Presentation to the Strategic Planning Committee

PROJECT CHESAPEAKE

JUNE 1, 2000

OCC 014984

Donaldson, Lufkin & Jenrette

TABLE OF CONTENTS

1 EXECUTIVE SUMMARY

2 ENVIRONMENTAL SCAN

3 DRIVERS OF FUTURE SUCCESS

4 SUMMARY RECOMMENDATIONS

5 APPENDIX I
Strategic Alternatives
Next Steps and Considerations

6 APPENDIX II
Selected "Blues" Case Studies
Comparable Public Companies Analysis
Comparable M&A Transactions Analysis
DLJ Blues Team Biographies

OCC 014985

EXECUTIVE SUMMARY

OCC 014986

EXECUTIVE SUMMARY

DLJ is pleased to have the opportunity to discuss our preliminary observations regarding the current market position and future prospects of CareFirst BlueCross BlueShield ("CareFirst" or the "Company").

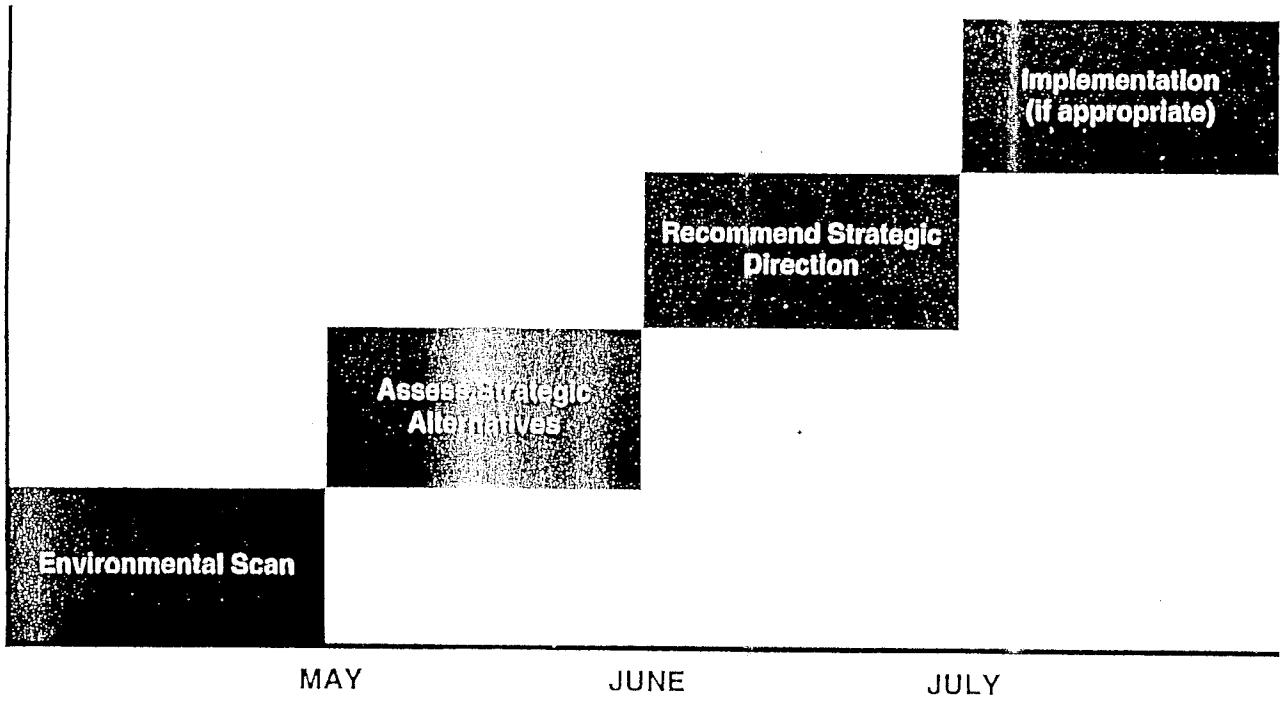
- As part of our engagement, DLJ has been asked to undertake the following tasks on behalf of CareFirst:
  - Evaluate the operations, historical performance and future prospects of CareFirst
  - Review the Case for Change analysis presented by Andersen Consulting
  - Assist CareFirst in analyzing strategic alternatives available to the Company
- To date, DLJ has undertaken the following tasks:
  - Completed initial due diligence
  - Reviewed the Case for Change analysis presented by Andersen Consulting
  - Prepared an initial analysis of CareFirst's current position and future prospects
- Our preliminary analysis includes:
  - Overview of the overall managed care, Blue Cross Blue Shield ("BCBS") and local market environments
  - Determination of critical future success factors
  - Preliminary review of potential strategic alternatives available to CareFirst

BASED ON OUR PRELIMINARY ANALYSIS, DLJ STRONGLY SUPPORTS THE COMPANY'S STRATEGIC PLAN FOR CHANGE

OCC 014987

PROPOSAL MILESTONES

DLJ foresees four critical milestones to be completed as part of our engagement.



OCC 014988

ENVIRONMENTAL SCAN

OCC 014989

ENVIRONMENTAL SCAN OVERVIEW

DLJ has analyzed the principal market trends which will most directly impact CareFirst's future operating success.

- Managed Care Industry Overview
- Blue Cross Blue Shield Overview
- Local Market Overview
- Benchmark Analysis

→ CareFirst Market Position

OCC 014990

MANAGED CARE OVERVIEW

The managed care industry is undergoing a period of significant change and uncertainty.

Positives

- ▲ Favorable pricing cycle
- ▲ Industry focus has shifted from growth to profitability
- ▲ Accelerating consolidation trend
- ▲ Leaders undergoing strategic repositioning
- ▲ Bellwether companies appear on firmer financial footing

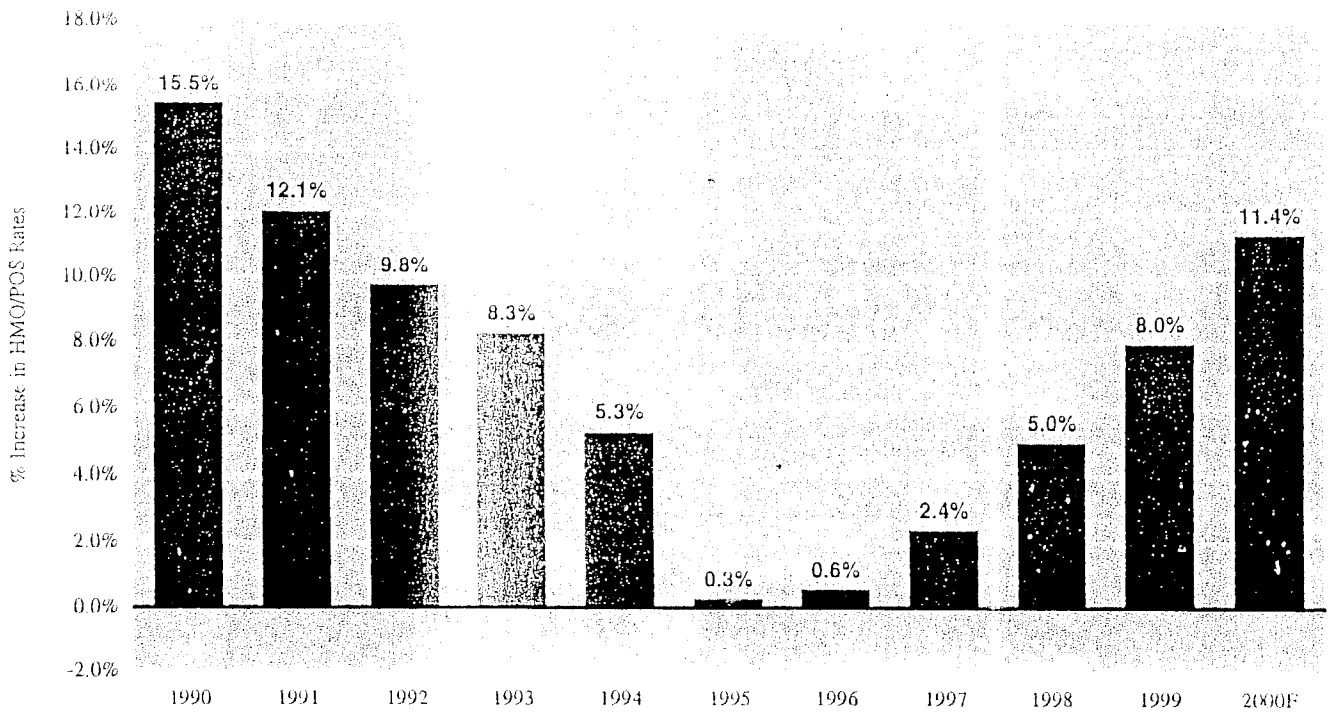
Negatives

- ▼ Health care costs continue to rise
- ▼ Periodic earnings disappointments
- ▼ Providers unable to manage risk
- ▼ Managed care backlash
- ▼ Governmental program reimbursement
- ▼ Higher penetration levels
- ▼ Merger integration continues to be challenging
- ▼ Continuing systems implementation "foul-ups"
- ▼ Litigation

OCC 014991

MANAGED CARE PRICING CYCLE MOVING HIGHER

Following several years of declining growth, pricing trends have been steadily accelerating.



F = Forecast

Source: DLJ Benefit Manager Survey.

OCC 014992