

SUMMARY OF TESTIMONY OF MICHAEL L. SMITH

I will provide a financial overview of Anthem Blue Cross and Blue Shield, describe how Blue Cross and Blue Shield of Kansas will benefit from Anthem's financial strength and explain how Anthem Blue Cross and Blue Shield and Blue Cross and Blue Shield of Kansas calculate their administrative costs.

Financial Performance

Anthem Blue Cross and Blue Shield operates Blue Cross and Blue Shield plans in Indiana, Ohio, Kentucky, Colorado, Nevada, Connecticut, New Hampshire and Maine. It is among the largest Blue Cross Blue Shield organizations in the country, and is the fifth largest health benefits company in the United States.

Anthem recently completed a demutualization and executed an initial public offering of its common stock. Anthem raised more than \$2.1 billion from this transaction and in late December distributed more than \$3.8 billion in cash and common stock to its eligible statutory members. Following these transactions, Anthem has more than 103,000,000 common shares outstanding with the aggregate market value of approximately \$5.0 billion.

As of September 30, 2001, the surplus of Anthem was in excess of \$2.1 billion on a GAAP basis, with total adjusted capital on a statutory basis in excess of \$1.9 billion. In addition, Anthem's operating results are very strong. As of September 30, 2001, Anthem reported net income of \$254.5 million on GAAP revenues of approximately \$7.8 billion.

Further, the insurance industry's most respected rating agencies, including Standard & Poor's, A.M. Best, Fitch and Moody's, continued to recognize our financial strength in 2001. Anthem's consistently strong ratings over the years evidences our commitment to our policyholders' security.

Benefits of Financial Strength

Anthem Health Plans of Kansas will enjoy the strength of its parent company and the entire Anthem family of successful health benefits operations. This ensures that Anthem Health Plans of Kansas's operations will have adequate reserves to meet all financial requirements under Kansas law.

In addition, Anthem's financial flexibility allows it to expand existing business opportunities, further improve service to our customers and invest in health management initiatives that will further our position of leadership in our industry.

Administrative Costs

Anthem Blue Cross and Blue Shield and Blue Cross and Blue Shield of Kansas calculate their administrative costs differently. Blue Cross and Blue Shield of Kansas's administrative expense ratio is approximately 9%. When calculated in the same manner,

Anthem Blue Cross and Blue Shield's administrative expense ratio is 11.5%. This small difference is attributed to mix of funding arrangements, size of ancillary business lines and investments in technology and medical management programs.

Anthem's administrative expense ratio continues to decrease. We have demonstrated an ability to reduce administrative costs in partnerships formed with existing Blue Cross and Blue Shield companies. We believe that Anthem Blue Cross and Blue Shield and Blue Cross and Blue Shield of Kansas together can continue to reduce administrative costs.