampshire and Maine; and the West region, which operates in Colorado and Nevada. BCBS-NH was added to the East region effective with its October 27, 1999 acquisition, while the West region was established following the acquisition of BCBS-CO/NV on November 16, 1999. BCBS-ME is included in the East segment since its acquisition date of June 5, 2000.

In addition to its three principal reportable geographic segments, the Company operates a Specialty segment which includes business units providing group life insurance benefits, pharmacy benefit management and third party occupational health and dental administration services. Various ancillary business units (reported with the Other segment) consist primarily of AdminaStar Federal which administers Medicare programs in Indiana, Illinois, Kentucky and Ohio and Anthem Alliance which provides health care benefits and administration in nine states for the Department of Defense's TRICARE Program for military families. The Other segment also includes intersegment revenue and expense eliminations and corporate expenses not allocated to reportable segments.

Through its participation in the Federal Employee Program ("FEP"), Medicare, Medicare at Risk, and TRICARE Program, the Company generated approximately 22%, 23%, and 22% of its total consolidated revenues from agencies of the U.S. government for the years ended December 31, 2000, 1999, and 1998, respectively.

The Company defines operating revenues to include premium income, administrative fees and other revenues. Operating revenues are derived from premiums and fees received primarily from the sale and administration of health benefit products. Operating expenses are comprised of benefit and administrative expenses. The Company calculates operating gain or loss as operating revenue less operating expenses.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that pension and postretirement benefit costs for each segment are recognized on a per associate per month charge, which in aggregate approximates the consolidated expense. Any difference between the per associate per month charge and actual consolidated expense is included in corporate expenses not allocated to reportable segments. Intersegment sales and expenses are recorded at cost, and eliminated in the consolidated financial statements. The Company evaluates performance of the reportable segments based on operating gain or loss as defined above. The Company evaluates investment income, interest expense, amortization expense and income taxes, and asset and liability details on a consolidated basis as these items are managed in a corporate shared service environment and are not the responsibility of segment operating management.

15. Segment Information (continued)

The following tables present operating gain (loss) by reportable segment for each of the years ended December 31, 2000, 1999 and 1998:

	Reportable Segments					
	Midwest	**East**	**West**	**Specialty**	**Other**	**Total**
2000						
Premiums	**$ 4,203.1**	**$ 2,768.9**	**$ 569.6**	**$ 123.7**	**$ 72.0**	**$ 7,737.3**
Administrative fees	**254.8**	**144.1**	**52.8**	**31.8**	**272.1**	**755.6**
Other revenues	**2.6**	**8.9**	**–**	**176.8**	**(137.7)**	**50.6**
Operating revenue (1)	**4,460.5**	**2,921.9**	**622.4**	**332.3**	**206.4**	**8,543.5**
Benefit expense	**3,555.4**	**2,332.4**	**491.7**	**92.6**	**78.9**	**6,551.0**
Administrative expense (2)	**817.3**	**485.7**	**128.2**	**214.8**	**162.4**	**1,808.4**
Operating expense	**4,372.7**	**2,818.1**	**619.9**	**307.4**	**241.3**	**8,359.4**
Operating gain (loss)	**$ 87.8**	**$ 103.8**	**$ 2.5**	**$ 24.9**	**$ (34.9)**	**$ 184.1**
(1) Includes intersegment revenues	**$ 8.2**	**$ –**	**$ –**	**$ 143.5**	**$ (151.7)**	**$ –**
(2) Includes depreciation and amortization	**16.9**	**17.1**	**8.7**	**2.1**	**30.5**	**75.3**

	Reportable Segments					
	Midwest	**East**	**West**	**Specialty**	**Other**	**Total**
1999						
Premiums	$ 3,729.3	$ 1,495.4	$ 64.2	$ 96.3	$ 33.3	$ 5,418.5
Administrative fees	242.8	99.7	1.7	14.6	252.3	611.1
Other revenues	3.4	3.8	6.8	138.2	(101.2)	51.0
Operating revenue (1)	3,975.5	1,598.9	72.7	249.1	184.4	6,080.6
Benefit expense	3,162.2	1,259.9	55.0	73.8	31.8	4,582.7
Administrative expense (2)	776.9	339.9	21.2	159.1	172.3	1,469.4
Operating expense	3,939.1	1,599.8	76.2	232.9	204.1	6,052.1
Operating gain (loss)	$ 36.4	$ (0.9)	$ (3.5)	$ 16.2	$ (19.7)	$ 28.5
(1) Includes intersegment revenues	$ 7.5	$ –	$ –	$ 103.7	$ (111.2)	$ –
(2) Includes depreciation and amortization	16.6	8.5	0.5	1.4	20.1	47.1

15. Segment Information (continued)

	Reportable Segments					
	Midwest	**East**	**West**	**Specialty**	**Other**	**Total**
1998						
Premiums	$ 3,533.3	$ 1,088.3	$ –	$ 90.3	$ 27.6	$ 4,739.5
Administrative fees	234.8	91.4	–	21.1	228.3	575.6
Other revenues	3.0	11.2	–	130.2	(69.8)	74.6
Operating revenue (1)	3,771.1	1,190.9	–	241.6	186.1	5,389.7
Benefit expense	2,922.9	901.9	–	76.1	33.3	3,934.2
Administrative expense (2)	797.7	294.6	–	142.3	185.5	1,420.1
Operating expense	3,720.6	1,196.5	–	218.4	218.8	5,354.3
Operating gain (loss)	$ 50.5	$ (5.6)	$ –	$ 23.2	$ (32.7)	$ 35.4
(1) Includes intersegment revenues	$ 9.4	$ –	$ –	$ 104.3	$ (113.7)	$ –
(2) Includes depreciation and amortization	16.2	9.3	–	1.1	17.1	43.7

Asset and equity details by reportable segment have not been disclosed, as they are not reported internally by the Company.

A reconciliation of reportable segment operating revenues to the amounts of total revenues included in the consolidated statements of income for 2000, 1999 and 1998 is as follows:

	2000	**1999**	**1998**
Reportable segments operating revenues	**$ 8,543.5**	$ 6,080.6	$ 5,389.7
Net investment income	**201.6**	152.0	136.8
Net realized gains on investments	**25.9**	37.5	155.9
Total revenues	**$ 8,771.0**	$ 6,270.1	$ 5,682.4

A reconciliation of reportable segment operating gain to income from continuing operations before income taxes and minority interest included in the consolidated statements of income for 2000, 1999 and 1998 is as follows:

	2000	**1999**	**1998**
Reportable segments operating gain	**$ 184.1**	$ 28.5	$ 35.4
Net investment income	**201.6**	152.0	136.8
Net realized gains on investments	**25.9**	37.5	155.9
Interest expense	**(54.7)**	(30.4)	(27.9)
Amortization of goodwill and other intangible assets	**(27.1)**	(12.7)	(12.0)
Endowment of non-profit foundations	**-**	(114.1)	-
Income from continuing operations before income taxes and minority interest	**$ 329.8**	$ 60.8	$ 288.2

16. Statutory Information

Statutory policyholders' surplus of Anthem amounted to $1,907.5 and $1,444.2 at December 31, 2000 and 1999, respectively. Statutory net income of Anthem was $91.7, $201.7 and $80.6 for 2000, 1999 and 1998, respectively. Surplus of insurance subsidiaries of Anthem is subject to regulatory restrictions with respect to amounts available for dividends to Anthem.

In 1998, the National Association of Insurance Commissioners adopted codified statutory accounting principles ("Codification") which will be effective January 1, 2001. Codification will result in changes to certain accounting practices that Anthem and it's insurance subsidiaries use to prepare statutory-basis financial statements. Management believes the impact of these changes will not be significant.

17. Subsequent Events

On January 29, 2001 Anthem's board of directors appointed a special committee to work with management to develop a plan for demutualization and conversion to a publicly traded stock company (the "Plan") for the board's further review. On June 18, 2001 the Plan was approved by Anthem's board of directors and management believes that the demutualization process could be completed before the end of 2001. Anthem's members will see no increase in premiums or changes to the terms of their health care benefits as a result of the demutualization.

On April 18, 2001, Anthem and its subsidiary, Anthem Alliance Health Insurance Company ("Alliance"), entered into an Agreement and Plan of Merger to sell the TRICARE operations of Alliance to a subsidiary of Humana, Inc. The transaction closed on May 31, 2001.

On May 30, 2001, Anthem and Blue Cross and Blue Shield of Kansas ("BCBS-KS") signed a definitive agreement pursuant to which BCBS-KS will become a wholly owned subsidiary of Anthem. Under the proposed transaction, BCBS-KS will demutualize and convert to a stock insurance company. The agreement calls for Anthem to pay $190.0 in exchange for all of the shares of BCBS-KS. Subject to the approval of BCBS-KS policyholders and the approval of the Kansas Department of Insurance, the transaction is expected to close in late 2001.

On May 22, 2001, the Ohio Court of Appeals (Fifth District) affirmed the jury award of $1,350 (actual dollars) for breach of contract against Community Insurance Company ("CIC"), a subsidiary of the Company, affirmed the award of $2.5 compensatory damages for bad faith in claims handling and appeals processing against CIC, but dismissed the claims and judgments against Anthem. The court also reversed the award of $49.0 in punitive damages against both the Company and CIC, and remanded the question of punitive damages against CIC to the trial court for a new trial. (See Note 14, fifth paragraph.)