(c) Each CareFirst Company is duly qualified to do business and is in good standing in each jurisdiction in which the ownership or operation of its assets or the conduct of its business requires such qualification, except where the failure to be so qualified or in good standing would not result in a CareFirst Material Adverse Effect. All such jurisdictions are listed on the CareFirst Disclosure Schedule.

(d) No equity security of any CareFirst Company is or may be required to be issued by reason of any option, warrant, right to subscribe to, call or commitment of any character whatsoever relating to, or security or right exchangeable or convertible into, shares of any capital stock of such CareFirst Company, and there are no contracts, commitments, understandings or arrangements by which any CareFirst Company is bound to issue or repurchase shares of its capital stock, or options, warrants or rights to purchase or acquire any additional shares of its capital stock. All shares of the CareFirst Subsidiaries are duly authorized, validly issued, fully paid and non-assessable, have not been issued in violation of, and are not subject to, any preemptive right. There are no contracts, commitments, understandings or arrangements by which any person has any right or claim to become a member of CareFirst or any of the Primary CareFirst Insurers.

(e) The CareFirst Disclosure Schedule sets forth the equity or member interests of each CareFirst Subsidiary that are owned by CareFirst or another CareFirst Company. The CareFirst Subsidiary Shares are owned, possessed or controlled by CareFirst, directly or indirectly, free and clear of all liens, restrictions, claims, equities, charges, options, rights of first refusal, encumbrances or other restrictions of any kind, with no defects of title whatsoever. CareFirst or another CareFirst Company has full power, right and authority to vote all of the CareFirst Subsidiary Shares. CareFirst is not a party to or bound by any voting trust, proxy or other agreement affecting or relating to the right to transfer or vote the CareFirst Subsidiary Shares.

Section 4.2. Authority.

CareFirst has all requisite power and authority to execute, deliver and perform this Agreement and to consummate the transactions contemplated hereby, subject to the receipt of the regulatory approvals set forth in Section 4.4(b) hereof. The execution and delivery of this Agreement by CareFirst, the performance of its obligations hereunder and the consummation by it of the transactions contemplated hereby have been duly and validly authorized by the Boards of Directors of CareFirst and BCBSD, and except for the approval of the Merger by the Tax-Exempt Entities in their capacity as stockholders of CareFirst following the Conversion, no other corporate act or corporate proceeding on the part of the CareFirst Companies is necessary to approve the execution and delivery of this Agreement, the performance by CareFirst of its obligations hereunder or the consummation of the transactions contemplated hereby.

Section 4.3. Execution and Binding Effect.

This Agreement has been duly and validly executed and delivered by CareFirst and constitutes, and the other documents and instruments to be executed and delivered by CareFirst

pursuant hereto upon their execution and delivery by CareFirst on or prior to the Closing Date will constitute (assuming, in each case, the due and valid authorization, execution and delivery thereof by the other party or parties thereto), legal, valid and binding obligations of CareFirst, enforceable against it in accordance with their respective terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, rehabilitation, reorganization, moratorium, or similar laws affecting enforcement of creditors' rights generally and (b) general equitable principles.

Section 4.4. No Violation; Consents and Approvals.

(a) Except as set forth on the CareFirst Disclosure Schedule and subject to the governmental filings (and other matters) referred to in Section 4.4(b), the execution, delivery and performance of this Agreement by CareFirst, compliance with the provisions of this Agreement, and the consummation by CareFirst or any CareFirst Company of the transactions contemplated hereby will not (i) conflict with or violate any provisions of the Charters or Bylaws in effect as of the date hereof of any CareFirst Company (and with respect to CareFirst and the Primary CareFirst Insurers, as such Charters and Bylaws are to be amended to accomplish the Conversion); (ii) conflict with, violate or result in any breach of, or constitute a default whether with or without notice or lapse of time or both, or give rise to any right of termination, cancellation or acceleration under any of the terms, conditions or provisions of, or render unenforceable, any note, bond, mortgage, indenture, license (including any license granted by BCBSA), franchise, permit, agreement, lease or other instrument or obligation to which any CareFirst Company is a party or by which any CareFirst Company, its business or any of its assets is bound; (iii) violate any statute, ordinance or law or any rule, regulation, order, writ, injunction or decree of any Governmental Entity applicable to any CareFirst Company, or by which its business or any of its assets is bound; (iv) require any filing, declaration or registration with, or permit, consent or approval of, or the giving of any notice to, any Governmental Entity; or (v) result in the creation or imposition of any lien, charge or encumbrance upon any CareFirst Company's assets; excluding from the foregoing clauses (other than clause (i)) such conflicts, violations, breaches and defaults and filings, declarations, registrations, permits, consents, approvals and notices, other than approvals of the BCBSA, the absence of which, in the aggregate, would not result in a CareFirst Material Adverse Effect.

(b) No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity is required by any CareFirst Company for the execution and delivery of this Agreement by CareFirst or the consummation by CareFirst of the transactions contemplated by this Agreement, except for (i) the filing with the FTC and the DOJ of a notification and report form by CareFirst under the HSR Act and (ii) the preparation and filing of appropriate documents with, and approval of, the appropriate regulatory bodies in the States of Maryland and Delaware, the District of Columbia, the U.S. Congress and other jurisdictions regarding insurance-related approvals (collectively referred to as the "CareFirst Primary Filings").

Section 4.5. Financial Statements.

(a) CareFirst has delivered or made available to Purchaser copies of the financial statements listed on the CareFirst Disclosure Schedule (the "CareFirst Financial Statements"). The CareFirst Financial Statements are true and complete in all material respects, have been prepared in accordance with SAP or GAAP, as the case may be, consistently applied throughout the periods covered by such statements (except as may be stated in the explanatory notes to such statements) and present fairly, in all material respects, the financial position and results of operations (consolidated in the case of CareFirst) of the CareFirst Companies at the dates of and for the periods covered thereby. The CareFirst Financial Statements for interim periods are subject to normal recurring year-end adjustments and lack explanatory notes.

(b) Except as disclosed, recorded or otherwise referred to in the CareFirst Financial Statements at and for the year ended December 31, 2000, no CareFirst Company has any liabilities of any nature, whether known, unknown, accrued, absolute, contingent or otherwise, and whether due or to become due, probable of assertion or not, except liabilities that (i) were incurred after December 31, 2000 in the ordinary course of its business consistent with past practices, and (ii) in the aggregate would not have a CareFirst Material Adverse Effect.

Section 4.6. Reserves.

(a) Except as set forth in the CareFirst Disclosure Schedule, the aggregate actuarial reserves and other actuarial amounts held in respect of liabilities with respect to any or all of the CareFirst Insurers as established or reflected in their respective 2000 financial statements previously delivered to Purchaser:

(i) (A) were determined in accordance with presently accepted actuarial standards consistently applied, and (B) were fairly stated in all material respects in accordance with sound actuarial principles;

(ii) met the requirements of the applicable insurance laws or regulations of the State of Maryland, the District of Columbia, the State of Delaware or any other state having jurisdiction, in all material respects;

(iii) met the requirements of the BCBSA;

(iv) have been computed in all material respects on the basis of methodologies consistent with those used in computing the corresponding reserves in the prior fiscal year (except as may be stated in the explanatory notes to such statements); and

(v) include provisions for all actuarial reserves and related items that are required to be established in accordance with applicable laws and regulations.

(vi) CareFirst is unaware of any facts or circumstances that would necessitate, in the application of GAAP, the restatement of reserves above those reflected in the GAAP

balance sheets included in the most recent CareFirst Financial Statements delivered to Purchaser prior to the date hereof.

(b) Each Primary CareFirst Insurer's surplus is now, and immediately prior to the Closing will be, not less than 100% of the statutorily adequate reserve minimums required by applicable law.

Section 4.7. Taxes.

(a) As of the date hereof, each of the Primary CareFirst Companies has been and, to CareFirst's knowledge, is an "existing Blue Cross and Blue Shield organization" as defined in Section 833(c)(2) of the Code, and has filed its federal income tax returns for all periods after the effective date of Section 833 of the Code consistent with its reasonable interpretation of the treatment described in Section 833 of the Code.

(b) All federal income tax returns required to be filed by any CareFirst Company have been properly and timely filed with the IRS, and all state and local income and premium tax returns required to be filed by any CareFirst Company have been properly and timely filed with the appropriate state or local taxing authorities, or an appropriate application for extension of time to file such returns has been filed. Except as set forth in the CareFirst Disclosure Schedule, such tax returns were true, correct and complete in all material respects at the time filed, and each CareFirst Company has paid and discharged all Taxes shown to be due on such returns, other than such Taxes as are being contested in good faith by appropriate proceedings and are adequately reserved for on the most recent financial statements. Each CareFirst Company has adequately reserved, in accordance with SAP or GAAP, as applicable, on the financial statements referred to in Section 4.5, for the payment of all unpaid Taxes, including interest and penalties, payable in respect of any taxable event or period (including interim periods) ending on the dates of such financial statements and for all periods prior thereto.

(c) No claim or deficiency for any Taxes has been proposed, asserted, assessed or, to the knowledge of CareFirst, threatened by the IRS or any other taxing authority or agency against any CareFirst Company. No requests for waivers of the time to assess any Taxes are pending. Except as set forth in the CareFirst Disclosure Schedule, none of the federal income tax returns for any CareFirst Company has been examined by or settled with the IRS for any year, and none of the tax returns for any CareFirst Company remains open or pending.

(d) None of the CareFirst Companies is a party to, is bound by or has any obligation under any tax sharing agreement or similar contract arrangement or any agreement that obligates it to make any payment computed by reference to the Taxes, Taxable Income or Taxable losses of any other person.

Section 4.8. Absence of Certain Changes or Events.

Except as set forth on CareFirst's Disclosure Schedule, since December 31, 2000 and through the date of this Agreement, (a) each of the CareFirst Companies has, in all material

respects, conducted its business in the ordinary course consistent with past practices, (b) neither CareFirst nor any CareFirst Subsidiary has taken any action set forth in Section 6.1(a) which if taken after the date hereof would violate such Section and (c) the CareFirst Companies have not experienced an event that has had, or would reasonably be expected to have, a CareFirst Material Adverse Effect.

Section 4.9. Litigation; Judicial Proceedings.

(a) As of the date of this Agreement, there are no judicial or administrative actions, proceedings or investigations pending or, to the knowledge of CareFirst, threatened, that (i) question the validity of this Agreement or any action taken or to be taken by CareFirst in connection with this Agreement, or (ii) seek to prevent the consummation by CareFirst of any of the transactions contemplated by this Agreement.

(b) Except as set forth in the CareFirst Disclosure Schedule or as otherwise disclosed in writing by CareFirst to the Purchaser on or before the date of this Agreement, there is no litigation, proceeding, suit, action, charge or investigation pending or, to the knowledge of CareFirst, threatened, or any order, judgment, injunction, decree, plea agreement, stipulation or award of any kind outstanding, against or relating to any CareFirst Company, or involving any of its property or business, the outcome of which in the aggregate may reasonably be expected to result in a CareFirst Material Adverse Effect.

Section 4.10. Compliance with Law.

(a) Each CareFirst Company is conducting its business in compliance with all statutes, laws, rules, regulations, ordinances, decrees, judgments, injunctions and orders applicable to it (including those relating to ERISA, labor laws, Health Benefits Laws, environmental laws and health and safety matters), except where such failure to comply would not have a CareFirst Material Adverse Effect, and has not received any notice that it is in material noncompliance with any such statutes, laws, rules, regulations, ordinances, decrees or orders.

(b) Each CareFirst Company currently holds all permits, licenses and approvals of every Governmental Entity necessary for the ownership of its respective assets and the operation of its respective businesses (including those relating to ERISA, labor laws, Health Benefit Laws, environmental laws and health and safety matters) except where the failure to hold such permits, licenses or approvals would not result in a CareFirst Material Adverse Effect. The CareFirst Disclosure Schedule sets forth a complete list of all material permits, licenses and approvals of the CareFirst Companies.

(c) Each CareFirst Company is in compliance with all such permits, licenses and approvals, except where such failure to comply would not result in a CareFirst Material Adverse Effect.

(d) No CareFirst Company nor any officer, employee, agent, representative or other person acting on the express, implied or apparent authority thereof, has paid or received any bribe or other unlawful, questionable or unusual payment of money or other thing of value, granted or accepted any extraordinary discount, or furnished or been given any unlawful or unusual inducement to or from any person or Governmental Entity in connection with or in furtherance of the business of any CareFirst Company.

(e) All information provided by each CareFirst Company in connection with the preparation and filing of any regulatory notice or other regulatory filing was true, complete and accurate in all material respects when made.

(f) Each CareFirst Company is, to the extent applicable, in compliance in all material respects with all rules and regulations of the BCBSA.

Section 4.11. Certain Contracts and Commitments.

(a) All CareFirst Material Contracts are listed on the CareFirst Disclosure Schedule. CareFirst has delivered to Purchaser, or provided Purchaser with the opportunity to review, complete and accurate copies of all of the CareFirst Material Contracts to which it is a party and all amendments thereto. The CareFirst Disclosure Schedule contains an accurate and complete summary description of any CareFirst Material Contract that is not in writing.

(b) No CareFirst Company is in default, nor does there exist any event that, with or without notice or lapse of time or both, would constitute a violation, breach or default by any CareFirst Company under any CareFirst Material Contract, and each CareFirst Material Contract is valid, binding and in full force and effect, and to the knowledge of CareFirst, there is no material violation, breach or default by any other party to any CareFirst Material Contract and no other party has notified a CareFirst Company of its intention to cease to perform any services required to be performed by such other party or withhold any payment required to be made by such other party to it thereunder, except to the extent that all such violations, breaches or defaults would not result in a CareFirst Material Adverse Effect.

Section 4.12. Employee Plans; ERISA; Labor Matters.

(a) The CareFirst Disclosure Schedule contains a list, which is accurate and complete, of all the Benefit Plans maintained by the CareFirst Companies (the "CareFirst Plans"), including all employment, consulting, non-competition, severance, change of control, executive compensation and other similar plans and agreements.

(b) Each CareFirst Company is not, and has never been obligated to make any contributions to any multi-employer plan, as defined in Section 3(37) of ERISA. The CareFirst Plans have been administered, in all material respects, in compliance with the applicable requirements of the Code and ERISA. No CareFirst Company, nor, to the knowledge of CareFirst, any plan fiduciary of any CareFirst Plan has engaged in any transaction in violation of Section 406(a) or (b) of ERISA for which no exemption exists under Section 408 of ERISA or

any "prohibited transaction" (as defined in Section 4975(c)(1) of the Code) for which no exemption exists pursuant to Section 4975(c)(2) or (d) of the Code. With respect to each of the CareFirst Plans that is subject to Title IV of ERISA, as of the Closing, the fair market value of the assets of such CareFirst Plan will equal or exceed the present value of all benefit liabilities of such CareFirst Plan, if such CareFirst Plan were terminated as of the Closing. No CareFirst Company has in effect any stock option or stock purchase plan.

(c) Except for CareFirst's obligation to make contributions under the CareFirst Plans and except for its self-insured arrangements (each as disclosed in the CareFirst Disclosure Schedule), CareFirst is not subject to any direct obligation or liability under any of the CareFirst Plans. Each CareFirst Company has paid in full to its employees, agents and contractors all wages, salaries, commissions, bonuses and other direct compensation for all services performed by them, except where the failure to make such payment would not have a CareFirst Material Adverse Effect. No CareFirst Company is liable for any severance pay or other payments on account of termination of former employees except as disclosed in the CareFirst Disclosure Schedule or as would not have a CareFirst Material Adverse Effect.

(d) Each CareFirst Company has complied in all material respects with the applicable provisions of ERISA, the published authorities thereunder and all applicable federal and state laws relating to the CareFirst Plans, including laws relating to the employment of labor (including the provisions thereof relating to wages, hours, collective bargaining and the payment of social security and taxes), and is not liable for any arrearages of wages, any tax or any penalty for failure to comply with any of the foregoing, except where such failure to comply or liability would not have a CareFirst Material Adverse Effect.

(e) There is no labor strike, dispute, slowdown or stoppage actually pending or, to the knowledge of CareFirst, threatened against or affecting a CareFirst Company or its business, except as would not have a CareFirst Material Adverse Effect. Except as would not have a CareFirst Material Adverse Effect: (a) no representation question exists with respect to the employees of a CareFirst Company; and (b) no collective bargaining agreement with employees of any CareFirst Company is in effect or currently being negotiated.

(f) CareFirst has delivered or made available to Purchaser copies of all documents and summary plan descriptions, which are true and correct, with respect to the CareFirst Plans, or summary descriptions of any CareFirst Plans not otherwise in writing.

(g) To the knowledge of CareFirst, there are no negotiations, demands or proposals that are pending which concern matters now covered, or that would be covered, by plans, agreements or arrangements of the type described in this Section 4.12.

(h) Except as disclosed in the CareFirst Disclosure Schedule:

(i) Each CareFirst Company has performed in all material respects all of its obligations under all of the CareFirst Plans.