

The
Shape
of the Future



Amid the new technologies and shifting paradigms, tomorrow's leaders in health care will deliver the basics supremely well. They will keep care **affordable** by controlling medical and administrative costs. They will offer a **choice** of finely tuned benefits. They will supply value-added **services** through dependable, user-friendly systems. They will gather and share **information** that improves health and lowers the cost of care. These prerequisites for success are also Trigon's strengths. The collage by award-winning artist Jane Sterrett uses information-age imagery to illustrate our themes of Affordability, Choice, Service, and Information.



the duty nurse's services
 Medical devices and app
 Dialysis
 Health care services
 Diagnostic tests



*In the exceptional effort you
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 has been put forth to help me with
 a clear problem. The letter
 out of her way to answer
 questions. She was able to help
 my doctor was using the
 security number left to
 straighten out
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Trigon Healthcare, Inc. Profile

Trigon is the largest managed health care company in Virginia, serving more than two million members primarily through statewide and regional provider networks. This membership represents approximately 27% of the Virginia population and 35% of the state's fully insured premiums. In a field of around 400 competing plans, Trigon is the clear leader in Virginia with nearly five times the market share of its closest competitor.

Trigon underwrites policies for multi-state employer groups, large and small businesses in Virginia, individuals, Medicare and Medicaid beneficiaries and federal employees.

Within Virginia, Trigon provides a comprehensive spectrum of managed care products through three network systems. Trigon also owns and operates Health Management Corporation, a wellness and disease management subsidiary.

Since becoming a public company in early 1997, Trigon has utilized its market strength, medical management skills and information technology to develop some of the lowest cost trends in the industry.

This has allowed the company to pursue a disciplined course of modest rate increases and steady membership growth. Trigon's growth strategy includes expansion

within Virginia and into other Southeastern and Mid-Atlantic states while managing its strong balance sheet, consistently delivering 15% earnings per share growth (excluding realized gains and losses on the sale of investment securities).

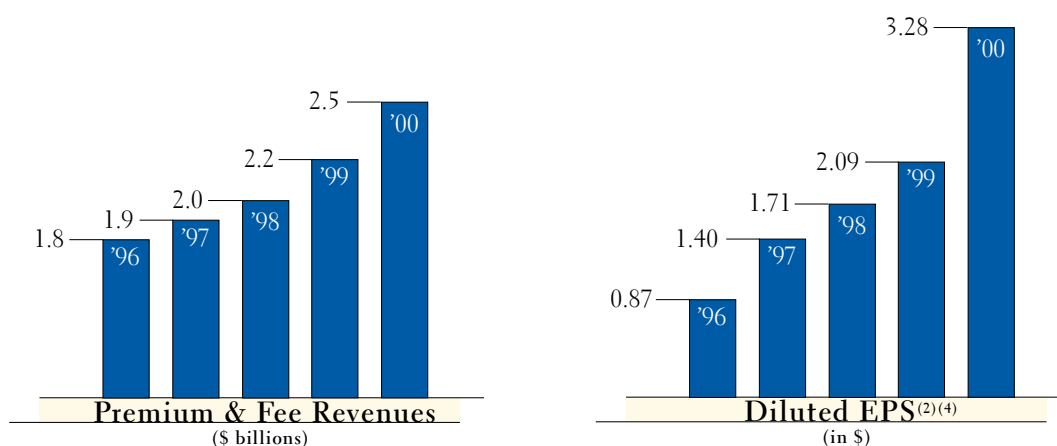
Trigon Healthcare, Inc. and Trigon Insurance Company (dba Trigon Blue Cross Blue Shield), the primary operating subsidiary, respectively enjoy "A-" (Strong) and "AA-" (Very Strong) counterparty credit ratings from Standard & Poor's. These ratings are in addition to the "A" (Excellent) rating awarded Trigon Insurance Company by A.M. Best.

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highlights

<i>(in millions, except per share and membership data)</i>	2000	% change	1999	% change	1998
Operations					
Premium and fee revenues	\$2,500.5	11.3%	\$2,247.0	9.6%	\$2,049.3
Operating income, excluding nonrecurring charge ⁽¹⁾	95.6	114.3%	44.6	41.1%	31.6
Income before income taxes, minority interest and nonrecurring charge	165.7	48.7%	111.4	(41.2)%	189.3
Earnings Per Share Data⁽²⁾					
Basic net income excluding realized gains (losses) and nonrecurring items	\$ 3.37	59.0%	\$ 2.12	22.5%	\$ 1.73
Diluted net income excluding realized gains (losses) and nonrecurring items	3.28	56.9%	2.09	22.2%	1.71
Balance Sheet Data					
Cash and investments	\$1,781.6	2.3%	\$1,741.0	9.5%	\$1,590.0
Total assets	2,448.5	5.8%	2,314.1	6.4%	2,174.2
Total shareholders' equity	1,014.9	8.3%	937.0	(12.5)%	1,071.2
Fully Insured Enrollment⁽³⁾	1,072,913	10.1%	974,717	11.8%	871,717



⁽¹⁾ Operating income excluding nonrecurring charge is defined as premium and fee revenues and other revenues less medical and other benefit costs and selling, general and administrative expenses and excluding the 1999 nonrecurring charge. See note 19 to the consolidated financial statements for an analysis of the nonrecurring charge.

⁽²⁾ Net income per share excluding realized gains (losses) and nonrecurring items is calculated as net income per share excluding the favorable tax benefit in 2000 and after-tax amounts for net realized gains (losses) and the 1999 nonrecurring charge. See note 19 to the consolidated financial statements for an analysis of the favorable tax benefit and nonrecurring charge.

⁽³⁾ Excludes the fully insured enrollment of Mid-South for 1999 and 1998 (note 19). Total enrollment, including Mid-South and self-funded business, is 2.0 million, 1.9 million and 1.9 million as of December 31, 2000, 1999 and 1998, respectively.

⁽⁴⁾ Pro forma diluted EPS data for 1996 and 1997 gives effect to the Demutualization and Initial Public Offering (IPO) as if they had taken place on January 1, 1996 using the assumptions in the Company's pro forma presentation in its Form S-1 filed in connection with its IPO with the Securities and Exchange Commission in 1997.

shareholders' message



Thomas G. Snead, Jr. / Chairman & CEO

Dear Shareholders:

This spring Trigon enters its fourth straight year of growth, a continuation of the greatest sustained expansion in our 66-year history. The past year—our most successful ever—saw strong enrollment growth, new products, increased service levels, significant technology investments and innovative provider alliances.

More than 96 percent of our group members renewed their contracts, and we continue to lead the market in overall satisfaction. Trigon's financial position has never been stronger, leaving us well positioned to pursue our strategic objective of regional growth.

The year's achievements rest on what we consider the four

cornerstones of health care delivery: affordability, choice, service and information. We believe these attributes define "The Shape of the Future" in the health care industry, which we discuss further in this annual report. Another way to put it is the way an industry analyst explained our success to investors: Trigon simply has "the right platform in place."

With a variety of Trigon benefits to choose from, consumers overwhelmingly opted for our PPO product, which grew by 29 percent and drove our ten percent increase in commercial (fully insured) membership. We believe this growth reflects two factors: consumers' demand for more choice and employers' willingness to meet worker expectations in

a full-employment economy.

Nevertheless, if there is a downturn ahead, our lower-cost HMO products plus several other lower-premium designs developed during the year offer attractive and highly competitive alternatives.

Sophisticated market analysis, underwriting and sales activity supported our broad product spectrum. Employing market research, we deepened our understanding of segments and regions of the state that were underpenetrated, and we learned which products these underserved customers prefer. For instance, we filled an unmet demand in Northern Virginia by offering specially designed PPO products that resemble open-access HMOs—scoring a huge success in that populous market. Trigon also

won accolades and business for its consistency of pricing and unique ability to serve small group and individual markets.

Trigon benefited from average rate increases that we believe were substantially less than the competition's but still reflected appropriate medical cost assumptions. Despite national medical trend rates of 10-15 percent, the highest in ten years, Trigon's medical costs increased by only about seven percent in 2000. Successes in drug cost containment and outpatient services—together responsible for about 40 percent of medical costs—are largely responsible for this result. Our drug inflation rate was approximately half the national average. Furthermore, we established and implemented fixed fees for nearly all goods and services except prescription drugs, a development that gives us unprecedented ability to predict medical unit costs. Additional savings were realized by proactive case management, streamlined pre-authorization, enhanced communications technologies, and physician advisory programs that promote clinically proven, cost-effective therapies.

Improved operations made us both more efficient and more attractive. Continued consolidation of disparate systems into a single high-powered customer contact platform produced more flexible

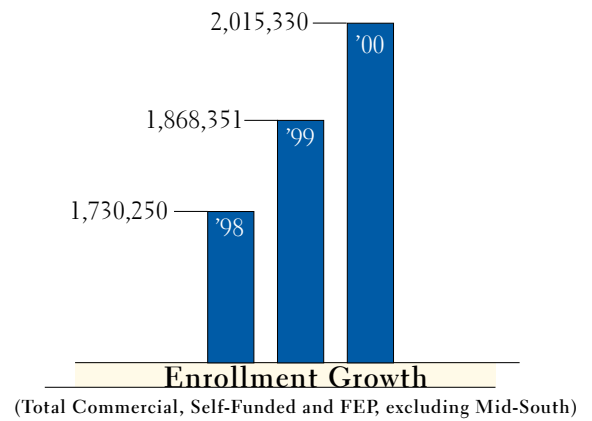
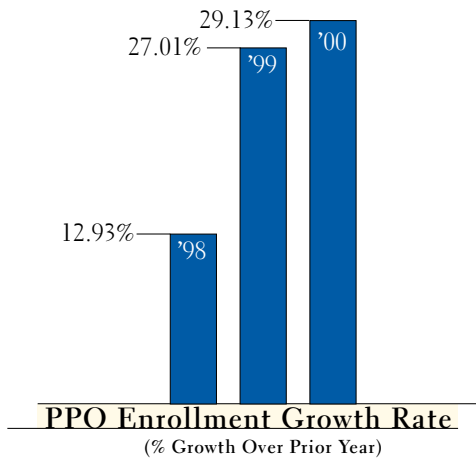
staffing and over 12 percent faster response to inquiries while generating data for continuous improvement. The ongoing automation of our claims processing systems, which receive over 90,000 new claims every day, allowed us to pay claims 22 percent faster than in 1999 and with far greater accuracy. In the area of quality improvement, we earned top accreditation status in all of our HMO networks, received a Federal Employee Program performance award for the eighth time in nine years, helped found a statewide coalition to address patient safety issues and launched a broad-based antibiotic resistance education campaign in concert with the Centers for Disease Control and Prevention.

In 2000, we invested in new technology, concentrating on the improvements most needed to maintain our competitive position and manage our cost structure. In the area of medical management, we created an informatics department that uses our immense and detailed claims database to assemble a comprehensive picture of our health care environment. Financially, we expect these investments to generate returns as electronic exchanges replace slower, more expensive types of transactions. We also expect to generate increased goodwill as we boost our ability to provide constituents with information that is accurate, actionable and secure.

Following on the successes of 2000, the future is bright for Trigon. With significant competitive advantages and a low cost position, we are well positioned to grow profitably within our Virginia core market while continuing to build alliances that will further extend our regional leadership. Energized and confident, Trigon is building a health care model based on broad choice of affordable products, great service and the intelligent use of information. In so doing we are building "The Shape of the Future."



Thomas G. Snead, Jr.
Chairman & CEO



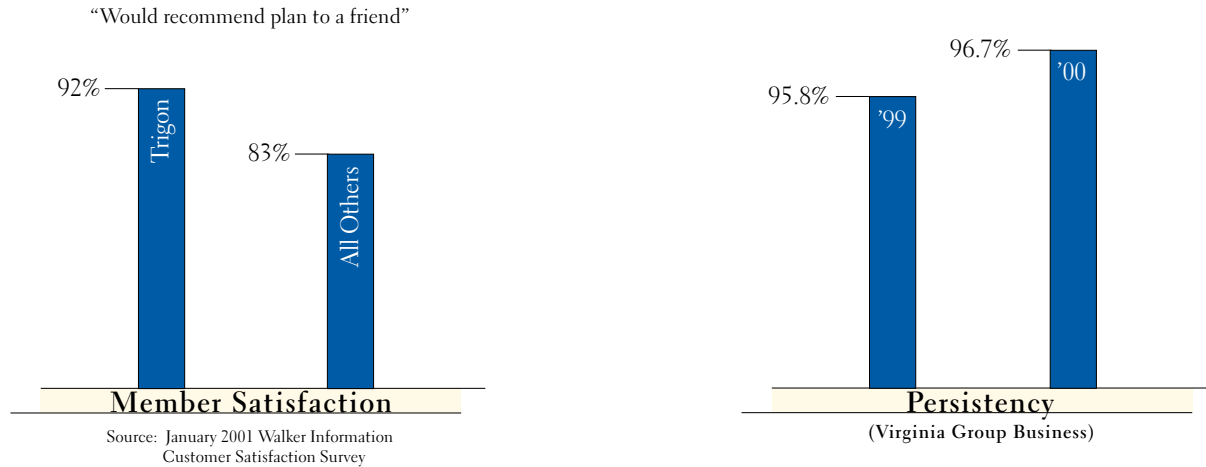
the *shape* of the future

A future is taking shape in which only adaptable, disciplined health plans will prosper. Winners will have significant market presence in the areas where they operate. They will manage economies of scale to keep access to health care affordable. They will offer a broad range of benefits adapted to the needs of diverse constituents. They will keep close to providers, benefit managers and members,

offering services that these groups prize. They will invest selectively in new information systems, and they will use the information in those systems to improve efficiency and quality.¹

Recent years have seen managed care in a state of flux, with a myriad of insurers courting businesses and individuals that are increasingly cost-conscious,

impatient with hassles and prone to switching carriers. Yet, amid all this turmoil, Trigon's customer base has grown, profitably, by more than a quarter-million members since 1998. Due in part to targeted marketing, disciplined sales strategies, improved service efficiencies and advanced risk management, we have been able to keep our pricing stable from year to year. Rate stability, in turn, leads



...depends on affordability, choice, service and information

to impressive levels of customer loyalty. Trigon has retained over 95 percent of its existing group business during the last two years. Steady, solid growth yields operational benefits that fuel even more growth: markets large enough that we can design benefits with particular populations in mind; networks desirable enough that nine out of ten Virginia physicians choose to join one or more; data

comprehensive enough that doctors use it to improve the health of their patients and the general public in entire regions of the state.

Affordability. Choice. Service. Information savvy. These are strengths on which Trigon has built its success. They are qualities that our customers and investors count on every day. They will

define our leadership in a future fraught with challenge but rich in opportunity. How Trigon puts these qualities into practice is the subject of the pages that follow.

*These are conclusions reached by a variety of agencies and firms including Merrill Lynch (In-depth Report, *Let the Good Times Roll*); Standard & Poor's ("Managed Care Outlook 2001"); Towers Perrin ("Health Plan Advisor" 8/00 and 10/00) and academic experts such as Lutz, Grossman and Bigalke (*Med Inc.*). Our own internal research and experience in the industry corroborate the trends analyzed and predictions made in these sources.

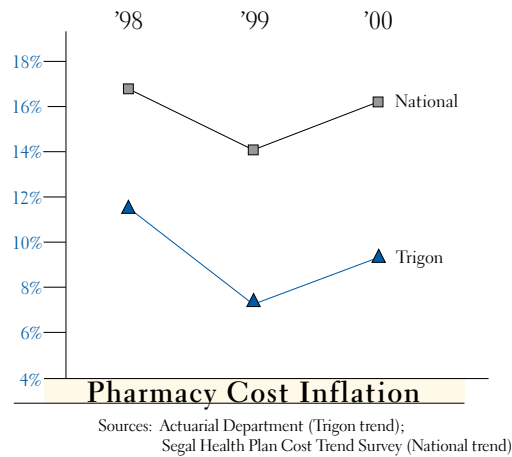
affordability



“Trigon is far advanced when it comes to using electronic commerce. You can pick the product that you want, show the illustration, print the contract, and have the client sign it right there. Ultimately, Trigon’s e-distribution program will cut down a lot on our administration costs. It’s a great system.”

Richard Herzberg > Vice President, Frieden Agency





The shape of Trigon's future, and the nation's, depends on affordable health care. For most people, affordability is directly related to premiums. Premiums reflect underlying costs, which are affected by numerous factors: the economy, the price of new drugs and medical technologies, the regulatory and legal climate and the age and lifestyle of the covered population, to name just a few. Changes in any of these factors have profound consequences. A recent statistical analysis shows that when premiums rise one percent, 300,000 people nationwide drop their health coverage.³ It is therefore imperative that insurers, along with all the other participants in the health care marketplace, work to keep costs under control.

Trigon strives to maximize affordability using a variety of methods. In the vital area of hospital contracting, we shifted facility reimbursement to a fee schedule

for outpatient services, ending the practice of paying a percentage of retail charges. The result is improved cost control in a segment that is steadily growing as a portion of hospital-related activities. In our physician networks, we have expanded case management to focus on those members expected to require the most medical attention, and we have instituted a Specialty Network Advisory Program, in which key specialists in each region promote best practices and the most appropriate utilization. In prescription drug coverage, where medical inflation is highest, we have used a combination of product design and contract negotiation to cut our drug-related spending increases to around half the national rate during the past two years. Additional savings come from increased automation, which drives down administrative costs, plus enhanced data analysis and

actuarial techniques, which allow us to compare claims region by region, hospital by hospital, condition by condition.

Of course, affordability is for the customer, not the insurer, to define. Trigon customers vary greatly in their expectations and resources. Consequently, we take their perceptions of affordability to heart when designing benefit packages. For instance, some employers expressed interest in low-cost alternatives in anticipation of possible future needs. Therefore, our newest plans are higher copay products that offer members a premium reduction without calendar year deductibles for many physician services. For small business employers whose top priority is keeping premiums down, we now offer a coinsurance PPO plan with higher deductibles. These plans help us remain a dependable source of affordable health care options, now and in the future.

³Source: The Lewin Group, 1998 Report, "Exploring the Determinants of Employer Health Insurance Coverage."

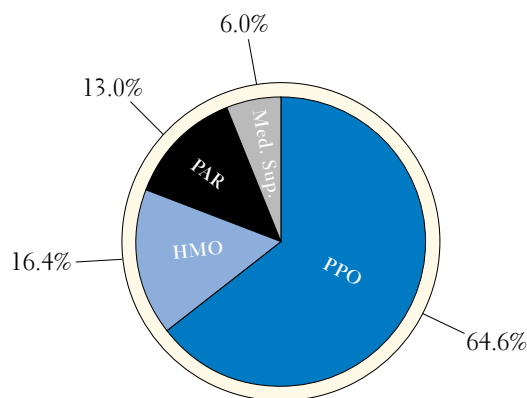
choice



“I prefer my Trigon plan because it allows a choice of providers for me and my family.”

Connie Seay > PPO Customer, Montpelier, VA





Trigon Membership by Network

Choice will become one of the hallmarks of a successful health care company. With insurance costs accounting for a growing share of overhead, employers are preparing to shift more of the cost onto their workforce.³ At the same time, the tight labor market pushes them to provide attractive coverage. Not surprisingly, employees are asking for greater choice in benefits, providers and special features such as wellness programs. Therefore, employers are seeking benefit packages better attuned to the lifestyles and budgets of their workers, networks that include a broad choice of providers and on-line information to help members make the most effective use of their coverage. Trigon provides these plus decades of experience servicing products across the managed care spectrum.

We provide our customers with meaningful choices because

we actively inquire about their expectations—through surveys, analysis of sales trends and cooperation with brokers and benefit managers. We know, for instance, that while customers in all market segments value benefit design above other criteria, some prefer plans with calendar-year deductibles and others prefer copay designs. We develop new products based on their preferences, achieving success even in the challenging small business market. For example, since 1998, when we created a rich benefit package for Virginia’s “technology corridor,” enrollment in Northern Virginia has grown by approximately 80,000 members.

Members enjoy a wide choice of providers as well as benefits. Nearly 94 percent of Virginia’s practicing physicians and all acute care hospitals were in at least one Trigon network in 2000. Our networks also include ancillary providers and

facilities—from dentists and nurse midwives to dialysis centers and hospices. And these networks are committed to quality as well as choice: in 2000, the National Committee for Quality Assurance granted all of our affiliated HMOs accreditation with *Excellent* status, the organization’s highest level of accreditation. Beyond Virginia, Trigon’s participation in the Blue Cross and Blue Shield Association links members to more than 80 percent of America’s health care providers plus doctors in a global network that just expanded to include more than 200 countries. Wellness and disease management services supplement the options we offer with our standard coverage. Our comprehensive alternative medicine discount program, the first of its kind in Virginia, furnishes yet another response to the customers’ call for choice.

³Source: “Health Insurance Likely to Rise” (*Richmond Times-Dispatch*, 12/12/00). The article refers to a forthcoming nationwide survey by the human resources consulting firm William M. Mercer.

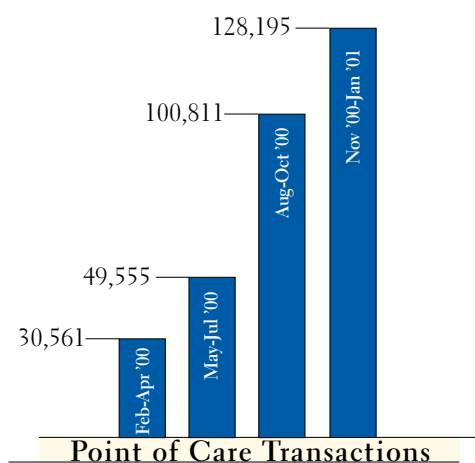
service



“Point of Care has exceeded all our expectations—and it’s very user friendly.”

Carolyn Baldwin > Bookkeeping Manager, Virginia Surgical Associates





For many people, service is *the* measure of quality in health insurance. Among individual consumers, most consider service the single most important attribute of a health care company. A Trigon survey of employers' priorities finds that service, along with physician choice, is second only to benefit design in perceived importance. The importance of service is likely to rise even further in a future marked by vigorous competition among health plans and skeptical, Web-literate consumers exercising greater control over their coverage.

Over the last three years, Trigon has implemented changes to raise the level of customer service and make claims adjudication speedier and more correct. We continuously re-engineer basic processes, consolidating phone lines, simplifying computer desktops, adding electronic editing for paper claims and giving representatives

“ownership” of each incoming call. Year 2000 results are stellar: phones answered in an average of 30 seconds, claims inventories cut in half and claims processing shortened on average by two days. In part because of this performance, 92 percent of our members report they would recommend Trigon to a friend—a rate significantly higher than our competition's.

Yet streamlining the system is not good enough. To differentiate ourselves from our competitors, we have to deliver truly *distinctive* service. Accordingly, we asked our members, doctors and group decision-makers to help us isolate specific features of distinctive service. Their preferences came through loud and clear. In response to doctors' desire for real-time information about eligibility and claims status, we rolled out Trigon's Point of Care system faster than planned. Now more

than a third of our participating physicians are conducting routine business with us through an Internet connection, with transaction volumes increasing daily. New on-line self-service tools are being developed for brokers and members. And in answer to group decision-makers' request for expedited enrollment and billing, we are preparing to scan applications with the optical character readers that have been so successful in automating our claims workflows. As a noted analyst of the e-business phenomenon puts it, companies must secure the loyalty of their customers not by satisfying them but by delighting them.⁴ By introducing innovative technology and revolutionary processes throughout our operations, Trigon aims to move all of our customers from satisfaction to delight while setting new service standards for health insurance.

⁴Source: Patricia Seybold (with Ronnie Marshak), *Customers.com: How to Create a Profitable Business Strategy for the Internet and Beyond*, p. 17.

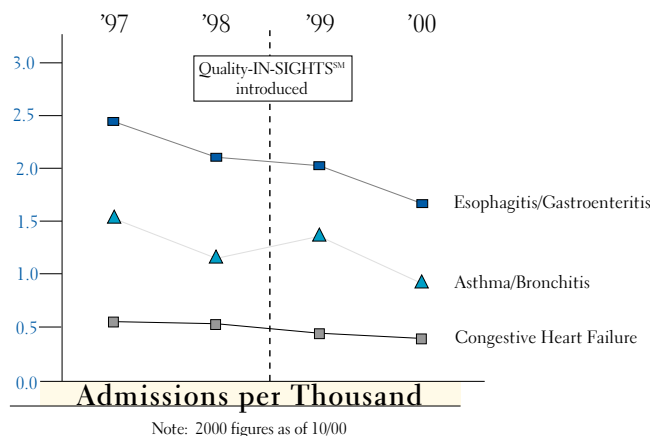
information



“With new data analysis, Trigon is poised to provide physicians with the type of accurate data that can positively impact quality and health care costs. Trigon has set a regional standard for partnering with providers.”

Dr. Larry Blanchard > Richmond Dermatologist, Former President, *Medical Society of Virginia*





Today's decisions about information are critical to our future success. The Web, for example, has immense potential to foster high-quality, consumer-focused health care at reduced administrative cost. However, there are risks for health care companies as well, from system compatibility issues to misjudging consumer desires. Recognizing both rewards and risks, Trigon follows a disciplined information technology strategy. All decisions start with a business analysis focused first on our customers' needs, then on integration of existing and proposed systems, with due attention paid to data security and member privacy. Only after systems have been thoroughly tested do we introduce them to the end-users. After implementation, we stay close to customers, competitors and potential partners, seeking opportunities for improvement and demands for new capabilities.

The information our systems capture is valuable for the relationships it nurtures. For instance, as our health data bank grows, and with it our ability to leverage the

data into useful information, we can better collaborate with providers. Joint activities enabled by our data include more proactive case management using Trigon-developed claims analysis techniques and Quality-IN-SIGHTSSM, an initiative to reduce practice variation where commonly accepted methods are available to improve health and lower cost.

An exciting advance in public-private collaboration occurred in 2000 when Trigon joined the Centers for Disease Control and Prevention (CDC) and the Virginia Health Department in a pioneering campaign to reduce inappropriate antibiotic use and stem the associated rise of drug-resistant organisms. Trigon contributed essential data on the prescribing habits of Virginia physicians. So promising is this program that it is being expanded on a national scale under the sponsorship of the Coalition for Affordable Quality Healthcare—an industry task force of which Trigon is a charter member. The medical community's response has been broadly

supportive, with professional associations promoting prudent antibiotic use to their members. Using quality profiling, Trigon shows doctors how their prescriptions compare to generally accepted norms, as well as to their practice partners and their peers in Virginia. We even send out teams with CDC-approved educational literature to help doctors answer patient demand for medications that may be inappropriate.

As our collaborative successes in 2000 show, we can help physicians use health care resources more effectively because our information systems are sophisticated enough to link quality outcomes and practice variations across large populations *and* keep the individual practitioner in the picture. The future offers many more opportunities for productive collaboration—for example, reducing medical error rates and unexplained variations in treatment. In these and other areas, Trigon can use its advanced information tools to help promote quality medicine and public safety.

financial

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Quarterly Financial Information

Quarters ended	March 31	June 30	September 30	December 31
	<i>(in thousands, except per share data)</i>			
2000				
Total revenues	\$629,162	645,239	666,479	670,715
Operating income ⁽¹⁾	16,825	22,981	30,006	25,761
Income before income taxes and minority interest	42,725	39,584	52,885	30,560
Net income	28,218	28,764	33,998	21,029
Earnings per share				
Basic net income	0.74	0.77	0.91	0.56
Diluted net income	0.73	0.75	0.88	0.54
Basic net income excluding realized gains (losses) and nonrecurring item ⁽²⁾	0.71	0.82	0.95	0.89
Diluted net income excluding realized gains (losses) and nonrecurring item ⁽²⁾	0.70	0.80	0.92	0.86
1999				
Total revenues	\$556,510	587,892	590,407	611,619
Operating income (loss) ⁽¹⁾⁽³⁾	8,120	9,898	(67,965)	14,650
Income (loss) before income taxes and minority interest ⁽³⁾	18,962	27,972	(57,661)	42,245
Net income (loss) ⁽³⁾	12,079	18,302	(37,552)	27,634
Earnings per share				
Basic net income (loss)	0.29	0.43	(0.91)	0.71
Diluted net income (loss)	0.28	0.43	(0.91)	0.70
Basic net income excluding realized gains (losses) and nonrecurring item ⁽²⁾	0.44	0.50	0.55	0.62
Diluted net income excluding realized gains (losses) and nonrecurring item ⁽²⁾	0.43	0.49	0.54	0.62

(1) Operating income (loss) is defined as premium and fee revenues and other revenues less medical and other benefit costs and selling, general and administrative expenses.

(2) Net income excluding realized gains (losses) per share and nonrecurring item is calculated as net income per share excluding the favorable tax benefit in 2000, after-tax amounts for net realized gains (losses) and the 1999 nonrecurring charge. See note 19 to the consolidated financial statements for an analysis of the favorable tax benefit and nonrecurring charge.

(3) For the quarter ended September 30, 1999 operating income (loss), income (loss) before income taxes and minority interest, and net income (loss) include the 1999 nonrecurring pretax charge of \$79.9 million or \$51.9 million net of tax.

Selected Consolidated Financial & Operating Data

Years ended December 31,	2000	1999	1998	1997	1996
		<i>(in thousands, except per share data and operating statistics)</i>			
STATEMENTS OF OPERATIONS DATA					
Revenues					
Premium and fee revenues	\$2,500,528	2,247,036	2,049,346	1,909,349	1,766,462
Investment income, net realized gains (losses) and other revenues	111,067	99,392	187,006	153,123	156,078
Total revenues	\$2,611,595	2,346,428	2,236,352	2,062,472	1,922,540
Operating income ⁽¹⁾	\$ 95,573	44,587	31,556	21,248	14,248
Income before extraordinary items	112,009	20,463	123,572	95,053	196,514
Extraordinary items-demutualization costs and Commonwealth Payment, net of income taxes	—	—	—	—	(190,820)
Net income	\$ 112,009	20,463	123,572	95,053	5,694
Earnings per share ⁽²⁾					
Basic net income	\$ 2.98	0.50	2.92	1.87	—
Diluted net income	\$ 2.90	0.49	2.88	1.86	—
Basic net income excluding realized gains (losses) and nonrecurring items ⁽³⁾	\$ 3.37	2.12	1.73	—	—
Diluted net income excluding realized gains (losses) and nonrecurring items ⁽³⁾	\$ 3.28	2.09	1.71	—	—
Pro forma earnings per share ⁽⁴⁾					
Basic and diluted pro forma income before extraordinary items	\$ —	—	—	2.23	2.73
Basic and diluted pro forma net income (loss)	\$ —	—	—	2.23	(1.77)
Basic and diluted pro forma net income excluding realized gains and extraordinary items ⁽⁵⁾	\$ —	—	—	1.40	0.87

<i>Years ended December 31,</i>	2000	1999	1998	1997	1996
OPERATING STATISTICS					
Commercial medical cost ratio ⁽³⁾	80.6%	81.4%	82.5%	83.5%	82.3%
Selling, general and administrative expense ratio ⁽³⁾⁽⁶⁾	12.7%	13.2%	12.8%	12.4%	13.4%
Operating margin ⁽¹⁾⁽⁵⁾	3.8%	2.0%	1.5%	1.1%	0.8%
<i>December 31,</i>	2000	1999	1998	1997	1996
BALANCE SHEET DATA					
Cash and investments	\$1,781,652	1,741,045	1,590,022	1,370,868	1,213,902
Total assets	2,448,492	2,314,115	2,174,225	1,928,820	1,833,148
Long-term debt	275,448	248,039	89,339	90,147	4,880
Total shareholders' equity	1,014,862	936,957	1,071,224	958,737	—
Total surplus	—	—	—	—	739,780

- (1) Operating income is defined as premium and fee revenues and other revenues less medical and other benefit costs and selling, general and administrative expenses. The 1999 amount excludes the nonrecurring pretax charge of \$79.9 million. (See note 19 to the consolidated financial statements.) The operating margin ratio is calculated by dividing operating income by premium and fee revenues and other revenues.
- (2) Reflects net income and net income per share for the period after February 5, 1997, the effective date of the Demutualization and Initial Public Offering (IPO). For 1997, net income after Demutualization and IPO was \$78.982 million.
- (3) The 1999 basic and diluted net income excluding realized gains (losses) and nonrecurring items and the 1999 operating statistics exclude the nonrecurring pretax charge of \$79.9 million or \$51.9 million net of tax. The 2000 basic and diluted EPS amounts exclude the favorable tax benefit realized on the sale of Mid-South. See note 19 to the consolidated financial statements for an analysis of the nonrecurring charge and favorable tax benefit. The 1999 operating statistics including the nonrecurring charge were as follows: commercial medical cost ratio, 82.6%; selling, general and administrative expense ratio, 15.0%; operating margin, (1.6)%.
- (4) Pro forma per share data for 1997 and 1996 gives effect to the Demutualization and IPO as if they had taken place on January 1, 1996 using the assumptions in the Company's pro forma presentation in its Form S-1 filed in connection with its IPO with the Securities and Exchange Commission in 1997.
- (5) Pro forma net income excluding realized gains and extraordinary items per share is calculated as pro forma net income per share excluding the pro forma after-tax amounts for net realized gains, extraordinary items and the gain on sale of a subsidiary in 1996.
- (6) The selling, general and administrative expense ratio is calculated as a percentage of total revenues excluding amounts attributable to claims under self-funded arrangements, investment income and net realized gains (losses).

Management's Discussion and Analysis

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GENERAL

Substantially all of the revenues of Trigon Healthcare, Inc. and subsidiaries (collectively, Trigon or the Company) are generated from premiums and fees received for health care services provided to its members and from investment income. Trigon's expenses are primarily related to health care services provided which consist of payments to physicians, hospitals and other providers. A portion of medical cost expenses for each period consists of an actuarial estimate of claims incurred but not reported to the Company during the period. The Company's results of operations depend in large part on its ability to accurately predict and effectively manage health care costs.

The Company divides its business into four reportable segments: health insurance, government programs, investments and all other. Its health insurance segment offers several network products, including health maintenance organizations (HMO), preferred provider organizations (PPO) and traditional indemnity products with access to the Company's participating provider network (PAR) as well as Medicare supplement plans. Within the Company's health insurance network product offerings, employer groups may choose various funding options ranging from fully-insured to partially or fully self-funded financial arrangements. While self-funded customers participate in Trigon's networks, the customers bear all or portions of the claims risk. The government programs segment includes the Federal Employee Program (FEP). Through its participation in the national contract between the Blue Cross and Blue Shield Association and the U.S. Office of Personnel Management (OPM), the Company provides health benefits to federal employees in Virginia. FEP revenues represent the reimbursement by OPM of medical costs incurred including the actual cost of administering the program, as well as a performance-based share of the national program's overall profit. The Company discontinued its role as a claims processing intermediary for the federal government with the Medicare Part A program in Virginia and West Virginia, effective August 31, 1999. Additionally, the Company discontinued its role as the primary provider of computer processing capabilities for Medicare Part A claims processing to certain other Blue Cross and Blue Shield plans during November 1999. As

an administrative agent for Medicare, the Company allocated operating expenses to determine reimbursement due for services rendered in accordance with the contract. Medicare claims processed are not included in the consolidated statements of operations and the reimbursement of allocated operating expenses is recorded as a reduction of the Company's selling, general and administrative expenses. All of the investment portfolios of the consolidated subsidiaries are managed and evaluated collectively within the investment segment. The Company's other health-related business, including disease management programs, benefits administration, health promotion and similar products, is reflected in an "all other" category.

ENROLLMENT

The following table sets forth the Company's enrollment data by network:

As of December 31,	2000	1999	1998
Health Insurance			
Commercial			
HMO	272,546	274,184	255,879
PPO	488,645	378,406	297,939
PAR	134,166	151,673	165,239
Medicaid/Medicare HMO	58,021	51,404	31,338
Medicare supplement	119,535	119,050	121,322
Total commercial			
excluding Mid-South	1,072,913	974,717	871,717
Self-funded	716,012	672,906	639,971
Processed for other			
Blue Cross and			
Blue Shield Plans (ASO)	5,349	4,639	5,545
Total health insurance			
excluding Mid-South	1,794,274	1,652,262	1,517,233
Government			
Federal Employee			
Program (PPO)	221,056	216,089	213,017
Total government	221,056	216,089	213,017
Total excluding Mid-South	2,015,330	1,868,351	1,730,250
Mid-South, commercial	—	—	105,056
Mid-South, ASO	—	—	26,065
Total	2,015,330	1,868,351	1,861,371

PREMIUM AND PREMIUM EQUIVALENTS BY NETWORK SYSTEM

The following table sets forth the Company's premium and premium equivalents by network (in thousands):

Years ended December 31,	2000	1999	1998
Health Insurance			
Commercial			
HMO	\$ 435,789	397,715	383,850
PPO	793,778	550,407	428,564
PAR	274,806	284,587	310,971
Medicaid/Medicare HMO	120,147	104,604	60,696
Medicare supplement	247,013	229,824	222,231
Total commercial excluding Mid-South	1,871,533	1,567,137	1,406,312
Self-funded	1,392,998	1,216,427	1,090,638
Total health insurance excluding Mid-South	3,264,531	2,783,564	2,496,950
Government			
Federal Employee Program (PPO)			
	464,303	448,676	407,136
Total government	464,303	448,676	407,136
Total excluding Mid-South	3,728,834	3,232,240	2,904,086
Mid-South, commercial	—	97,124	124,795
Total	\$3,728,834	3,329,364	3,028,881

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Premium and fee revenues increased 11.3% to \$2.500 billion in 2000 from \$2.247 billion in 1999. The \$253.4 million increase is due to a combination of enrollment growth and rate increases in the Company's health insurance segment's HMO and PPO networks, offset by expected declines in the segment's PAR network enrollment and the third quarter 1999 Mid-South Insurance Company (Mid-South) market exit. Commercial revenue from the Virginia HMO, PPO and PAR networks increased 19.4% to \$1.87 billion in 2000 from \$1.57 billion in 1999, driven by a 10.1% increase in members. The Mid-South market exit resulted in a \$97.1 million decrease in commercial revenue. Overall, premium revenues

on a per member per month basis for the Company's commercial business increased 8.2% to \$150.39 in 2000 from \$138.94 in 1999. Self-funded margins increased \$30.6 million or 22.8% due to a 17.5% increase in margin per member per month. The government segment's FEP revenues increased 3.5% to \$464.3 million from \$448.7 million in 1999. The increase is due to increased medical costs to be reimbursed by OPM and a 2.3% increase in enrollment.

Total enrollment increased to 2,015,330 as of December 31, 2000 from 1,868,351 as of December 31, 1999. The increase of 146,979 was a result of a 142,012 increase in the Company's health insurance segment and a 4,967 increase in the government segment. The health insurance enrollment increase was the result of a 98,196 increase in commercial enrollment, a 10.1% increase, and a 43,816 increase in self-funded enrollment, a 6.5% increase. Enrollment in the HMO network increased by 1.5% over the prior year, reflecting the network's decision to not rebid the underperforming HMO contract with the Commonwealth of Virginia involving 23,000 members, and accounts for 30.8% of the total commercial enrollment. Enrollment in the PPO network as of December 31, 2000 increased 29.1% over December 31, 1999 and accounts for 45.5% of the Company's commercial enrollment. Growth in PPO was offset by an expected decline of 11.5% in the Company's PAR network as members migrate into more tightly managed networks. The PAR network enrollment represents 12.5% of the Company's commercial enrollment.

Investment income increased 17.8% to \$114.5 million in 2000 from \$97.1 million in 1999. Net realized losses increased to \$27.0 million in 2000 from \$22.0 million in 1999. The increase in investment income is due to growth in investment assets caused by positive operating cash flows, favorable total return on investments and from the investment of the increase in long-term debt. The net realized losses reflect the Company's shift in allocation from medium quality to investment grade bonds and are also due to normal portfolio turnover during a period of declining prices for equities and medium quality bonds.

Medical costs increased 8.2% to \$1.952 billion in 2000 from \$1.804 billion in 1999. The \$147.4 million increase is a result of growth in the Virginia health insurance segment's commercial enrollment offset by Mid-South's market exit in the third

Management's Discussion and Analysis

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quarter of 1999, expected levels of medical cost inflation and an increase in the government segment's FEP medical costs reimbursed by OPM. The medical cost per member per month for the Company's commercial business, excluding the Mid-South exit charge of \$20.6 million, increased 7.2% to \$121.14 in 2000 from \$113.06 in 1999. Combined with an 8.2% increase in commercial premium revenues per member per month, the medical cost ratio on commercial business, excluding the Mid-South charge, decreased to 80.6% in 2000 from 81.4% in 1999. As a result of medical cost management initiatives, cost and utilization trends have been maintained at levels consistent with current pricing and margin objectives. The implementation of the "three-tier" drug benefit co-pay program continues to provide benefits as the pharmacy cost trend has been maintained at a single digit increase of 9.4% for the twelve months ended December 31, 2000. The Company has negotiated a new pharmacy contract to be effective January 1, 2001 that will improve the existing contractual arrangement. Inpatient days continue to trend downward while being offset by increased outpatient utilization producing anticipated overall medical cost trends that are incorporated within the pricing and rate setting policies. The Company continues to take an active role in leveraging its advanced information tools and extensive health data bank. Working collaboratively with providers through data sharing programs, joint activities lead to more proactive case management. For instance, the Company has programs to reduce practice variation where commonly accepted methods are available to improve health and lower cost.

Selling, general and administrative expenses (SG&A) decreased to \$476.8 million in 2000 from \$502.2 million in 1999. This decrease is attributed to the Mid-South exit charge of \$59.3 million in the third quarter of 1999. Excluding this exit charge, SG&A increased 7.7% or \$33.9 million in 2000 compared to 1999. This increase is attributed to the incremental commissions and operations costs resulting from the enrollment increase and investments in technology. The SG&A ratio, excluding the 1999 Mid-South charge, decreased to 12.7% in 2000 from 13.2% in 1999. The decrease in the SG&A ratio, due to the increased enrollment and revenue, provides the opportunity to leverage the increased revenue

with long-range investments including e-commerce technology, systems infrastructure and customer service enhancements. These investments will contribute operational improvements and efficiencies.

Interest expense in 2000 was \$17.2 million compared to \$8.4 million in 1999. The increase is primarily the result of a net increase in long-term debt of approximately \$160 million beginning in the third quarter of 1999 and the issuance of an additional \$30 million of commercial paper in the third quarter of 2000.

Income before income taxes and minority interest increased \$134.2 million to \$165.7 million in 2000 from \$31.5 million in 1999. The increase is a result of higher investment income of \$17.3 million and a \$130.9 million increase in operating income (defined as premium and fee revenues and other revenues less medical and other benefit costs and selling, general and administrative expenses), offset by higher interest expense of \$8.9 million and increased net realized losses of \$5.1 million. Operating income increased due to growth in the health insurance segment and the \$79.9 million Mid-South exit charge incurred in the third quarter of 1999.

The effective tax rate on income before income taxes and minority interest for 2000 and 1999, excluding the 1999 Mid-South exit charge, was 30.2% and 32.6%, respectively. The effective tax rate differs from the statutory tax rate of 35% primarily due to the Company's investments in tax-exempt municipal bonds and a \$2.7 million tax benefit recorded during the second quarter of 2000 related to the sale of Mid-South.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Trigon Healthcare, Inc. announced on October 5, 1999 that Mid-South intended to exit the health insurance market effective April 30, 2000. The Company's decision was due to the continued unacceptable performance and increased medical costs of Mid-South and will allow the Company to concentrate its efforts and resources on growing the successful Virginia business and the pursuit of other growth opportunities. The Company's action resulted in a third quarter nonrecurring after-tax charge of \$51.9 million including \$36.3 million

for intangibles, \$13.4 million increase to claim reserves and \$2.2 million for other costs.

Premium and fee revenues increased 9.6% to \$2.247 billion in 1999 from \$2.049 billion in 1998. The \$197.7 million increase is due to a combination of rate increases and enrollment growth in the Company's health insurance segment's HMO and PPO networks, offset by expected declines in the segment's PAR network enrollment and the third quarter 1999 Mid-South market exit. Specifically, commercial HMO revenues increased 13.0% to \$502.3 million in 1999 from \$444.5 million in 1998. The \$57.8 million increase in commercial HMO revenues is the result of a 5.6% increase in the average revenue per member and a 7.0% increase in member months. Total commercial PPO revenues grew to \$550.4 million in 1999 from \$428.6 million in 1998, a 28.4% increase, driven by average revenue per member increases of 5.4% and a 21.9% increase in member months. Commercial PAR revenues declined to \$284.6 million from \$311.0 million in 1998 as a result of the continued transition of members to the more tightly managed HMO and PPO networks offset by a 3.7% increase in the average revenue per member. The Mid-South market exit resulted in a \$27.7 million decrease in commercial revenue. Overall, premium revenues on a per member per month basis for the Company's commercial business increased 4.1% to \$138.94 for 1999 from \$133.50 for 1998. Self-funded margins increased \$23.0 million or 20.7% due to a 16.3% increase in margin per member per month. The government segment's FEP revenues increased 10.2% to \$448.7 million from \$407.1 million last year. The increase is due to increased medical costs to be reimbursed by OPM and a 1.4% increase in enrollment.

Total enrollment increased to 1,868,351 as of December 31, 1999 from 1,861,371 as of December 31, 1998. The increase was a result of a 3,908 increase in the Company's health insurance segment, reflecting an increase of 135,029 members in the Virginia enrollment offset by a decrease of 131,121 members due to the Mid-South market exit, and a 3,072 increase in the government segment. The Virginia enrollment increase was the result of a 103,000 increase in commercial enrollment, an 11.8% increase, and a 32,029 increase in self-funded enrollment. Enrollment in the HMO network increased by 13.4% over the prior year, aided by the one-time increase of about

17,000 Medicaid members announced in the second quarter and accounts for 33.4% of the total commercial enrollment. Enrollment in the PPO network as of December 31, 1999 increased 27.0% over December 31, 1998 and accounts for 38.8% of the Company's commercial enrollment. Growth in PPO was offset by an expected decline of 8.2% in the Company's PAR network as members migrate into more tightly managed networks. The PAR network enrollment represents 15.6% of the Company's commercial enrollment. The 5.0% increase in self-funded enrollment is primarily the result of the addition of large national groups on January 1, 1999.

Investment income increased 13.6% to \$97.1 million in 1999 from \$85.5 million in 1998. Net realized gains and losses decreased to a loss of \$22.0 million in 1999 from a gain of \$77.5 million in 1998. The increase in investment income is due to a shift in the portfolio mix, positive cash flow from operations, lengthened duration for portions of the bond portfolio and reduced investment expenses. The net realized losses for 1999 reflected the Company's repositioning of the investment portfolio in an environment of rising interest rates by reducing treasury holdings and increasing investments in municipal and corporate bonds and mortgage-backed securities.

Medical costs increased 9.2% to \$1.804 billion in 1999 from \$1.652 billion in 1998. The \$152.1 million increase included \$20.6 million for the increase to claim reserves related to the Mid-South announcement. The remaining \$131.5 million increase is a result of growth in the Virginia health insurance segment's commercial enrollment partially offset by Mid-South's market exit in the fourth quarter of 1999, expected levels of medical cost inflation and an increase in the government segment's FEP medical costs reimbursed by OPM. Excluding the Mid-South charge, the medical cost per member per month for the Company's commercial business increased 2.6% to \$113.06 in 1999 from \$110.19 in 1998. Combined with a 4.1% increase in commercial premium revenues per member per month, the medical cost ratio on commercial business, excluding the Mid-South charge, improved to 81.4% from 82.5% in 1998. The medical cost ratio improvement can be attributed to a combination of factors including, the favorable impact of a number of medical cost management initiatives and pricing discipline. Regarding

Management's Discussion and Analysis

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medical cost management initiatives, the Company continues to diligently work at negotiating lower reimbursement rates with facilities and to better manage utilization. During the twelve-month period ended December 31, 1999, commercial Virginia pharmacy cost and utilization trends declined to 7.4% in 1999 from 11.4% in 1998 as a result of converting group members to a "three-tier" co-pay benefit design at renewal. Outpatient cost per member increased by only 0.5% for the same period due to the Company's conversion to a fixed fee schedule for services from percentage of charge type arrangements. In addition, the Company is taking a more active role in working with physicians and specialists to manage medical costs and to continue implementing national medical management guidelines.

SG&A increased by 28.9% to \$502.2 million in 1999 from \$389.5 million in 1998. The nonrecurring SG&A charge of \$59.3 million for the Mid-South market exit represents 53% of the increase. The SG&A ratio, exclusive of this charge increased to 13.2% in 1999 from 12.8% in 1998. This increase is attributed to strong growth in commission-based individual and small group business, the incremental cost of marketing and sales efforts and the cost of additional investments being made to support future performance.

Interest expense in 1999 was \$8.4 million compared to \$5.3 million in 1998. Interest expense is the result of the \$245 million outstanding on the revolving credit agreement used to fund a portion of the payment made to the Commonwealth of Virginia in February 1997 (Commonwealth Payment) in accordance with the Plan of Demutualization (Demutualization) and the Initial Public Offering (IPO) and to fund the stock buyback program initiated in 1999.

Income before income taxes and minority interest decreased \$157.8 million to \$31.5 million in 1999 from \$189.3 million in 1998. The decrease is a result of the Mid-South charge of \$79.9 million, reduced net realized gains of \$99.5 million, higher interest expense of \$3.0 million, offset by higher investment income of \$11.6 million and a \$13.0 million increase in operating income (defined as premium and fee revenues and other revenues less medical and other benefit costs and selling, general and administrative expenses).

Operating income increased primarily due to improving margins in the health insurance segment resulting from pricing and medical cost management efforts.

The effective tax rate on income before income taxes and minority interest, exclusive of the third quarter Mid-South charge, for 1999 and 1998 was 32.6% and 33.4%, respectively. The effective tax rate differs from the statutory tax rate of 35% primarily due to the Company's investments in tax-exempt municipal bonds.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of cash are premiums and fees received and investment income. The primary uses of cash include health care benefit expenses and capitation payments, brokers' and agents' commissions, administrative expenses, income taxes and repayment of long-term debt. Trigon generally receives premium revenues in advance of anticipated claims for related health care services.

The Company's investment policies are designed to provide liquidity to meet anticipated payment obligations and preserve capital. Trigon fundamentally believes that concentrations of investments in any one asset class are unwise due to constantly changing interest rates as well as market and economic conditions. Accordingly, the Company maintains a diversified investment portfolio consisting both of fixed income and equity securities, with the objective of producing a consistently growing income stream and maximizing risk-adjusted total return. The fixed income portfolio includes government and corporate securities, both domestic and international, with an average quality rating of "AA" as of December 31, 2000. The portfolio had an average contractual maturity of 5.6 years as of December 31, 2000. A portion of the fixed income portfolio is designated as a short-term fixed income portfolio and is intended to cover near-term cash flow needs and to serve as a buffer for unanticipated business needs. The equity portfolios contain readily marketable securities ranging from small growth to well-established Fortune 500 companies. The international portfolio is diversified by industry, country and currency-related exposure. As of December 31, 2000, the Company's equity exposure, comprised of direct

equity as well as equity-indexed investments, was 14% of the total portfolio, as compared to 11% as of December 31, 1999.

The Company has a \$300 million revolving credit agreement with a syndicate of banks, which expires February 2002. In conjunction with the issuance of commercial paper notes during the first quarter of 2000, the Company repaid the outstanding balance of \$245 million during the first quarter of 2000. There were no amounts borrowed under this agreement as of December 31, 2000.

In March 2000, the Company commenced a private placement commercial paper program providing for the issuance of up to \$300 million in aggregate maturity value of commercial paper notes. As of December 31, 2000, outstanding notes under the commercial paper program totaled approximately \$275.4 million with an average maturity of 14 days. The commercial paper is backed by the revolving credit agreement. The commercial paper notes have been classified as long-term debt in the consolidated statements of financial condition based on the Company's ability and intent to maintain borrowings of at least this amount for more than one year.

The Company completed its first stock repurchase program in February 2000 whereby ten percent of the Company's common stock was repurchased. Also in February 2000, the Company commenced its previously announced second stock repurchase program for the repurchase of up to ten percent in additional shares. During 2000, the Company purchased and retired 660,900 shares of its common stock at a cost of \$23.2 million, bringing the total shares purchased and retired to 4,760,998 shares at a cost of \$153.8 million.

Cash provided by operating activities for the years ended December 31, 2000 and 1999 was \$109.8 million and \$188.8 million, respectively. The decrease in cash provided by operations in 2000 is principally due to cash outflows associated with the Mid-South market exit and an increase in federal income taxes paid.

Net cash used in investing activities decreased to \$99.3 million for the year ended December 31, 2000 from \$213.3 million for 1999. This decrease is primarily due to a decrease in investment purchases made in order to fund cash outflows from operations and financing activities along with capital expenditures for investments in e-commerce technology,

systems infrastructure and customer service enhancements and \$15 million associated with the sale of Mid-South.

Cash provided by (used in) financing activities decreased to \$(6.7) million for 2000 from \$19.5 million for 1999. The decrease is primarily due to a net increase in long-term debt following the issuance of commercial paper, offset by a reduction in the amount of the Company's common stock repurchased.

The Company believes that cash flow generated by operations and its cash and investment balances will be sufficient to fund continuing operations, capital expenditures and debt repayment costs for the foreseeable future. The nature of the Company's operations is such that cash receipts are principally premium revenues typically received up to three months prior to the expected cash payment for related health care services. The Company's operations are not capital intensive, and there are currently no commitments for major capital expenditures to support existing business.

REGULATORY AND OTHER DEVELOPMENTS

The Company's business continues to be subject to a changing legal, legislative and regulatory environment. Some of the more significant current issues that may affect the Company's business include:

- efforts to expand tort liability of health plans;
- initiatives to increase health care regulation;
- proposed class action lawsuits targeting the health care industry's efforts to deliver quality care at affordable costs; and
- proposed physician antitrust waivers.

Current initiatives to increase health care regulation at the federal level include new legislature proposals for a "patients' bill of rights." Such legislation was introduced in the Senate in early February 2001 and would expand tort liability for health plans and change the practices for deciding medical necessity. Similar legislation is expected to be considered by the House during 2001. Given the general uncertainty of the political process, it is not possible to determine what, if any, legislation will ultimately be enacted or what the effect on the Company of any such legislation would be.

Management's Discussion and Analysis

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Several major companies in the health care industry have had proposed class action lawsuits filed against them by a coalition of plaintiffs' attorneys. Given that no such lawsuits are currently pending against the Company and given the uncertainties of predicting the outcome of litigation generally, it is not possible to determine at this time what the ultimate effect, if any, on the Company of any such litigation would be.

On November 21, 2000 the Department of Labor issued its final regulation specifying new requirements for claims and appeal procedures for ERISA regulated group health and disability plans. The regulation is applicable only to ERISA regulated plans, whether they are fully-insured or self-insured. It is effective for claims filed on or after January 1, 2002. The Company does not believe that the regulation will have a material adverse impact on the consolidated financial position or results of operations.

During the past year the Department of Health and Human Services (HHS) has issued two significant sets of final regulations resulting from the Health Insurance Portability and Accountability Act of 1996 (HIPAA)—one dealing with administrative simplification and the other dealing with privacy of individually identifiable health information. Final regulations governing security standards for the maintenance and transmission of health information are also expected during 2001. On February 23, 2001, HHS opened the privacy regulation to an additional 30-day comment period to determine if changes in the final regulation are required. The compliance date for the administrative simplification regulation is October 2002, while the compliance date for the privacy regulation is currently April 2003. A new Virginia law governing disclosure of privacy practices has been passed and will be effective July 1, 2001. This law was enacted pursuant to federal requirements established by the Gramm-Leach-Bliley Act.

The Company is assessing the impact of these HIPAA regulations and the state privacy legislation on the Company's practices and operations. The Company does not believe the state Gramm-Leach-Bliley legislation or the HIPAA administrative simplification regulation will have a material adverse impact on operations. Given that the HIPAA security regulation has not been finalized and that further changes may arise from the reopening of the privacy regulation, the Company has not yet determined what the effect of these HIPAA regulations may be on the Company.

NEW ACCOUNTING PRONOUNCEMENTS

The Company will adopt SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133*, effective January 1, 2001. SFAS Statement No. 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company has determined that the impact of adoption will not have a significant impact on the consolidated financial position or results of operations.

FASB Interpretation (FIN) No. 44, *Accounting for Certain Transactions Involving Stock Compensation*. This interpretation clarifies the application of APB Opinion No. 25 for certain issues. The interpretation was effective July 1, 2000, except for provisions that relate to modifications that directly or indirectly reduce the exercise price of an award and the definition of an employee, which were effective after December 15, 1998. The adoption of this interpretation did not have a material impact on the consolidated financial position or results of operations.

FORWARD-LOOKING INFORMATION

This item, "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, among other things, statements concerning financial condition, results of operations and business of the Company and its subsidiaries. Such forward-looking statements are subject to inherent risks and uncertainties, many of which are beyond the control of the Company, that may cause actual results to differ materially from those contemplated by such forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, but are not limited to, rising health care costs, business conditions and competition in the managed care industry, government action and other regulatory issues.

Quantitative and Qualitative Disclosures

About Market Risk

As a result of its investing and borrowing activities, the Company is exposed to financial market risks, specifically those resulting from changes in interest rates, foreign currency exchange rates and marketable equity security prices. All of the potential changes noted below are based upon sensitivity analyses performed on the Company's investment holdings as of December 31, 2000. Actual results may vary materially.

All of the Company's investments are categorized as available-for-sale. The majority of these are fixed income securities. Market risk is addressed by actively managing the duration and diversification of the portfolio. The Company has evaluated the impact on the portfolio's fair value considering a 100 basis point change in interest rates over the next twelve-month period. A hypothetical 100 basis point increase in interest rates would result in an approximate \$59.1 million increase in fair value, whereas a corresponding 100 basis point decrease in interest rates would result in an approximate \$169.0 million increase in fair value. This analysis includes the assumption that the 100 basis point change occurs evenly

throughout the twelve-month period. The analysis also assumes investment income earned is reinvested into the portfolio thus mitigating the effects of change in fair value from an increase in interest rates or enhancing the effects of change in fair value from a decrease in interest rates over the twelve-month period. Moreover, the analysis is performed at the individual portfolio level, with only the sum of these amounts presented herein.

The Company's equity portfolio is comprised of domestic and international direct equity investments as well as domestic equity-indexed investments. An immediate 10% decrease in each equity investment's value, arising from a combination of market and foreign exchange movement, would result in a fair value decrease of \$25.5 million. Correspondingly, an immediate 10% increase in each equity investment's value, attributable to the same two factors, would result in a fair value increase of \$25.5 million. The majority of the \$80.0 million international equity portfolio is non-U.S. dollar denominated.

Market Prices of Common Stock

and Dividend Data

The Class A common stock, par value \$0.01 per share, is traded on the New York Stock Exchange under the symbol TGH. The reported high and low closing prices by quarter during 2000 and 1999 were as follows:

2000	High	Low
First quarter	\$35.75	27.50
Second quarter	54.94	34.13
Third quarter	59.69	47.56
Fourth quarter	79.69	55.81
<hr/>		
1999	High	Low
First quarter	\$37.44	31.94
Second quarter	39.00	29.94
Third quarter	38.64	29.25
Fourth quarter	31.50	23.00

The Company has never paid dividends on its common stock and anticipates that all earnings in the foreseeable future will be retained to finance the continuing development of its business. The payment of any future dividends will be at the discretion of the Company's Board of Directors and will depend upon the Company's earnings, financial condition, capital requirements, the revolving credit agreement restrictions on dividends and such other factors as the Company's Board of Directors deems relevant.

To the extent that the Company determines to pay dividends in the future, the principal source of funds to pay dividends to shareholders would be dividends received by the Company from its subsidiaries. The Company is a holding company and insurance laws and regulations restrict the payment of dividends by health care insurance companies, such as Trigon Insurance Company, in a holding company structure.

As of February 20, 2001, there were 76,708 shareholders of record of the Company's Class A common stock.

Consolidated Balance Sheets

December 31, 2000 and 1999

<i>(in thousands, except per share data)</i>	2000	1999
ASSETS		
Current Assets		
Cash	\$ 6,345	2,530
Investment securities, at estimated fair value (note 4)	1,775,307	1,738,515
Premiums and other receivables (note 5)	499,921	397,499
Deferred income taxes (note 11)	3,525	16,827
Other	14,676	14,099
Total current assets	2,299,774	2,169,470
Property and equipment, net (note 6)	69,757	51,238
Deferred income taxes (note 11)	48,207	59,499
Goodwill and other intangibles, net	15,303	14,561
Restricted investments, at estimated fair value (note 4)	7,331	9,887
Other assets	8,120	9,460
Total assets	\$2,448,492	2,314,115
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Medical and other benefits payable (note 7)	\$ 563,398	544,120
Unearned premiums	130,502	120,290
Accounts payable and accrued expenses	85,993	81,867
Other liabilities (note 9)	246,069	257,231
Total current liabilities	1,025,962	1,003,508
Obligations for employee benefits, noncurrent (note 13)	47,136	49,287
Medical and other benefits payable, noncurrent (note 7)	72,108	65,929
Long-term debt (note 12)	275,448	248,039
Minority interest in subsidiary	12,976	10,395
Total liabilities	1,433,630	1,377,158
Shareholders' Equity		
Common stock, \$0.01 par; shares issued and outstanding: 37,539, 2000; 38,200, 1999 (note 14)	375	382
Capital in excess of par	802,584	816,517
Retained earnings	205,045	112,896
Unearned compensation—restricted stock (note 14)	(2,234)	(1,926)
Accumulated other comprehensive income (note 16)	9,092	9,088
Total shareholders' equity	1,014,862	936,957
Commitments and contingencies (notes 8 and 21)		
Total liabilities and shareholders' equity	\$2,448,492	2,314,115

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

Years ended December 31, 2000, 1999 and 1998

<i>(in thousands, except per share data)</i>	2000	1999	1998
REVENUES			
Premium and fee revenues			
Commercial	\$ 1,871,533	1,664,261	1,531,107
Federal Employee Program	464,303	448,676	407,136
Amounts attributable to self-funded arrangements	1,392,998	1,216,427	1,090,638
Less: amounts attributable to claims under self-funded arrangements	(1,228,306)	(1,082,328)	(979,535)
	2,500,528	2,247,036	2,049,346
Investment income (note 4)	114,453	97,131	85,540
Net realized gains (losses) (note 4)	(27,023)	(21,957)	77,507
Other revenues (note 10)	23,637	24,218	23,959
Total revenues	2,611,595	2,346,428	2,236,352
EXPENSES			
Medical and other benefit costs (notes 7 and 19)			
Commercial	1,507,553	1,374,843	1,263,765
Federal Employee Program	444,230	429,519	388,513
	1,951,783	1,804,362	1,652,278
Selling, general and administrative expenses (notes 3, 13 and 19)	476,809	502,189	389,471
Interest expense (note 12)	17,249	8,359	5,291
Total expenses	2,445,841	2,314,910	2,047,040
Income before income taxes and minority interest	165,754	31,518	189,312
Income tax expense (note 11)	50,088	8,345	63,237
Income before minority interest	115,666	23,173	126,075
Minority interest	3,657	2,710	2,503
Net income	\$ 112,009	20,463	123,572
Earnings per share (note 15)			
Basic net income	\$ 2.98	0.50	2.92
Diluted net income	\$ 2.90	0.49	2.88

See accompanying notes to consolidated financial statements.

Trigon Healthcare, Inc. and Subsidiaries

Consolidated Statements of Changes

in Shareholders' Equity and Comprehensive Income

Years ended December 31, 2000, 1999 and 1998

<i>(in thousands)</i>	Common Stock	Capital in Excess of Par	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income	Total Shareholders' Equity
BALANCE AS OF JANUARY 1, 1998	\$423	842,035	78,982	—	37,297	958,737
Net income	—	—	123,572	—	—	123,572
Minimum pension liability adjustment, net of income taxes (notes 13 and 16)	—	—	—	—	(1,149)	(1,149)
Net unrealized losses on investment securities, net of income taxes (notes 4 and 16)	—	—	—	—	(7,088)	(7,088)
Comprehensive income						115,335
Adjustment to cash payments to eligible policyholders in lieu of shares of common stock in the Demutualization	—	(690)	—	—	—	(690)
Purchase and reissuance of common stock under stock option and other employee benefit plans, including tax benefits	—	(1,307)	—	—	—	(1,307)
Change in common stock held by consolidated grantor trusts (note 14)	—	(851)	—	—	—	(851)
BALANCE AS OF DECEMBER 31, 1998	423	839,187	202,554	—	29,060	1,071,224
Net income	—	—	20,463	—	—	20,463
Change in minimum pension liability, net of income taxes (notes 13 and 16)	—	—	—	—	834	834
Net unrealized losses on investment securities, net of income taxes (notes 4 and 16)	—	—	—	—	(20,806)	(20,806)
Comprehensive income						491
Repurchase and retirement of common stock (note 14)	(41)	(20,500)	(110,121)	—	—	(130,662)
Purchase and reissuance of common stock under stock option and other employee benefit plans, including tax benefits and net of amortization	—	(767)	—	(1,926)	—	(2,693)
Change in common stock held by consolidated grantor trusts (note 14)	—	(1,403)	—	—	—	(1,403)
BALANCE AS OF DECEMBER 31, 1999	382	816,517	112,896	(1,926)	9,088	936,957
Net income	—	—	112,009	—	—	112,009
Change in minimum pension liability, net of income taxes (notes 13 and 16)	—	—	—	—	293	293
Net unrealized losses on investment securities, net of income taxes (notes 4 and 16)	—	—	—	—	(289)	(289)
Comprehensive income						112,013
Repurchase and retirement of common stock (note 14)	(7)	(3,305)	(19,860)	—	—	(23,172)
Purchase and reissuance of common stock under stock option and other employee benefit plans, including tax benefits and net of amortization	—	(14,002)	—	(308)	—	(14,310)
Change in common stock held by consolidated grantor trusts (note 14)	—	3,374	—	—	—	3,374
BALANCE AS OF DECEMBER 31, 2000	\$375	802,584	205,045	(2,234)	9,092	1,014,862

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2000, 1999 and 1998

<i>(in thousands)</i>	2000	1999	1998
Net cash provided by operating activities (note 18)	\$ 109,770	188,823	151,580
Cash flows from investing activities			
Proceeds from sale of property and equipment and other assets	339	342	13
Capital expenditures	(35,501)	(17,827)	(16,857)
Cash paid for the purchase of minority interest	(2,660)	—	—
Cash transferred with the sale of subsidiary, net of cash received	(15,337)	—	—
Investment securities purchased	(4,844,862)	(4,293,560)	(3,797,307)
Proceeds from investment securities sold	4,061,899	3,347,933	2,845,399
Maturities of fixed income securities	736,870	749,828	823,942
Net cash used in investing activities	(99,252)	(213,284)	(144,810)
Cash flows from financing activities			
Proceeds from long-term debt	—	160,000	—
Payments on long-term debt	(248,039)	—	(808)
Change in commercial paper notes	275,448	—	—
Payment to members in lieu of common stock pursuant to Plan of Demutualization	—	—	(690)
Purchase and reissuance of common stock under employee benefit and stock option plans	(17,666)	(3,694)	(1,307)
Common stock (purchased) distributed by consolidated grantor trusts	3,374	(1,403)	(851)
Purchase and retirement of common stock	(23,172)	(130,662)	—
Change in outstanding checks in excess of bank balance	3,352	(4,750)	(2,624)
Net cash provided by (used in) financing activities	(6,703)	19,491	(6,280)
Increase (decrease) in cash	3,815	(4,970)	490
Cash—beginning of year	2,530	7,500	7,010
Cash—end of year	\$ 6,345	2,530	7,500

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Trigon Healthcare, Inc., a stock holding company, through its subsidiaries is the largest managed healthcare company in Virginia. (Trigon Healthcare, Inc. and subsidiaries are herein collectively referred to as the Company.) The Company serves 2 million members primarily through a comprehensive spectrum of managed care products provided through three network systems with a range of utilization and cost containment controls. The Company underwrites policies for multi-state employer groups, large and small businesses in Virginia, individuals, Medicare and Medicaid beneficiaries and federal employees. The Company's portfolio of benefit designs is purposely diverse to allow members and group administrators to choose the degree of management and premium structure that is right for them. Certain of the Company's subsidiaries have the exclusive right to use the Blue Cross and Blue Shield service marks and trademarks in their service areas. The Company also owns and operates subsidiaries in the areas of wellness and disease management, benefits administration and similar products.

Trigon Healthcare, Inc. owns 100% of Trigon Insurance Company, HealthKeepers, Inc., Priority, Inc., Trigon Health and Life Insurance Company, Trigon Services, Inc., Consolidated Holdings Corporation, Trigon Administrators, Inc., Trigon Disability Services Company, Health Management Corporation and Monticello Service Agency, Inc. Additionally, Trigon Healthcare, Inc. owns 51% of Peninsula Health Care, Inc. Trigon Insurance Company participates in a national contract between the Blue Cross and Blue Shield Association and the U.S. Office of Personnel Management to provide benefits to Federal employees within Virginia through the Federal Employee Program (FEP).

The significant accounting policies and practices followed by the Company are as follows:

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles. The Company follows Statement of Financial Accounting Standards (SFAS) No. 60, *Accounting and Reporting by Insurance Enterprises*, as it relates to its insurance business and AICPA Statement of Position 89-5, *Financial*

Accounting and Reporting by Providers of Prepaid Healthcare Services, as it relates to its HMO business. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of Trigon Healthcare, Inc. and its majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in other companies in which less than a majority interest is held and where the Company has significant influence over the operating and financial policies of the investee are accounted for under the equity method.

Risks and Uncertainties

The Company's profitability depends in large part on accurately predicting and effectively managing health care costs. The Company continually reviews its premium and benefit structure to reflect its underlying claims experience and revised actuarial data; however, several factors could adversely affect the medical cost ratios. Certain of these factors, which include changes in health care practices, inflation, new technologies, major epidemics, natural disasters and malpractice litigation, are beyond any health plan's control and could adversely affect the Company's ability to accurately predict and effectively control health care costs. Costs in excess of those anticipated could have a material adverse effect on the Company's results of operations.

In addition, the managed care industry is highly competitive in both Virginia and in other states in the Southeastern and Mid-Atlantic regions where the Company principally intends to expand. There is no assurance that such competition will not exert strong pressures on the Company's profitability, its ability to increase enrollment or its ability to successfully attain its expansion plans. Also, there can be no assurance that regulatory initiatives will not be undertaken at the state or federal level to reform the health care industry in order to reduce the escalation in health care costs or to make health care more accessible. Such action could adversely affect the Company's profitability.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (Continued)

Investment Securities

Investment securities are accounted for in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. All investment securities are considered available-for-sale and are recorded at estimated fair value, based on quoted market prices. The net unrealized gain or loss on investment securities, net of deferred income taxes, is included in accumulated other comprehensive income in shareholders' equity. A decline in the fair value of any investment security below cost, that is deemed other than temporary, is recorded as a realized loss resulting in a new cost basis for the security. Costs of investments sold are determined on the first in, first out basis.

Certain of the Company's investment securities are denominated in foreign currencies. The Company utilizes forward currency contracts to minimize its exposure to fluctuations in foreign currency exchange rates. The forward contracts are reflected as investment securities on the consolidated balance sheets at fair value. Unrealized gains and losses on these contracts are recorded in accumulated other comprehensive income in shareholders' equity along with the unrealized gains and losses on the securities being hedged. When the securities hedged by these contracts are sold, gains or losses on these contracts are reflected in the consolidated statements of operations as net realized gains (losses).

The Company enters into financial futures contracts for portfolio strategies such as minimizing interest rate risk and managing portfolio duration. The notional amount of the futures contracts is limited to that of the market value of the underlying portfolios. Should this limitation be exceeded, futures contracts are immediately terminated in order to comply with this restriction. Initial margins in the form of securities are maintained with the counterparties for these transactions. Changes in fair value of financial futures, determined on a daily basis, are recorded as realized gains or losses in the consolidated statements of operations. Terminations of contracts are accounted for in the same manner.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which are 40 years for buildings and 3 to 10 years for furniture and equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset. Any gain or loss realized upon retirement or disposal is reflected in selling, general and administrative expenses.

Certain costs related to the development or purchase of internal-use software are capitalized and amortized over the estimated useful life of the software in accordance with AICPA Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*.

Goodwill and Other Intangibles

Costs in excess of fair value of net tangible and identified intangible assets of businesses acquired are amortized using the straight-line method over periods from 15 to 25 years. Recoverability is reviewed annually or sooner if events or changes in circumstances indicate that the carrying amount may exceed fair value. Recoverability is then determined by comparing the undiscounted net cash flows of the assets to which the goodwill applies to the net book value including goodwill of those assets.

Amortization was \$1.2 million, \$5.9 million and \$5.4 million for the years ended December 31, 2000, 1999 and 1998, respectively. Accumulated amortization as of December 31, 2000 and 1999 was \$9.0 million and \$7.8 million, respectively. In connection with the purchase of Priority, Inc.'s minority interest in September 2000 (note 2), goodwill increased \$2.2 million. Goodwill and other intangibles related to Mid-South Insurance Company (Mid-South), in the amount of \$42.6 million were written-off during 1999 (note 19).

Medical and Other Benefits Payable

The Company establishes liabilities for claims in process of review and claims incurred but not reported. These liabilities are based on historical payment patterns using actuarial techniques. In addition, processing costs are accrued as operating expenses based on an estimate of the costs necessary to process these claims. The methods for making these estimates and for establishing the resulting liabilities are continually reviewed and updated, and any adjustments resulting therefrom are reflected in current operations. While the ultimate amount of claims and the related expenses paid are dependent on future developments, management is of the opinion that the liabilities for claims and claims processing costs are adequate to cover such claims and expenses.

Revenues

All of the Company's individual and certain of the Company's group contracts provide for the individual or the group to be fully insured. Premiums for these contracts are billed in advance of the respective coverage periods and are initially recorded as premiums receivable and as unearned income. Unearned premiums are recognized as earned in the period of coverage.

Certain other groups have contracts that provide for the group to be at risk for all or a portion of their claims experience. Most of these self-funded groups purchase aggregate and/or specific stop-loss coverage. In exchange for a premium, the group's aggregate liability or the group's liability on any one episode of care is capped for the year. The Company charges self-funded groups an administrative fee which is based on the number of members in a group or the group's claims experience. Under the Company's self-funded arrangements, amounts due are recognized based on incurred claims plus administrative and other fees and any stop-loss premiums. In addition, accounts for certain self-funded groups are charged or credited with interest expense or income as provided by the groups' contracts.

Agency Contracts

As fiscal intermediary for Medicare through August 31, 1999, the Company allocated operating expenses to this line of business to determine reimbursement due for services rendered in accordance with the contracts in force. Claims processed under this arrangement were not included in the accompanying consolidated statements of operations and the reimbursement of allocated operating expenses was recorded as a reduction of the Company's selling, general and administrative expenses.

The Company discontinued its role as a claims processing intermediary for the federal government with the Medicare Part A program in Virginia and West Virginia, in August 1999. The Company also discontinued its role as the primary provider of computer processing capabilities for Medicare Part A claims processing to certain other Blue Cross and Blue Shield plans after November 1999.

Postretirement/Postemployment Benefits

Pension costs are accrued in accordance with SFAS No. 87, *Employers' Accounting for Pensions*, and are funded based on the minimum contribution requirements of the Employee Retirement Income Security Act of 1974. The actuarial cost method used is the projected unit credit method.

The Company provides certain health and life insurance benefits to retired employees. These benefits are accrued in accordance with SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

The Company also provides certain disability related postemployment benefits. These benefits are accrued in accordance with SFAS No. 112, *Employers' Accounting for Postemployment Benefits*. The Company accrues the benefits when it becomes probable that such benefits will be paid and when sufficient information exists to make reasonable estimates of the amounts to be paid.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (Continued)

Stock-Based Compensation

The Company applies Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation expense has been recognized for the stock options granted and employee stock purchases. The Company has adopted the disclosure-only provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*.

Income Taxes

Income taxes are accounted for in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Earnings Per Share

The Company calculates and presents earnings per share in accordance with SFAS No. 128, *Earnings per Share*. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if all stock options and nonvested restricted stock awards were exercised and converted into common stock.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2. PURCHASE OF MINORITY INTEREST OF PRIORITY, INC.

On September 29, 2000, the Company's subsidiary, Priority, Inc., (Priority) purchased and retired the 20% of its outstanding shares held by the minority shareholder in accordance with the provisions of the Shareholders Agreement for Priority between the Company and the minority shareholder. The purchase price for the minority interest was approximately \$2.7 million. The acquisition was accounted for as a purchase and goodwill arising from the purchase amounted to \$2.2 million. The goodwill will be amortized over 10 years, the remaining period of the existing goodwill associated with the Company's original purchase of its 80% interest.

In conjunction with the purchase and retirement of the 20% outstanding common stock, Priority also repaid and retired all outstanding debt and accrued interest held by the minority shareholder (note 12).

NOTE 3. AGENCY CONTRACTS

The Company acted as an administrative agent for processing claims for Medicare through August 1999 (note 1). Claims processed for Medicare and the related reimbursed operating expenses, which are subject to audit, for the years ended December 31 were as follows (in thousands):

	2000	1999	1998
Claims processed for Medicare	\$ —	2,098,418	3,154,118
Operating expenses reimbursed by Medicare	\$ —	18,284	16,579

NOTE 4. INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and estimated fair value of investment securities as of December 31 were as follows (in thousands):

2000	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed income				
Domestic				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 329,410	3,733	33	333,110
Mortgage-backed obligations of U.S. government agencies	134,261	3,125	93	137,293
States and political subdivision securities	266,304	10,159	432	276,031
Other mortgage-backed and asset-backed securities	101,671	1,361	3,159	99,873
Domestic corporate bonds	494,977	7,421	13,052	489,346
Short-term debt securities with maturities of less than one year	288,050	233	642	287,641
Foreign				
Debt securities issued by foreign governments	9,011	473	—	9,484
Foreign corporate bonds	30,127	285	1,002	29,410
Short-term debt securities with maturities of less than one year	27,785	21	3	27,803
Total fixed income	1,681,596	26,811	18,416	1,689,991
Equities				
Domestic	16,156	1,243	1,133	16,266
Foreign	70,865	16,535	11,779	75,621
Total equities	87,021	17,778	12,912	91,887
Derivative instruments	—	760	—	760
Total	\$1,768,617	45,349	31,328	1,782,638
Unrestricted	\$1,761,606	45,029	31,328	1,775,307
Restricted	7,011	320	—	7,331
Total	\$1,768,617	45,349	31,328	1,782,638

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (Continued)

1999	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed income				
Domestic				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 288,070	—	8,813	279,257
Mortgage-backed obligations of U.S. government agencies	89,051	19	1,122	87,948
States and political subdivision securities	299,705	176	11,943	287,938
Other mortgage-backed and asset-backed securities	62,495	18	1,473	61,040
Domestic corporate bonds	615,470	4,250	25,955	593,765
Other fixed income investment funds	23,855	—	1,258	22,597
Short-term debt securities with maturities of less than one year	76,148	—	249	75,899
Foreign				
Debt securities issued by foreign governments	48,211	2,196	174	50,233
Foreign corporate bonds	96,643	879	3,878	93,644
Short-term debt securities with maturities of less than one year	4,798	—	3	4,795
Total fixed income	1,604,446	7,538	54,868	1,557,116
Equities				
Domestic	57,307	27,190	5,288	79,209
Foreign	72,183	46,225	6,130	112,278
Total equities	129,490	73,415	11,418	191,487
Derivative instruments	—	—	201	(201)
Total	\$1,733,936	80,953	66,487	1,748,402
Unrestricted	\$1,723,905	80,953	66,343	1,738,515
Restricted	10,031	—	144	9,887
Total	\$1,733,936	80,953	66,487	1,748,402

Short-term investments consist principally of commercial paper and money market investments.

The Company enters into foreign currency derivative instruments to minimize exposure to fluctuations in foreign currency exchange rates. Company policy only permits utilization of these instruments in its foreign denominated bond and equity portfolios. The counterparties to these transactions are major financial institutions. The Company may incur a loss with respect to these transactions to the extent that counterparty fails to perform under a contract and exchange rates have changed unfavorably since the inception of the contract. The Company anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. The forward contracts involve the exchange of one currency for

another at a future date and typically have maturities of one year or less. As of December 31, 2000, the Company had forward contracts outstanding to purchase approximately \$9.1 million in foreign currencies and to sell approximately \$8.3 million in foreign currencies (primarily the Euro and Japanese Yen). The gross unrealized gains related to these contracts as of December 31, 2000 were \$759,605 and there were no gross unrealized losses.

The Company also enters into financial futures contracts for portfolio strategies such as minimizing interest rate risk and managing portfolio duration. The notional amount of the futures contracts, \$160.8 million as of December 31, 2000, is limited to that of the market value of the underlying portfolios.

The Company will adopt SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133*, effective January 1, 2001. SFAS Statement No. 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company has determined that the impact of adoption will not have a significant impact on the consolidated financial position or results of operations.

The amortized cost and estimated fair value of fixed income securities as of December 31, 2000, by contractual maturity, were as follows (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 315,835	315,444
Due after one year through five years	502,047	505,385
Due after five years through ten years	407,479	404,352
Due after ten years	217,257	224,483
Mortgage-backed, asset-backed and other securities	238,978	240,327
Total	\$1,681,596	1,689,991

Included in investment securities as of December 31, 2000 are \$7.3 million, at estimated fair value, of securities held by various states to meet security deposit requirements related to Trigon Insurance Company, the HMO subsidiaries and Trigon Health and Life Insurance Company.

The components of investment income for the years ended December 31 were as follows (in thousands):

	2000	1999	1998
Interest on fixed income securities	\$113,613	95,957	84,776
Interest on short-term investments	8,544	6,703	7,573
Dividends	1,994	2,884	2,405
	124,151	105,544	94,754
Investment expenses	6,604	5,758	6,541
Group interest credits	3,094	2,655	2,673
Investment income	\$114,453	97,131	85,540

Gross realized gains and losses for the years ended December 31 were as follows (in thousands):

	2000	1999	1998
Gross realized gains			
Fixed income securities	\$ 34,194	14,527	48,880
Equity securities	43,963	13,401	29,370
Derivative instruments	33,916	64,456	64,015
Total gross realized gains	112,073	92,384	142,265
Gross realized losses			
Fixed income securities	74,236	45,740	10,540
Equity securities	17,784	7,448	17,935
Derivative instruments	47,076	61,153	36,283
Total gross realized losses	139,096	114,341	64,758
Net realized gains (losses)	\$(27,023)	(21,957)	77,507

Proceeds from the sale of investment securities were \$4.1 billion, \$3.3 billion, and \$2.8 billion during 2000, 1999 and 1998, respectively.

Unrealized gains (losses) are computed as the difference between estimated fair value and amortized cost for fixed income securities or cost for equity securities. A summary of the change in unrealized gains (losses), net of income taxes, for the years ended December 31 is as follows (in thousands):

	2000	1999	1998
Fixed income securities	\$ 55,725	(79,561)	(5,450)
Equity securities	(57,131)	47,742	(3,624)
Derivative instruments	961	(189)	(1,832)
Provision for income taxes	156	11,202	3,818
Total	\$ (289)	(20,806)	(7,088)

NOTE 5. PREMIUMS AND OTHER RECEIVABLES

Premiums and other receivables as of December 31 were as follows (in thousands):

	2000	1999
Premiums	\$ 77,664	70,170
Self-funded group receivables	194,308	149,686
Federal Employee Program	161,385	142,787
Investment income receivable	22,725	21,070
Receivable on investment securities sold	33,900	2,653
Other	9,939	11,133
Total	\$499,921	397,499

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (Continued)

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment as of December 31 were as follows (in thousands):

	2000	1999
Land and improvements	\$ 5,874	2,971
Buildings and improvements	36,077	35,764
Furniture and equipment	87,748	71,524
Computer software	35,188	29,705
	164,887	139,964
Less accumulated depreciation and amortization	95,130	88,726
Total	\$69,757	51,238

NOTE 7. MEDICAL AND OTHER BENEFITS PAYABLE

The components of medical and other benefits payable as of December 31 were as follows (in thousands):

	2000	1999
Net medical and other benefits payable at beginning of year	\$ 417,688	371,312
Incurred related to		
Current year	1,973,500	1,821,681
Prior years	(21,717)	(17,319)
Total incurred	1,951,783	1,804,362
Paid related to		
Current year	1,696,295	1,517,098
Prior years	252,221	240,888
Total paid	1,948,516	1,757,986
Net medical and other benefits payable at end of year	420,955	417,688
Liability for self-funded claims	192,515	169,361
Liability for claims processing costs	21,553	17,886
Advance amounts due to providers	483	5,114
Total	\$ 635,506	610,049

The Company uses paid claims and completion factors based on historical payment patterns to estimate incurred claims. Changes in payment patterns and claims trends can result in changes to prior years' claims estimates.

NOTE 8. LEASES

The Company has noncancelable operating leases for real estate and equipment that expire over the next six years and provide for purchase or renewal options. Future minimum lease payments under noncancelable operating leases as of December 31 were as follows (in thousands):

Years ending December 31,	
2001	\$12,977
2002	13,013
2003	11,022
2004	6,586
2005	4,254
2006	4,347
Total	\$52,199

Total rental expense for operating leases for the years ended December 31, 2000, 1999 and 1998 was \$16.3 million, \$17.1 million and \$15.2 million, respectively.

NOTE 9. OTHER LIABILITIES

Other liabilities as of December 31 were as follows (in thousands):

	2000	1999
Outstanding checks in excess of bank balance	\$ 39,793	36,441
Member related liabilities	10,745	5,956
Unearned premium reserve—		
Federal Employee Program	105,974	89,444
Self-funded group deposits	14,474	20,605
Current income taxes payable	354	54,716
Payable on investment securities sold	38,637	4,846
Other	36,092	45,223
Total	\$246,069	257,231

The FEP unearned premium reserve represents the Company's share of the FEP premium stabilization reserve. These funds are actually held by the Blue Cross and Blue Shield Association on behalf of each Blue Cross and Blue Shield Plan participating in the Federal Employee Program. A receivable in the same amount is recorded in premiums and other receivables.

NOTE 10. OTHER REVENUES

Other revenues include those revenues earned by non-core subsidiaries. A summary by type of revenue for the years ended December 31 is as follows (in thousands):

	2000	1999	1998
Employee benefits administration	\$ 2,336	3,769	3,953
Workers' compensation administration	9,682	9,319	9,108
Health management services	6,645	6,227	6,093
Other	4,974	4,903	4,805
Total	\$23,637	24,218	23,959

NOTE 11. INCOME TAXES

Income tax expense (benefit) attributable to income before income taxes and minority interest, substantially all of which is federal, for the years ended December 31 consists of (in thousands):

	2000	1999	1998
Current	\$24,761	26,129	65,544
Deferred	25,327	(17,784)	(2,307)
Total	\$50,088	8,345	63,237

The differences between the statutory federal income tax rate and the actual tax rate applied to income before income taxes and minority interest for the years ended December 31 were as follows:

	2000	1999	1998
Statutory federal income tax rate	35.0%	35.0	35.0
Tax-exempt investment income	(2.5)	(13.7)	(1.3)
Non-deductible amortization	0.3	3.4	—
Tax adjustment on sale of subsidiary	(1.5)	—	—
Other, net	(1.1)	1.8	(0.3)
Effective tax rate	30.2%	26.5	33.4

The components of the deferred tax assets and deferred tax liabilities as of December 31 were as follows (in thousands):

	2000	1999
Deferred tax assets		
Employee benefit plans	\$17,458	28,073
Insurance reserves	33,914	36,959
Investment in subsidiary	—	13,722
Property and equipment	4,656	2,930
Other	549	383
Gross deferred tax assets	56,577	82,067
Deferred tax liabilities		
Investment securities	4,199	5,063
Other	646	678
Gross deferred tax liabilities	4,845	5,741
Net deferred tax asset	\$51,732	76,326

Deferred taxes as of December 31 are presented on the accompanying consolidated balance sheets as follows (in thousands):

	2000	1999
Deferred tax assets—current	\$ 3,525	16,827
Deferred tax assets—noncurrent	48,207	59,499
Net deferred tax asset	\$51,732	76,326

In conjunction with the Demutualization in 1997, the Company was required to make a payment of \$175 million to the Commonwealth of Virginia (Commonwealth Payment) which was expensed and paid in prior years. The Company claimed the \$175 million Commonwealth Payment as a deduction. The Internal Revenue Service has denied this deduction during the course of its audit of the Company. The Company continues to pursue the deduction. In addition, the Company is litigating another claim for deductions for losses incurred on the termination of certain customer and provider contracts. See note 21. Favorable resolution of these claims is subject to various uncertainties, including whether the deductions will be allowed at all and, in the case of the claim for losses on the termination of customer and provider contracts, the amount of the deductions, if any, that will be allowed. While the Company believes that its claims have merit, it cannot predict the ultimate outcome of the claims. The Company has not recognized the favorable impact of the claims, if any, in the consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (Continued)

NOTE 12. LONG-TERM DEBT

Long-term debt as of December 31 is summarized as follows (in thousands):

	2000	1999
Revolving credit agreement	\$ —	245,000
Promissory note, 5%, due June 30, 2000	—	1,300
Notes payable, at prime plus 1%	—	3,039
Commercial paper notes	275,448	—
	275,448	249,339
Less current portion	—	1,300
Total	\$275,448	248,039

The Company has a \$300 million revolving credit agreement with a syndicate of banks, which expires February 2002. The credit agreement provides for various borrowing options and rates and requires the Company to pay a facility fee on a quarterly basis. The current borrowing terms require a facility fee of .075% per annum based on the \$300 million commitment and bears interest at LIBOR plus a margin, adjusted monthly. The credit agreement also contains certain financial covenants and restrictions including minimum net worth requirements as well as limitations on dividend payments.

In conjunction with the issuance of commercial paper notes during the first quarter of 2000, the Company repaid the \$245 million outstanding on the revolving credit agreement. The weighted average interest rate for the period the revolving credit agreement was outstanding during the years ended December 31, 2000 and 1999 was 6.21% and 5.44%, respectively.

The promissory note originated in 1995 in connection with the purchase of a subsidiary. The promissory note was repaid in June 2000. The principal was included in other liabilities as of December 31, 1999.

Priority entered into notes payable with its minority shareholder for purposes of maintaining regulatory minimum net worth requirements. In connection with the purchase of Priority's minority interest (note 2), the notes and related accrued interest were repaid in September 2000.

Peninsula Health Care, Inc. has a line of credit agreement with its minority shareholder for purposes of maintaining regulatory minimum net worth requirements. There were no amounts outstanding under this line of credit as of December 31, 2000 and 1999.

In March 2000, the Company commenced a private placement commercial paper program providing for the issuance of up to \$300 million in aggregate maturity value of commercial paper notes. The notes are issued at par less a discount representing an interest factor. Under the program, they may also be issued at par as interest bearing notes. The notes may be issued with varying maturities up to a maximum of one year from issuance. As of December 31, 2000, outstanding notes under the commercial paper program totaled approximately \$275.4 million with an average maturity of 14 days. The weighted average discount yield on the outstanding commercial notes was 6.83% as of December 31, 2000. The commercial paper is backed by the revolving credit agreement. The commercial paper notes have been classified as long-term debt in the accompanying consolidated balance sheets based on the Company's ability and intent to maintain borrowings of at least this amount for more than one year.

NOTE 13. EMPLOYEE BENEFIT PLANS

The Company has a noncontributory defined benefit pension plan which is qualified under IRC 401(a). The plan is funded through the Blue Cross National Retirement Trust (Trust), a collective investment trust for the retirement programs of its participating employers. Assets in the Trust are primarily domestic and international equity securities, domestic bonds, real estate funds and short-term investments. The Company also has a nonqualified supplemental executive retirement plan (SERP) which provides for pension benefits in excess of qualified plan limits imposed by IRC limits and restrictions on participation by highly compensated employees. The plan serves to restore the combined pension amount to original benefit levels. The plan is unfunded, however, the Company has established a grantor trust to fund future obligations under the plan. The grantor trust is consolidated with the Company for financial reporting purposes.

In addition to providing pension benefits, the Company provides certain health and life insurance benefits for retired employees and for active employees who had at least 20 years of service and were between the ages of 40 and 45 with age plus years of service equal to 55 or more as of January 1, 1998. This postretirement benefit plan is also funded through the Trust.

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets for the years ended December 31 and a statement of the funded status as of December 31 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2000	1999	2000	1999
Reconciliation of benefit obligation				
Obligation as of January 1	\$122,613	139,262	28,722	31,896
Service cost	7,571	7,842	1,385	1,412
Interest cost	9,152	8,725	2,761	2,200
Participant contributions	—	—	91	69
Benefit payments	(15,195)	(14,200)	(1,112)	(948)
Actuarial (gain) loss	6,771	(19,016)	8,951	(3,943)
Plan amendments	—	—	—	(1,964)
Obligation as of December 31	130,912	122,613	40,798	28,722
Reconciliation of fair value of plan assets				
Fair value of plan assets as of January 1	150,871	141,930	18,372	16,208
Actual return on plan assets	(7,063)	22,817	1,496	2,628
Participant contributions	—	—	91	69
Employer contributions	—	—	—	415
Benefit payments	(7,396)	(13,875)	(1,112)	(948)
Fair value of plan assets as of December 31	136,412	150,872	18,847	18,372
Funded status				
Funded status as of December 31	5,500	28,259	(21,951)	(10,350)
Unrecognized transition asset	(167)	(236)	—	—
Unrecognized reduction in prior service cost	(7,712)	(8,260)	(8,017)	(9,782)
Unrecognized (gain) loss	(13,374)	(37,822)	2,262	(6,945)
Net amount recognized	\$(15,753)	(18,059)	(27,706)	(27,077)

The following table provides the amounts recognized in the consolidated balance sheets as of December 31 (in thousands):

	Pension Benefits		Postretirement Benefits	
	2000	1999	2000	1999
Accrued benefit liability (included in obligations for employee benefits, noncurrent)	\$(16,535)	(19,393)	(27,706)	(27,077)
Intangible asset (included in other assets)	748	850	—	—
Accumulated other comprehensive income	34	484	—	—
Net amount recognized	\$(15,753)	(18,059)	(27,706)	(27,077)

The Company's nonqualified SERP was the only pension plan with a benefit obligation and an accumulated benefit obligation in excess of plan assets. The plan's benefit obligation was \$7.4 million and \$12.0 million as of December 31, 2000 and 1999, respectively. The plan's accumulated benefit obligation was \$5.9 million and \$11.1 million as of December 31, 2000 and 1999, respectively. There are no plan assets in the nonqualified SERP.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (Continued)

The following table provides the components of net periodic expense for the plans for the years ended December 31 (in thousands):

	Pension Benefits			Postretirement Benefits		
	2000	1999	1998	2000	1999	1998
Service cost	\$ 7,571	7,842	7,505	1,385	1,412	1,277
Interest cost	9,152	8,725	8,740	2,761	2,200	2,113
Expected return on plan assets	(11,851)	(11,224)	(9,461)	(1,753)	(1,553)	(1,374)
Amortization of transition asset	(70)	(70)	(70)	—	—	—
Amortization of prior service cost	(547)	(547)	(72)	(1,765)	(1,387)	(804)
Amortization of net (gain) loss	(312)	157	(271)	—	—	(273)
Settlement expense	1,550	—	—	—	—	—
Total	\$ 5,493	4,883	6,371	628	672	939

The gross amount included within other comprehensive income arising from an increase (decrease) in the additional minimum pension liability was \$(0.4) million, \$(1.3) million and \$1.8 million for the years ended December 31, 2000, 1999 and 1998, respectively.

The prior service costs of the pension plans and the postretirement benefit plan are amortized on a straight-line basis over the average remaining years of service to full eligibility for benefits of the active plan participants. Gains and losses for the qualified pension plan are amortized on a straight-line basis over the average remaining service period of active participants using the minimum basis outlined under SFAS No. 87. Gains and losses for the nonqualified SERP are amortized on a straight-line basis over the average remaining service period of active participants based on the entire unrecognized net gain or loss without applying the applicable corridor that is based on 10% of the greater of the projected benefit obligation or the market-related value of plan assets.

The weighted average assumptions used in the measurement of the Company's benefit obligations as of December 31 were as follows:

	Pension Benefits		Postretirement Benefits	
	2000	1999	2000	1999
Discount rate	7.50%	7.75%	7.50%	7.75%
Expected return on plan assets	9.0	9.0	9.0	9.0
Rate of compensation increases	3.0 to 6.5	3.0 to 6.5	4.5	4.5

For measurement purposes, a 7% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000 and subsequent years.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percent change in assumed health care cost trend rates would have the following effects (in thousands):

	1% Increase	1% Decrease
Aggregate of service and interest cost components of net periodic postretirement health care benefit cost	\$ 725	(588)
Health care component of the accumulated postretirement benefit obligation	\$6,927	(5,355)

The Company also has the Employees' Thrift Plan of Trigon Insurance Company (Thrift Plan) under which substantially all employees who have completed three months of service may elect to save up to 16% of their annual earnings on a pretax basis, subject to certain limits, in the plan. Participants have the option of investing in stock of Trigon Healthcare, Inc. and several international and domestic investment funds. The Company contributes an amount equal to 50% of the participant's contributions limited to a total of 3% of the employee's compensation. The Company amended the Thrift Plan in October 1998. The amendment reduced the eligibility period to three months of service and made the Company's contributions fully vested to the participant after three years of service. The amendment also included a provision that allows the Company to make discretionary profit sharing contributions to participants through the Trigon Healthcare, Inc. stock investment option. The Company made discretionary contributions of \$3.4 million and \$0.8 million during 2000 and 1999, respectively, and no discretionary contributions during 1998. For the years ended December 31, 2000, 1999 and 1998, the Company's matching contribution to the Thrift Plan was \$4.0 million, \$3.6 million and \$3.3 million, respectively.

NOTE 14. CAPITAL STOCK

The Company has authorized 300 million shares of Class A Common Stock, par value \$0.01 per share (Common Stock). Common Stock shares are entitled to one vote per share.

The Company has also authorized 300 million shares of Class B non-voting Common Stock, par value \$0.01 per share (Non-Voting Common Stock). No shares of Non-Voting Common Stock were issued and outstanding as of December 31, 2000 and 1999. The Non-Voting Common Stock has been authorized in connection with certain ownership and transfer restrictions included in the Company's amended and restated articles of incorporation. Non-Voting Common Stock shares are not entitled to vote on any matter except as otherwise required by law.

The Company is authorized to issue up to 50 million shares of preferred stock, no par value per share, in one or more series and to provide the designations, preferences, limitations and rights of each series.

Shareholder Rights Plan

The Company has a Shareholder Rights Plan (Rights Plan). Under the Rights Plan, the Board of Directors authorized three million preferred shares, the Series A Junior Participating Preferred Shares, and declared a dividend of one preferred share purchase right (Right) on each outstanding share of Trigon Class A Common Stock. Each Right entitles shareholders to purchase one one-hundredth of a Series A Junior Participating Preferred Share at an exercise price of \$100, subject to adjustment. Subject to certain exceptions, the Right will be exercisable only if a person or group acquires 10% or more of the Company's Common Stock or announces a tender offer for 10% or more of the Company's outstanding Common Stock. Each holder of a Right (other than those held by the acquiring person) will then be entitled to purchase, at the Right's then current exercise price, a number of shares of Trigon Common Stock having a market value of twice the Right's exercise price. If the Company is acquired in a merger or other business combination transaction which has not been approved by the Board of Directors, each Right will entitle its holder to purchase, at the Right's then current exercise price, a number of shares of the acquiring company's Common Stock having a market value of twice the Right's exercise price.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (Continued)

The date of record for the dividend distribution was July 29, 1997. The Rights will expire in 2007 and are redeemable by action of the Board of Directors at a price of \$.001 per Right at any time prior to becoming exercisable.

Common Stock Held by Grantor Trusts

The Company has several grantor trusts which were established to fund future obligations under certain compensation and benefit plans. These grantor trusts are consolidated for financial reporting purposes with the Company. The grantor trusts may purchase shares of the Company's Common Stock in the open market. The purchase price of the shares purchased and held by the grantor trusts is shown as a reduction to capital in excess of par in the consolidated balance sheets.

Stock Option Plans, Restricted Stock Awards and Stock Purchase Plan

The 1997 Stock Incentive Plan (Incentive Plan) provides for the granting of stock options, restricted stock awards, performance stock awards, stock appreciation rights and cash performance awards to employees. The Company has reserved 6.3 million shares of its common stock for issuance under the Incentive Plan. Awards are granted by the Human Resources Compensation and Employee Benefits Committee of the Board of Directors. Options vest and expire over terms as set by the committee at the time of grant. In accordance with the Incentive Plan, options to purchase shares at an amount equal to the fair market value of the stock at the date of grant were granted to eligible employees during 2000, 1999 and 1998. These options generally vest on a pro-rata basis over three years, with certain grants vesting at the end of one or three years depending on an employee's years of service, and in all cases expire 10 years from date of grant.

The 1997 Non-Employee Directors Stock Incentive Plan (Non-Employee Plan) provides for granting to newly-elected non-employee directors nonqualified stock options to

purchase 10,000 shares of common stock on the date of the first annual meeting of shareholders at which the director is elected. In addition, each eligible director will automatically be granted options to purchase 5,000 shares of common stock as of the date of each subsequent annual meeting of shareholders. All options are granted at the fair market value on the date of grant and become exercisable on a pro-rata basis over a three-year period. All options expire 10 years from the date of grant. The Company has reserved 550,000 shares of its common stock for issuance under the Non-Employee Plan.

A summary of the activity in the stock option plans for the years ended December 31 is as follows:

	Number of Options	Weighted Average Exercise Price
Balance at January 1, 1998	2,072,354	\$21.95
Granted	1,184,675	26.70
Exercised	(133,228)	22.13
Forfeited	(162,776)	22.91
Balance at December 31, 1998	2,961,025	23.79
Granted	509,430	35.80
Exercised	(140,854)	23.72
Forfeited	(82,077)	27.11
Balance at December 31, 1999	3,247,524	25.59
Granted	559,800	36.49
Exercised	(758,123)	24.10
Forfeited	(73,863)	26.85
Balance at December 31, 2000	2,975,338	\$27.99
Options exercisable at:		
December 31, 2000	1,987,254	\$24.75
December 31, 1999	1,590,510	23.42
December 31, 1998	720,655	21.95

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$18.13–25.50	1,816,129	6.6 years	\$23.31	1,674,098	\$23.13
\$27.75–38.63	1,149,709	8.6 years	\$35.12	313,156	\$33.46
\$53.13–73.31	9,500	9.7 years	\$59.80	—	—

As of December 31, 2000, 2,784,676 shares were available for future grants.

During 2000 and 1999, the Board of Directors granted 87,681 and 89,939 shares, respectively, of the Company's common stock as restricted stock awards in accordance with the provisions of the Incentive Plan. The shares vest on a pro-rata basis over three years. The recipients of the restricted stock awards generally may not dispose or otherwise transfer the restricted stock until vested. For grants of restricted stock, unearned compensation equivalent to the fair market value of the shares at the date of grant is recorded as a separate component of shareholders' equity and subsequently amortized to compensation expense over the vesting period. Amortization was \$2.6 million and \$1.0 million for the years ended December 31, 2000 and 1999, respectively.

The 1997 Employee Stock Purchase Plan (Stock Purchase Plan) provides employees of the Company an opportunity to purchase the Company's common stock through payroll deductions. The Company has reserved one million shares of its common stock for issuance under the Stock Purchase Plan. Shares needed to satisfy the needs of the Stock Purchase Plan may be newly issued by the Company or acquired by purchase at the expense of the Company on the open market or in private transactions. Eligible employees may purchase up to \$25,000 in fair value based on the grant date price, annually of the Company's common stock at 85% of the lower of the fair value on the first or last trading day of each calendar quarter. Employee purchases under the Stock Purchase Plan were \$1.7 million, \$1.6 million and \$1.5 million for the years ended December 31, 2000, 1999 and 1998, respectively. Pursuant to the Stock Purchase Plan, shares of the Company's stock were purchased on the open market and issued to employees totaling 64,387, 60,735 and 65,801 during 2000, 1999 and 1998,

respectively. In addition, 7,219 shares were pending purchase as of December 31, 2000. As of December 31, 2000, 777,818 shares of common stock were available for issuance under the Stock Purchase Plan.

The pro forma information regarding net income and earnings per share as required by SFAS No. 123 has been determined as if the Company had accounted for its stock-based compensation under the fair value method of that Statement. The fair value for the stock options was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions for the years ended December 31:

	2000	1999	1998
Risk-free interest rate	4.88%	6.78%	4.62%
Volatility factor	38.67%	42.36%	38.41%
Dividend yield	—	—	—
Weighted average expected life	5 years	5 years	5 years

The Black-Scholes option-valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock option grants have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock option grants.

For purposes of pro forma disclosures, compensation expense is increased for the estimated fair value of the options amortized over the options' vesting periods and for the difference between the market price of the stock and the discounted purchase price of the shares on the purchase date for the employee stock purchases. The Company's pro forma information is as follows (in thousands, except per share data and weighted average fair value):

	2000		1999		1998	
	As Reported	Pro Forma	As Reported	Pro Forma	As Reported	Pro Forma
Net income	\$112,009	105,175	20,463	12,486	123,572	116,193
Earnings per share						
Basic net income	2.98	2.80	0.50	0.31	2.92	2.75
Diluted net income	2.90	2.72	0.49	0.30	2.88	2.73
Weighted average fair value of options granted during the year	—	15.22	—	16.87	—	10.95
Weighted average fair value of employee stock purchases during the year	—	15.39	—	6.30	—	8.81
Weighted average fair value of restricted stock awards granted during year	—	34.10	—	32.88	—	—

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (Continued)

Stock Repurchase Program

The Company completed its first stock repurchase program in February 2000 whereby ten percent of the Company's common stock was repurchased. Also in February 2000, the Company commenced a second stock repurchase program for the repurchase of up to ten percent in additional shares. Under both repurchase programs, the purchases may be made from time to time at prevailing prices in the open market, by block purchase or in private transactions and may be discontinued at any time. The repurchases are subject to restrictions relating to volume, price, timing and debt covenant requirements. During 2000, the Company purchased and retired 660,900 shares of its common stock at a cost of \$23.2 million, bringing the total shares purchased and retired to 4,760,998 shares at a cost of approximately \$153.8 million. The excess of the cost of the acquired shares over par value is charged on a pro-rata basis to capital in excess of par and retained earnings.

NOTE 15. NET INCOME AND NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31 (in thousands, except per share data):

	2000	1999	1998
Numerator for basic and diluted earnings per share—net income	\$112,009	20,463	123,572
Denominator			
Denominator for basic earnings per share—weighted average shares	37,615	40,826	42,300
Effect of dilutive securities—employee and director stock options and nonvested restricted stock awards	1,066	594	472
Denominator for diluted earnings per share	38,681	41,420	42,772
Basic net income per share	\$ 2.98	0.50	2.92
Diluted net income per share	\$ 2.90	0.49	2.88

NOTE 16. COMPREHENSIVE INCOME

The reclassification entries under SFAS No. 130, *Reporting Comprehensive Income*, for the years ended December 31 were as follows (in thousands):

	2000	1999	1998
Net unrealized gains (losses) on investment securities, net of income taxes			
Net unrealized holding gains (losses) arising during the year, net of income tax expense (benefit) of \$(9,614), \$(18,887) and \$23,309	\$(17,854)	(35,078)	43,292
Less: reclassification adjustment for net gains (losses) included in net income, net of income tax expense (benefit) of \$(9,458), \$(7,685) and \$27,127	17,565	14,272	(50,380)
Net unrealized gains (losses) on investment securities, net of income taxes	\$ (289)	(20,806)	(7,088)

The components of accumulated other comprehensive income as of December 31 were as follows (in thousands):

	2000	1999	1998
Net unrealized gain on investment securities, net of income taxes of \$4,907, \$5,063, and \$16,265	\$9,114	9,403	30,209
Minimum pension liability, net of income taxes of \$12, \$169 and \$619	(22)	(315)	(1,149)
Accumulated other comprehensive income	\$9,092	9,088	29,060

NOTE 17. STATUTORY FINANCIAL INFORMATION

Trigon Insurance Company and certain other subsidiaries are required to file financial statements with, and are subject to audit by, the Commonwealth of Virginia, Bureau of Insurance (Bureau of Insurance). Such financial statements are prepared in accordance with statutory accounting practices prescribed or permitted by the Bureau of Insurance which differ from generally accepted accounting principles under which the accompanying consolidated financial statements have been prepared. Significant differences resulting from these accounting practices include certain investment valuation reserves and certain claim reserves recognized under statutory accounting as well as certain assets (primarily property and equipment), certain employee benefit liabilities and deferred income taxes not recognized under statutory accounting practices. While the Bureau of Insurance has the authority to permit insurers to deviate from prescribed statutory accounting practices, none of the Company's subsidiaries subject to regulatory oversight by the Bureau of Insurance have received, nor requested, approval to adopt any such deviations.

Statutory surplus and net income for Trigon Insurance Company were (in thousands):

Statutory surplus as of:	
December 31, 2000 (unaudited)	\$490,000
December 31, 1999	534,241
Statutory net income for the years ended:	
December 31, 2000 (unaudited)	\$ 88,509
December 31, 1999	92,301
December 31, 1998	93,125

Trigon Insurance Company is required by the Bureau of Insurance to maintain statutory capital and surplus of at least \$4.0 million.

Under the Code of Virginia, an insurance company may pay a dividend without prior permission of the Bureau of Insurance to the extent that such dividend together with other dividends or distributions within the preceding 12 months does not exceed the lesser of: (i) 10% of the insurer's statutory surplus as of the immediately preceding December 31, or (ii) the net statutory gain from operations

(excluding realized gains on investments) for the 12-month period ended the immediately preceding December 31. On January 17, 2001, the Bureau of Insurance approved Trigon Insurance Company's request to effect an extraordinary dividend of \$125 million to its parent, Trigon Healthcare, Inc., on March 1, 2001. As a result of this dividend, any dividend distributions by Trigon Insurance during 2001 would require the approval of the Bureau of Insurance. During 2000, 1999 and 1998, Trigon Insurance Company paid dividends to its parent of \$125.0 million, \$48.9 million and \$227.5 million, respectively. The 2000 and 1999 dividends were cash dividends. The 1998 dividend included \$200.0 million of cash and \$27.5 million of stock of a wholly-owned subsidiary.

The Commonwealth of Virginia adopted the National Association of Insurance Commissioners (NAIC) Risk-Based Capital Act in 1995. Under this Act, a company's risk-based capital (RBC) is calculated by applying certain factors to various asset, premium and reserve items. If a company's calculated RBC falls below certain thresholds, regulatory intervention or oversight is required. Trigon Insurance Company's RBC level as calculated in accordance with the NAIC's RBC instructions exceeded all RBC thresholds as of December 31, 2000.

The NAIC undertook a project to codify statutory accounting in an effort to develop a single uniform and comprehensive basis of statutory accounting. In 1998, the NAIC membership adopted the Codification of Statutory Accounting Principles Project (Codification) as the NAIC-supported basis of accounting. The proposed adoption date of January 1, 2001 was approved by Virginia, the state of domicile for all affected subsidiaries. The Codification was approved with a provision allowing for prescribed or permitted accounting practices to be determined by each states' insurance commissioner. Accordingly, such discretion will continue to allow prescribed or permitted accounting practices that may differ from state to state. The Company has evaluated the impact of Codification on all its statutory financial statements and believes that statutory capital and surplus will increase primarily as a result of the admissibility of deferred income tax benefits.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (Continued)

NOTE 18. ADDITIONAL CASH FLOW INFORMATION

The reconciliation of net income to net cash provided by operating activities and supplemental disclosures of cash flow information for the years ended December 31 is as follows (in thousands):

	2000	1999	1998
Net income	\$112,009	20,463	123,572
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	15,282	18,655	21,260
Mid-South write-off (note 19)	—	55,927	—
Amortization of unearned compensation	2,681	1,031	—
Accretion of discounts and amortization of premiums, net	(15,959)	(13,267)	(20,893)
Change in allowance for doubtful accounts receivable	(685)	2,839	(1,127)
Increase in premiums and other receivables	(69,224)	(22,238)	(14,959)
(Increase) decrease in other assets	1,449	(9,208)	(5,507)
Increase in medical and other benefits payable	41,224	66,382	64,416
Increase in unearned premiums	10,644	20,826	6,307
Increase in accounts payable and accrued expenses	4,094	13,896	14,731
Increase (decrease) in other liabilities	(46,075)	30,807	47,346
Change in deferred income taxes	25,267	(17,784)	(2,496)
Increase in minority interest	3,657	2,710	2,503
Decrease in obligations for employee benefits	(1,701)	(4,450)	(6,213)
Loss on disposal of property and equipment and other assets	84	277	147
Realized investment (gains) losses, net	27,023	21,957	(77,507)
Net cash provided by operating activities	\$109,770	188,823	151,580
Cash paid during the year for			
Interest	\$ 22,224	12,847	9,381
Income taxes	69,947	25,855	26,098

NOTE 19. MID-SOUTH EXIT OF HEALTH INSURANCE MARKET

On October 5, 1999, the Company announced that Mid-South Insurance Company, a subsidiary headquartered in Fayetteville, North Carolina, intended to exit the health insurance market with a targeted effective date of April 30, 2000 for group business and with targeted or actual effective dates for the exit of individual business to vary depending upon the regulations of each affected state. The announcement followed the development and board of directors approval of a comprehensive exit plan in September 1999. After taking a number of steps to improve the performance of Mid-South and assessing various alternatives, it was concluded that Mid-South could not bring its financial performance up to expectations within a reasonable time frame. The exit would permit the Company to intensify its focus on its successful business in Virginia and pursue more substantial opportunities for growth in the surrounding regions.

The announcement in October resulted in a nonrecurring pretax charge to operations during the third quarter of 1999 of \$79.9 million or \$51.9 million net of tax. The charge included costs associated with the write-off of goodwill, other intangibles and deferred acquisition costs determined not to be recoverable of \$55.9 million, a \$20.6 million increase to claim reserves for anticipated future claims and maintenance costs in excess of the related premiums and certain other costs associated with the exit of \$3.4 million. The Company recognized the charge for goodwill, other intangibles and deferred acquisition costs and certain other costs associated with the exit in selling, general and administrative expenses and recognized the charge to increase the claim reserves in medical and other benefit costs in the accompanying statements of operations. Through December 31, 2000, the Company charged \$12.9 million against the claim reserves for future losses and \$1.4 million against the accrual of certain other exit costs. No other adjustments have been made to these accruals.

Cancellation notices were sent on the group business and the exit of this business was completed by April 30, 2000. The Company pursued options other than cancellation of the individual business and on June 1, 2000 all of the issued and outstanding shares of Mid-South were sold to another carrier. The purchase price approximated net book value. The Company retained responsibility for certain medical claims and other exit costs incurred prior to the sale on June 1, 2000. The stock purchase agreement also included a purchase price adjustment provision tied to the financial performance of the Mid-South individual business for the period from June 1, 2000 through December 31, 2002. The remaining accrual for future losses on this business is expected to be sufficient to satisfy any potential payments under this provision of the stock purchase agreement.

NOTE 20. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

The carrying amounts of cash, premiums and other receivables, other current assets, medical and other benefits payable, unearned premiums, accounts payable and accrued expenses, and other current liabilities approximate fair value because of the short-term nature of these instruments. The carrying amount of long-term debt with variable interest rates approximates fair value. The fair values of investment securities are estimated based on quoted market prices.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of investment securities and premiums receivable. All of the investment securities are managed within established guidelines which limit the amounts which may be invested with one issuer. The Company primarily conducts business within the Commonwealth of Virginia; therefore, premiums receivable are concentrated with companies and individuals within Virginia.

NOTE 21. LEGAL AND REGULATORY PROCEEDINGS

On June 9, 2000, the Company's subsidiary, Trigon Insurance Company, filed a lawsuit against the federal government for the recovery of federal income tax overpayments for

the years 1989 through 1995. If successful, the Company expects to recover approximately \$35 million in cash refunds plus interest of about \$20 million and to receive tax refunds for the years 1996 through 1999 of about \$65 million. In addition, if the Company is successful it could receive substantial additional tax credits that could lower federal income tax liability in future years.

The lawsuit, filed in the United States District Court for the Eastern District of Virginia, relates to the initial valuation and deductibility of the Company's assets when, along with other Blue Cross or Blue Shield organizations, it became subject to federal income taxation in 1987. As part of this change in tax status, Congress provided that if a Blue Cross or Blue Shield organization disposed of an asset that it had acquired while tax-exempt, its taxable gain or loss would be computed by reference to the asset's fair market value at the time the organization became subject to tax. The Company is seeking deductions for losses incurred on the termination of certain customer and provider contracts that were held by it on January 1, 1987, based on the fair market value of the contracts on that date.

The Internal Revenue Service asserts that the Company is not entitled to deduct losses incurred on the termination of these contracts. The resolution of the Company's refund claim is subject to uncertainties, including whether the court will allow the deductions and, if so, the amount of the deductions that will be allowed. While the Company believes that its claim is meritorious, it cannot predict the ultimate outcome of the claim.

The Company and certain of its subsidiaries are involved in various other legal actions occurring in the normal course of their business. While the ultimate outcome of such litigation cannot be predicted with certainty, in the opinion of Company management, after consultation with counsel responsible for such litigation, the outcome of those actions is not expected to have a material adverse effect on the financial condition and results of operations of the Company.

Notes to Consolidated Financial Statements

December 31, 2000, 1999 and 1998 (Continued)

NOTE 22. SEGMENT INFORMATION

The Company has four reportable segments: health insurance, government programs, investments and all other. Its health insurance segment offers several network products, including HMO, PPO and PAR as well as medicare supplement plans. The government programs segment includes the FEP and, through August 1999, claims processing for Medicare (note 1). Through its participation in the FEP, the Company provides health benefits to federal employees in Virginia. The FEP is the Company's largest customer, representing 17.8%, 19.1% and 18.2% of total consolidated revenues during 2000, 1999 and 1998, respectively. All of the investment portfolios of the consolidated subsidiaries are managed and evaluated collectively within the investment

segment. The Company's other health-related business, including disease management programs, benefits administration, health promotion and similar products, is reflected in an "all other" category.

The reportable segments follow the Company's method of internal reporting by products and services.

The financial results of the Company's segments are presented consistent with the accounting policies described in note 1. The Company evaluates the performance of its segments and allocates resources based on income before income taxes and minority interest, except for the investments segment which is evaluated using investment income and net realized gains and losses. Intersegment sales and expense transfers are recorded at cost.

The following table presents information by reportable segment for the years ended December 31 (in thousands):

	Health Insurance	Government Programs	Investments	All Other	Total
2000					
Revenues from external customers	\$2,036,225	464,303	—	21,339	2,521,867
Investment income and net realized losses	—	—	87,430	—	87,430
Intersegment revenues	12,987	—	—	7,925	20,912
Depreciation and amortization expense	14,125	22	23	1,828	15,998
Income before income taxes and minority interest	127,161	1,015	87,430	4,251	219,857
1999					
Revenues from external customers	\$1,798,956	448,676	—	21,657	2,269,289
Investment income and net realized losses	—	—	75,174	—	75,174
Intersegment revenues	11,885	—	—	6,546	18,431
Depreciation and amortization expense	17,667	261	19	1,681	19,628
Income (loss) before income taxes and minority interest	(4,441)	(1,731)	75,174	1,791	70,793
1998					
Revenues from external customers	\$1,643,619	407,136	—	21,735	2,072,490
Investment income and net realized gains	—	—	163,047	—	163,047
Intersegment revenues	11,017	—	—	6,057	17,074
Depreciation and amortization expense	15,512	249	18	1,683	17,462
Income before income taxes and minority interest	59,432	3,174	163,047	2,083	227,736

Asset information by reportable segment has not been disclosed as it is not prepared internally by the Company. However, depreciation and amortization expense for property and equipment purchased is charged to the reportable segment responsible for the purchase.

A reconciliation of reportable segment total revenues, income before income taxes and minority interest and depreciation and amortization expense to the corresponding amounts included in the consolidated statements of operations for the years ended December 31 is as follows (in thousands):

	2000	1999	1998
Revenues			
Reportable segments			
External revenues	\$2,521,867	2,269,289	2,072,490
Investment revenues	87,430	75,174	163,047
Intersegment revenues	20,912	18,431	17,074
Other corporate revenues	2,298	1,965	815
Elimination of intersegment revenues	(20,912)	(18,431)	(17,074)
Total revenues	\$2,611,595	2,346,428	2,236,352
Profit or loss			
Reportable segments	\$ 219,857	70,793	227,736
Corporate expenses not allocated to segments	(36,854)	(30,916)	(33,133)
Unallocated amounts:			
Interest expense	(17,249)	(8,359)	(5,291)
Income before income taxes and minority interest	\$ 165,754	31,518	189,312
Depreciation and amortization expense			
Reportable segments	\$ 15,998	19,628	17,462
Not allocated to segments	(716)	(973)	3,798
Depreciation and amortization expense	\$ 15,282	18,655	21,260

Independent Auditors' Report

The Board of Directors
Trigon Healthcare, Inc.:

We have audited the accompanying consolidated balance sheets of Trigon Healthcare, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in shareholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Trigon Healthcare, Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Richmond, Virginia
February 9, 2001

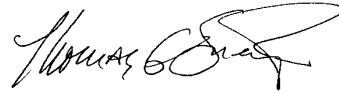
Management Report

The management of Trigon Healthcare, Inc. has prepared the consolidated financial statements and other data included in this annual report and has primary responsibility for the integrity and objectivity of the financial information. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include some amounts that are based on management's best estimates and judgment.

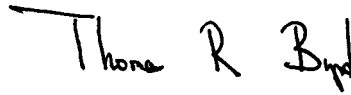
The accounting systems and controls of the Company are designed to provide reasonable assurance that financial records are reliable for use in preparing financial statements and that assets are safeguarded. Management believes that the Company's system of internal controls for the year ended December 31, 2000 was effective and adequate to accomplish the above described objectives.

The Board of Directors appoints to the Audit Committee members who are neither officers nor employees of the Company. The committee meets periodically with management, the internal auditors and the independent auditors to review financial reports, internal accounting controls and

the scope and results of audit efforts. Both the internal auditors and the independent auditors have full and free access to the Audit Committee, with and without management representation.



Thomas G. Snead, Jr.
Chairman and
Chief Executive Officer



Thomas R. Byrd
Senior Vice President
and Chief Financial Officer

Officers

Thomas G. Snead, Jr.

Chairman and Chief Executive Officer
Elected 2000 Chairman of the Board; Elected President & Chief Executive Officer 1999; elected President and Chief Operating Officer in 1997; appointed Senior Vice President and Chief Financial Officer 1990; joined Trigon in 1985; prior, KPMG LLP; BS, Accounting, Virginia Commonwealth University

William P. Braccioldieta, M.D.

Senior Vice President and Chief Medical Officer
Joined Trigon in 1998; prior, Vice President and Chief Medical Director of Medical Affairs for the South Florida Market, Humana, Inc.; M.B.A., Pacific Western University

Ralph T. Bullock, Jr.

Senior Vice President and Chief Information Officer
Previously, Director, Operations, Information Systems Division; joined Trigon in 1989; prior, Commonwealth of Virginia; Philip Morris USA; University of Richmond

Thomas R. Byrd

Senior Vice President and Chief Financial Officer
Elected current position 1997; previously Vice President, Financial Planning and Analysis; Vice President and Controller; Director, Financial Analysis; joined Trigon in 1991; prior KPMG LLP; BS, Business, Virginia Polytechnic Institute

James W. Copley, Jr.

Senior Vice President and Chief Investment Officer
Previously, Coordinator, Director and Vice President, Funds Management; President, Consolidated Investment Corporation; joined Trigon in 1975; M.B.A., University of Richmond; Chartered Financial Analyst

Kathy Ashby Merry

Senior Vice President, Operations
Previously Assistant to the Chief Operating Officer, Government and Individual Business Unit; Quality Programs Director; Vice President and General Manager, Individual Markets; joined Trigon in 1991; prior, Executive Director, Blue Ridge Regional Health Care Coalition; BS, Consumer Studies, University of Kentucky

Ronald M. Nash

Senior Vice President, Corporate Services
Previously, Vice President, Corporate Services and Vice President, Personnel and Administrative Services; joined Trigon in 1971; BS, Psychology, University of Virginia

Paul F. Nezi

Senior Vice President, Virginia Group Business
Previously, Senior Vice President of Marketing and Sales; joined Trigon in 1996; prior, ChoiceCare Executive Vice President and Chief Marketing Officer; Vice President of Marketing and Sales Lexis-Nexis; Marketing and Sales IBM and Xerox; M.B.A., Corporate Finance, Wharton Graduate School, University of Pennsylvania

Timothy P. Nolan

Senior Vice President, Marketing and Corporate Development
Joined Trigon in 1996; prior, McKinsey & Company; venture capital and investment banking; M.B.A., Harvard University, Graduate School of Business Administration

Thomas A. Payne

Senior Vice President, Corporate Audit
Previously, Director and Vice President, Corporate Audit; joined Trigon in 1976; M.B.A., University of Richmond

Peter L. Perkins

Senior Vice President and Chief Actuary
Previously, Director and Chief Actuary; joined Trigon in 1983; Fellow, Society of Actuaries; BS, Actuarial Science, University of Illinois

David P. Wade

Senior Vice President, Government and Individual Business
Previously Senior Vice President, Trigon HMOs; joined Trigon in 1991; prior, KPMG LLP; M.B.A., University of Virginia; BS Physics, Carnegie-Mellon University

J. Christopher Wiltshire

Senior Vice President, General Counsel and Corporate Secretary
Joined Trigon in 1996; prior, partner, McGuire, Woods, Battle & Boothe LLP; J.D., University of Virginia

Board of Directors

(Age on December 31, 2000) Year elected to Board

Thomas G. Snead, Jr.

(47) 1999

Chairman and Chief Executive Officer
Trigon Healthcare, Inc.
Richmond

Lenox D. Baker, Jr., M.D.

(59) 1985

Mid-Atlantic Cardiothoracic
Surgeons, Ltd.
Norfolk

A. Hugh Ewing, III

(57) 2000

President, *Ewing Monroe Bemiss & Co.*
Richmond

Robert M. Freeman

(59) 1993

Retired Chairman of the Board
and Chief Executive Officer,
Signet Banking Corp.
Richmond

William R. Harvey, Ph.D.

(59) 1992

President, *Hampton University*
Hampton

Gary A. Jobson

(50) 1987

President, *Maritime Productions, Inc.*
Annapolis

Joseph S. Mallory

(63) 2000

Retired Senior Vice President
Booz • Allen & Hamilton, Inc.
New York

Donald B. Nolan, M.D.

(60) 1983

Roanoke Neurological Center
Roanoke

William N. Powell

(56) 1980

President, *Salem Tools, Inc.*
Salem

J. Carson Quarles

(64) 1977

Chairman of the Board,
Western Sizzlin Corp.
Roanoke

John Sherman, Jr.

(55) 2000

President, Chief Executive Officer,
Scott & Stringfellow, Inc.
Richmond

R. Gordon Smith, Esq.

(62) 1995

Partner, *McGuire, Woods,
Battle & Boothe LLP*
Richmond

Hubert R. Stallard

(63) 1997

Retired President and Chief Executive
Officer, *Bell Atlantic of Virginia*
Richmond

Jackie M. Ward

(62) 1993

President and Chief Executive Officer,
Computer Generation Incorporated
Atlanta

Corporate Information

Corporate Headquarters

Trigon Healthcare, Inc.
2015 Staples Mill Road
Richmond, Virginia 23230
Telephone: (804) 354-7000

Mailing Address

P.O. Box 27401
Richmond, Virginia 23279

Internet

<http://www.trigon.com>

Annual Meeting

The Annual Meeting of Shareholders of Trigon Healthcare, Inc. will be held at 9:00 a.m. on Wednesday, April 25, 2001 at Trigon's headquarters, 2015 Staples Mill Road, Richmond, Virginia.

Stock Exchange Listing

Trigon Healthcare's Class A Common Stock is listed on the New York Stock Exchange under the symbol TGH.

SEC Form 10-K

Upon request, the Company will provide a copy of its Annual Report to the Securities and Exchange Commission on Form 10-K. Requests should be addressed to Trigon's Investor Relations Department at (804) 354-3224.

Stock Transfer Agent and Registrar

Correspondence and transfer requests should be sent to the following:

Address Shareholder inquiries to:

Trigon Shareholder Services
c/o The Bank of New York
Investor Relations Department
P.O. Box 11258, Church Street Station
New York, NY 10286
Phone: 1-800-619-1697 (toll free)
8:00 a.m.–8:00 p.m. (Eastern Time)
Monday–Friday, excluding holidays.

Certificate Transfer Requests or Address Change Notifications should be sent to:

Trigon Shareholder Services
c/o The Bank of New York
Receive and Deliver Department
P.O. Box 11002, Church Street Station
New York, NY 10286

Please include your name, address and telephone number with all correspondence.

Independent Auditors

KPMG LLP
Richmond, Virginia

Outside Counsel

McGuire, Woods, Battle & Boothe LLP
Richmond, Virginia

Investor Information

Shareholders, registered representatives, financial analysts, portfolio managers and other investors seeking further information about Trigon Healthcare should contact Trigon's Investor Relations Department at (804) 354-3224 or e-mail to investors@trigon.com.

Public Information

Members of the media and others seeking general information about Trigon Healthcare should contact Trigon's Media Relations Department at (804) 354-3609.



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Richmond, VA 23279

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www.trigon.com

Trigon Blue Cross Blue Shield is an Independent Licensee
of the Blue Cross and Blue Shield Association.

stock number 111620 (3/01)