Confidential

Presentation to the Strategic Planning Committee of

PROJECT CHESAPEAKE

OCTOBER 26, 2000

OCC 015502

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EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

Donaldson, Lufkin & Jenrette, ("DLJ") is pleased to have the opportunity to present to CareFirst's Strategic Planning Committee ("SPC") our analysis of a CareFirst partnership with either Trigon Inc. ("Trigon") or Highmark Inc. ("Highmark").

- This presentation is intended to update the SPC on those discussions and due diligence between CareFirst and Highmark since the last SPC meeting

DATE	ACTIVITY	DESCRIPTION
10/18/00	Meeting in Baltimore	Discussion between CareFirst and Trigon team members regarding synergies
10/10/00	Conference Call	Discussion between Merrill Lynch (Trigon's advisors) and DLJ regarding the type of information required for SPC presentation and anticipated transaction timeline
9/13/00	Meeting in Baltimore	Discussion of draft SPC presentation and affiliation synergies senior management of Highmark, CareFirst and DLJ
9/11/00	Conference Call	Follow-up discussion regarding synergies with senior management of Highmark, CareFirst and DLJ
9/5/00	Conference Call	Preliminary discussion regarding synergies with senior management of Highmark, CareFirst and DLJ
8/30/00	Video Conference	Introduction of senior CareFirst and Highmark team members. Assignment of tasks to each functional team
8/28/00	Meeting in Pittsburgh	Discussion with Highmark senior management team and DLJ regarding the type of information required for SPC presentation

- In addition, discussion between Trigon's and CareFirst's investment bankers are planned

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STRATEGIC PLAN

DLJ's analysis of a transaction with Trigon or an affiliation with Highmark is measured against CareFirst's strategic plan.

Strategic Target and Forecast		2003: Target	2005: Forecast
	Revenue	ς $8-11B	ς $10-14B
	Market Share	ς 3 times next competitor (currently at 38%)	ς 3 times next competitor (currently 38%)
	Capital Requirements	ς $1.5-1.7B	ς $1.9-2.2B

Strategic Focus: Geographic Dominance → Next Generation Consumerism

Critical Success Factors	Scale and Local Market Share	Effective Medical Quality and Cost Control	Differentiated Image, Products and Services	Responsive Organization
Core Capabilities	Sophisticated Technology and Information Management	Sophisticated Care Management Techniques	Customer Service Orientation Support by Deep Customer/ Consumer Knowledge	Risk Management
	Market Focused Products and Distribution Meeting Broad Health Needs	Adaptable Organization	Execute Deals and Integrate Mergers	Partnership Establishment and Management

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CAREFIRST CAPITAL NEEDS

Without undertaking a conversion, CareFirst's capital sources are limited to internally generated free cash flow and external debt financing which can satisfy only a portion of the Company's future capital needs.

- DLJ's review of CareFirst's stand-alone ability to access capital is based on the following principal assumptions:
  - CareFirst remains a non-stock corporation, limiting capital access to the debt markets only (*i.e.* CareFirst does not convert to a for-stock corporation and issue publicly traded equity securities)
  - CareFirst intends to preserve its investment grade profile
  - Debt can be issued at the operating company level (*i.e.* GHMSI, BCBSDE and CFMD) based on the credit of CareFirst's operating entities
- Based on these assumptions, DLJ believes that CareFirst would be unable to fund approximately $268–$508 million of its budgeted capital expenditures

Capital Needs			Capital Sources				Capital Shortfall	
2000–2003 CapEx Requirements			2000–2003 Cumulative Free Cash			Incremental Debt Capacity (1)	Additional Funding Needs	
Ecommerce	$30–$50							
New Products	170–250						CapEx	$967–$1,207
Information Management	80–120		Cash for CapEx (2)	$451			Less: FCF	(324)
Mergers	800–900	→	Less: Required Capital (3)	(127)	→	$375	→ Less: Debt	(375)
Total (4)	1,080–1,320		Free Cash Flow ("FCF")	$324			Shortfall	$268-$508
Less: Operating CapEx (5)	(113)							
Incremental CapEx	$967–$1,207							

Source: Company financial projections and Andersen Consulting report.
(1) Based on DLJ analysis of maximum incremental debt capacity under investment grade benchmarks.
(2) Based on Company financial projections and equals to the sum of net change in cash from 2000 to 2003.
(3) Equals 10.0% of total change in Cost of Health Care from 1999 to 2003.
(4) Strategic capital expenditure requirements based on Andersen Consulting report.
(5) Based on Company financial projections and excludes capital expenditures in technology.

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OVERVIEW OF HIGHMARK AND TRIGON

The table below offers a high level side-by-side comparison of Highmark, Trigon and CareFirst on a number of key statistics.

	Highmark	Trigon	CareFirst
Corporate Status	Not-for-profit, non-stock member corporation	For-profit	Not-for-profit, non-stock member corporation
Tax-Status	Federal - taxable State - tax-exempt	Federal - taxable State - taxable	Federal – taxable State – tax-exempt(1)
1999 Blue Cross Blue Shield ("BCBS") Members	4.7 million	1.9 million	2.8 million
1999 Total Members	19.1 million(2)	1.9 million	2.8 million
1999 Revenue (3)	$8.2 billion	$3.3 billion	$5.0 billion
1999 Net Income(4)	$68.6 million	$74.9 million	$74.0 million
Reserves	$2.2 billion	$937 million	$598 million
Employees	13,000	3,711	6,400
Operating Territory	Operates in 29 counties of western Pennsylvania as Highmark BCBS and the remainder of the counties as Pennsylvania Blue Shield Primary licensee for the BCBS market in West Virginia	Primary service area is Virginia	Maryland as CareFirst of Maryland, Inc., Washington, D.C., and Northern Virginia as Group Hospitalization and Medical Services, Inc., and Delaware as BCBS of Delaware
Major Strategic Affiliations	Independence Blue Cross, Capital Blue Cross, Mountain State Blue Cross Blue Shield, Blue Cross of Northeastern Pennsylvania and numerous other Blue Plans for Dental & Vision products	NA	BCBS of Maryland, BCBS of the National Capital Area, BCBS of Delaware
Subsidiaries	9 (100% owned) 6 (50%)	9 (100% owned) 1 (80% owned) 1 (51% owned)	10 (100% owned)

(1) Income from indemnity product is tax-exempt.
(2) Includes ancillary members.
(3) Based on Premium equivalents.
(4) Excludes non-recurring charges

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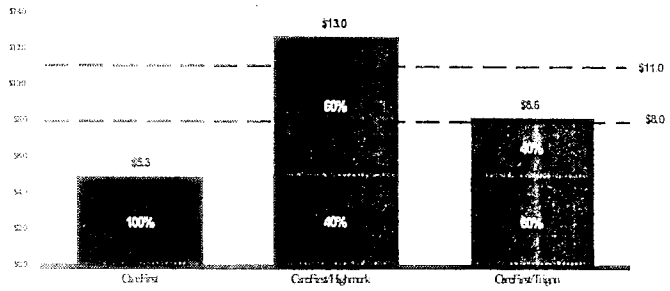
STRATEGIC GOALS

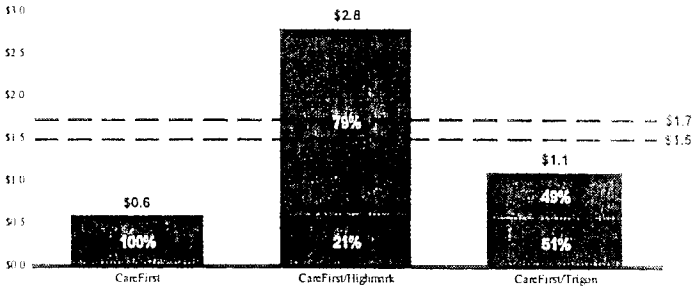
A transaction with either Highmark or Trigon will move CareFirst significantly closer to its strategic goals.

($ in billions and members in millions)

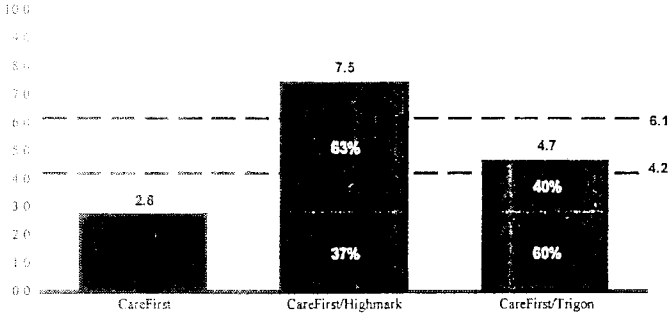
REVENUES (1)



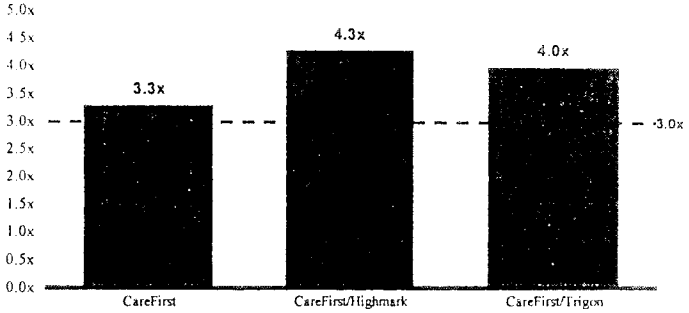
CAPITAL (2)



MEMBERS (3)



MARKET SHARE (4)



Note: Dotted lines represent target range.
(1) Based on premium equivalents.
(2) Based on statutory amounts.
(3) Includes health members and excludes ancillary members.
(4) Represents market share as a multiple of its next largest competitor. Source: NRC data.
(5) Comprised of MD, DE and DC.
(6) Comprised of MD, DE, DC, PA and WV. Highmark's market share includes members from the following Plans: Highmark BCBS, Independence Blue Cross, Capital Blue Cross and Blue Cross of NE PA.
(7) Comprised of MD, DE, DC and VA.

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