

Financial

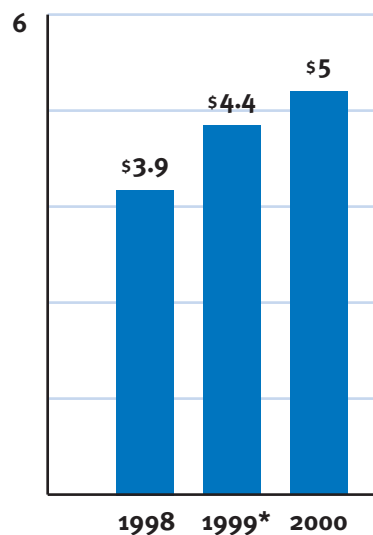
Highlights

The financial strength of CareFirst is anchored in two important aspects of company operations – sustained membership growth and consistently low administrative expenses. Our success on both measures is due largely to the dedication and efficiency of CareFirst’s nearly 6,300 Associates in five states and the District of Columbia. Total enrollment climbed to nearly 3 million members in 2000. Revenues for the year reached a record \$5 billion for consolidated operations of CareFirst and Blue Cross Blue Shield of Delaware, up from \$4.4 billion in 1999.* Net Income was \$63.8 million, a modest decline from the \$69.8 million that would have been reported had the two companies operated as one in 1999. Substantial investment in expanding CareFirst’s

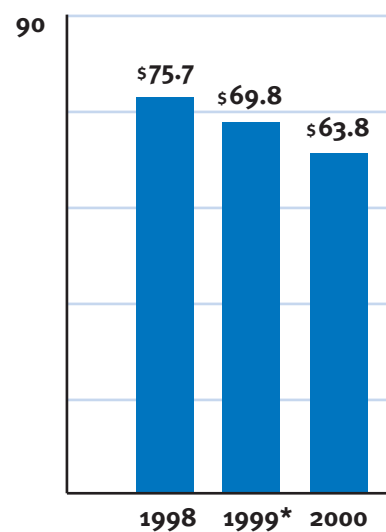
e-commerce capabilities and financial losses suffered on certain public sector programs in Maryland were significant factors in the decline in net income last year. Favorable returns on the company’s investment in information technology and steps already taken to curb losses on government programs will positively affect CareFirst’s earnings in 2001.

The company’s Reserves, a common measure of financial strength under generally accepted accounting principles, rose to \$692 million by year-end 2000, from \$598 million at year-end 1999 – a 16 percent increase for the consolidated operations.

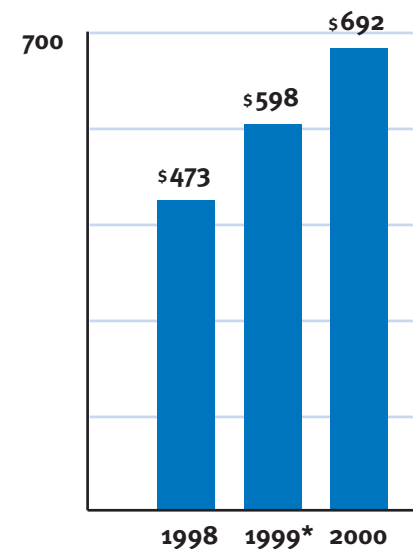
Revenues
(in billions)



Net Income
(in millions)



Reserves
(in millions)



*Financial results for 1999 have been restated to include operating results of Blue Cross Blue Shield of Delaware and to properly display the discontinued Medicare and Medicaid operations of CareFirst BlueCross BlueShield.

Report of Independent Public Accountants



To the Board of Directors of CareFirst, Inc.,
the Board of Directors of CareFirst of Maryland, Inc.,
the Board of Trustees of Group Hospitalization and Medical Services, Inc.
and the Board of Directors of BCBSD, Inc.:

We have audited the accompanying consolidated balance sheets of CareFirst, Inc. (a Maryland corporation) and affiliates (collectively referred to as the Company) as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in reserves and cash flows for the years then ended. 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 audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Baltimore, Maryland

January 31, 2001

Consolidated Balance Sheets

As of December 31, 2000 and 1999 (in thousands)

	2000	1999		2000	1999
ASSETS			LIABILITIES AND RESERVES		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents	\$ 230,870	\$ 113,354	Short-term borrowings	\$ 96,549	\$ 87,382
Investments	19,725	36,502	Medical claims payable	725,134	607,820
Advances to providers	124,309	124,176	Accounts payable and accrued expenses	290,812	224,440
Accounts receivable, net	630,724	573,762	Unearned revenues	301,208	218,151
Interest income receivable	8,203	8,076	Group experience funds and advances	121,845	106,109
Other current assets	249,481	170,191	Note payable	8,937	8,937
Deferred tax assets, net	13,060	13,886	Net current liabilities of discontinued operations	3,876	24,311
Net current assets of discontinued operations	2,236	—	Total current liabilities	1,548,361	1,277,150
Total current assets	1,278,608	1,039,947			
			NOTE PAYABLE, NONCURRENT	9,180	18,197
LONG-TERM INVESTMENTS	822,517	756,282	OBLIGATIONS UNDER CAPITAL LEASE	2,997	3,469
PROPERTY AND EQUIPMENT, NET	143,260	116,255	OTHER LIABILITIES	61,580	66,898
INTANGIBLE AND OTHER ASSETS, NET	48,788	29,579	Total liabilities	1,622,118	1,365,714
DEFERRED TAX ASSETS, NONCURRENT, NET	18,962	18,190			
NET LONG-TERM ASSETS OF DISCONTINUED OPERATIONS	1,766	3,680	COMMITMENTS AND CONTINGENCIES		
Total assets	\$ 2,313,901	\$ 1,963,933	RESERVES:		
			Retained earnings	682,783	618,979
			Accumulated other comprehensive income (loss)	9,000	(20,760)
			Total reserves	691,783	598,219
			Total liabilities and reserves	\$ 2,313,901	\$ 1,963,933

The accompanying notes are an integral part of these consolidated balance sheets.

Consolidated Statements of Operations

For the Years Ended December 31, 2000 and 1999 (in thousands)

	2000	1999
REVENUES	\$ 4,984,656	\$ 4,442,454
OPERATING EXPENSES:		
Cost of care	4,473,951	3,949,624
General and administrative	464,125	426,049
Write-off of software development costs	—	22,100
Affiliation costs	12,100	—
Year 2000 remediation costs	—	12,058
Total operating expenses	4,950,176	4,409,831
Income from operations	34,480	32,623
INVESTMENT INCOME, NET	55,710	51,702
OTHER INCOME, NET	15,898	7,083
Income from continuing operations before provision for income taxes	106,088	91,408
PROVISION FOR INCOME TAXES	19,977	12,081
Net income from continuing operations	86,111	79,327
DISCONTINUED OPERATIONS:		
Loss from discontinued operations, net of applicable income tax benefit of \$5,768 and \$2,621	(18,181)	(9,508)
Loss on disposal of discontinued operations, net of applicable income tax benefit of \$1,231	(4,126)	—
Net income	\$ 63,804	\$ 69,819

Consolidated Statements of Changes in Reserves

For the Years Ended December 31, 2000 and 1999 (in thousands)

	Retained Earnings	Accumulated Other Comprehensive Income	Total Reserves
BALANCE, AS OF DECEMBER 31, 1998	\$ 549,160	\$ 12,638	\$ 561,798
Net income	69,819	—	69,819
Other comprehensive income, net of tax:			
Change in net unrealized gains and losses on investments, net of reclassification adjustments	—	(33,427)	(33,427)
Foreign currency translation adjustment	—	29	29
Total comprehensive income			36,421
BALANCE, AS OF DECEMBER 31, 1999	618,979	(20,760)	598,219
Net income	63,804	—	63,804
Other comprehensive income, net of tax:			
Change in net unrealized gains and losses on investments, net of reclassification adjustments	—	30,316	30,316
Minimum pension liability adjustment	—	(507)	(507)
Foreign currency translation adjustment	—	(49)	(49)
Total comprehensive income			93,564
BALANCE, AS OF DECEMBER 31, 2000	\$ 682,783	\$ 9,000	\$ 691,783

The accompanying notes are an integral part of these consolidated statements.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2000 and 1999 (in thousands)

	2000	1999		2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			CASH FLOWS FROM INVESTING ACTIVITIES:		
Net income	\$ 63,804	\$ 69,819	Net purchases of investments	\$ (13,104)	\$ (106,097)
Adjustments to reconcile net income to net cash flows from operating activities:			Purchases of property and equipment	(61,277)	(41,735)
Depreciation and amortization	35,656	30,477	Proceeds from the sale of property and equipment	—	42
Write-off of software development costs	—	22,100	Cash received in PHN acquisition	4,922	—
Loss on disposal of fixed assets, net	179	—	Increase in intangible and other assets, net	(5,744)	(1,011)
Benefit for deferred income taxes	(3,164)	(1,461)	Net cash flows from investing activities	(75,203)	(148,801)
Changes in operating assets & liabilities:			CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in accounts receivable, net	(27,749)	(85,282)	Increase (decrease) in short-term borrowings	9,167	(1,536)
Increase in interest income receivable	(127)	(1,967)	Payments on obligation under capital lease	(472)	(1,021)
Increase in other current assets	(8,066)	(7,687)	Repayment on note payable	(9,517)	(9,598)
Increase in medical claims payable	92,364	75,462	Decrease in advances to providers	(133)	20,065
Increase (decrease) in accounts payable and accrued expenses	47,526	(10,357)	Net cash flows from financing activities	(955)	7,910
Increase (decrease) in unearned revenues	5,779	(15,115)	Net increase (decrease) in cash and cash equivalents	117,516	(63,598)
Increase in group experience funds and advances	15,736	10,973	Cash and cash equivalents, beginning of year	113,354	176,952
(Decrease) increase in other liabilities	(5,318)	5,884	Cash and cash equivalents, end of year	\$ 230,870	\$ 113,354
Changes in net assets and liabilities of discontinued operations	(22,946)	(15,553)	SUPPLEMENTAL DISCLOSURES:		
Net cash flows from operating activities	193,674	77,293	Cash paid for income taxes	\$ 11,830	\$ 9,751
			Cash paid for interest	\$ 2,382	\$ 3,049

The accompanying notes are an integral part of these consolidated statements.

Notes to Consolidated Financial Statements

December 31, 2000 and 1999 (in thousands)

1 Organization and principles of consolidation:

CareFirst, Inc. (a Maryland corporation) and affiliates (collectively, the Company) provide a comprehensive array of health insurance and managed care products and services primarily through indemnity health insurance, health benefits administration and health maintenance organizations (HMOs). These products and services are provided to individuals, businesses and governmental agencies primarily in the States of Maryland and Delaware and the Washington, D.C. metropolitan area.

CareFirst, Inc. incorporated January 16, 1998, to become the not-for-profit parent of CareFirst of Maryland, Inc. (CFMI) and Group Hospitalization and Medical Services, Inc. (GHMSI). In 1999, both CFMI and GHMSI began doing business as CareFirst BlueCross BlueShield.

On March 22, 2000, CareFirst, Inc., entered into a business affiliation with BCBSD, Inc. (BCBSD), which does business as Blue Cross Blue Shield of Delaware. In connection with this affiliation, the Company incurred affiliation costs of \$12,100 for the year ended December 31, 2000. These affiliation costs consist primarily of personnel related expenses, legal fees and consulting fees. This affiliation qualifies as a tax-free exchange and was accounted for using the "pooling of interest" method of accounting for business combinations under Accounting Principles Board Opinion No. 16. Accordingly, prior period consolidated financial statements have been presented to include the combined financial position, results of operations, and cash flows as though CareFirst, Inc. and BCBSD, Inc. had always been affiliated.

The accompanying consolidated financial statements include the accounts of CareFirst, Inc. and its affiliates. All significant intercompany transactions have been eliminated in consolidation.

On November 8, 2000, the Company, through one of its subsidiaries, acquired the remaining outstanding stock of Preferred Health Network of Maryland, Inc. (PHN). Prior to November 8, 2000, the Company maintained a cost-based investment in PHN. PHN and its subsidiaries provide managed care products for clients located in Maryland.

2 Summary of significant accounting policies:

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements and in the disclosures of contingent assets and liabilities. While actual results could differ from those estimates, management believes that actual results will not be materially different from amounts provided in the accompanying consolidated financial statements.

Fair value of financial instruments

The fair value of the Company's investments are based primarily on quoted market prices. The carrying amounts of other financial instruments, including cash and cash equivalents, advances to providers, accounts receivable, other current assets, short-term borrowings, medical claims payable, accounts payable and accrued expenses, unearned revenues, and group experience funds and advances, approximate fair value given the short-term nature of these financial instruments.

Cash and cash equivalents and short-term borrowings

Cash and cash equivalents include amounts invested in accounts which are readily convertible to cash. Investments with contractual maturities of ninety days or less from the date of original purchase are classified as cash and cash equivalents. In accordance with the Company's cash management policy of maximizing the amount of funds invested in income-earning assets, the Company routinely anticipates the timing and amount of future cash flows. This policy frequently results in the existence of negative book cash balances, which represent short-term borrowings.

Advances to providers

The Company has advances on deposit with certain hospitals in the State of Maryland. These advances permit the Company to earn differentials of 2.25 and 2.00 percent of amounts billed for inpatient and outpatient charges by these hospitals, respectively.

Revenue recognition

Revenues are recognized and earned on a monthly basis for the period the health care coverage is in effect. Unearned revenues

represent prepayments of premiums for future health care coverage and Federal Employee Program unearned premiums.

Accounts receivable primarily represent unpaid amounts earned from employer groups and individuals for health benefits, amounts due under risk sharing arrangements with physicians and medical management groups and amounts offsetting the estimate of self-funded medical claims payable and accrued claims processing expenses. Provision is made for accounts considered uncollectible and/or potential adjustments which arise as a result of management or third party review.

The Company participates with other Blue Cross and Blue Shield plans in administering the health care benefit plans of various national accounts. Administrative fees are generally recognized and earned on a monthly basis for the period the participating agreement is in effect.

The Company provides coverage for certain groups whose contracts provide for payments based on group experience factors. Under these contracts, revenue is generally recorded on the basis of incurred claims, plus retention. In certain cases, maximum rates are established by contract, and losses can result if claims and retention exceed these maximum rates. Any such losses are recorded in the year incurred, and may be recouped against subsequent years' gains.

Certain claim payments, premium rates, administrative expense reimbursements and provider discounts are subject to review and potential retroactive adjustment by third parties. Reserves are established for potential obligations arising from such reviews. While claims have been asserted against the Company, management believes that the resolution of these claims will not be materially different from amounts recorded in the accompanying consolidated financial statements.

Cost of care

Cost of care is recognized in the period in which members receive medical services. Amounts recorded represent contractual payments to providers and estimates of medical claims payable.

Federal employee program

The Company participates in the Blue Cross and Blue Shield Federal Employee Program (FEP) through the Office of Personnel Management (OPM). Claims incurred on behalf of FEP are reported as revenues during the period in which the claims are incurred. The related administrative fees are recognized as revenues as they are earned during the contract period. The Blue Cross and Blue Shield Association (BCBSA) acts as an agent for FEP and provides information to the Company for

inclusion in the accompanying consolidated financial statements. The Company records its allocable share of amounts held by the OPM as an asset, with an equivalent amount recorded as unearned revenues. These amounts are \$230,341 and \$148,364 as of December 31, 2000 and 1999, respectively, and are included in other current assets and unearned revenues, respectively, in the accompanying consolidated balance sheets. The activity related to these amounts is considered noncash operating activity and has been excluded from the accompanying consolidated statements of cash flows. The current contract expires December 31, 2001.

GHMSI also performs certain administrative functions as the national operations center for the FEP under a cost reimbursement contract with the BCBSA. The reimbursement of allocable costs under this contract is recorded as a reduction of general and administrative expenses. The FEP reimbursed GHMSI for costs incurred in connection with this agreement totaling \$45,862 and \$39,291 for the years ended December 31, 2000 and 1999, respectively.

FEP represented approximately 25 percent and 28 percent of the Company's premium revenues for the years ended December 31, 2000 and 1999, respectively.

Reimbursement of Medicare claims cost and expenses

CFMI acted as a fiscal intermediary under contract with BCBSA for Part A of the Medicare program in 2000 and 1999. Under this contract, CFMI processed claims of approximately \$3.1 billion and \$3.0 billion in 2000 and 1999, respectively. Payment and reimbursement of Medicare claims are not included in the accompanying consolidated financial statements.

Reimbursements received from the Medicare program were approximately \$10,500 and \$9,500 for the years ended December 31, 2000 and 1999, respectively. Operating expenses in the accompanying consolidated statements of operations are recorded net of these reimbursements.

Intangible and other assets

Intangible and other assets primarily include employer group contracts, goodwill, cash surrender value of life insurance policies, and investments in non-consolidated affiliates. The intangible assets are being amortized over their useful lives which range from 10 to 30 years. Amortization expense of \$2,384 and \$2,273 has been recorded in the accompanying consolidated statements of operations for the years ended December 31, 2000 and 1999, respectively. Accumulated amortization was \$23,090 and \$20,705 as of December 31, 2000 and 1999, respectively.

Reclassifications

Certain amounts from the prior year financial statements have been reclassified in order to conform with the current year presentation.

3 Discontinued operations – public sector:

In December 2000, management and the Board of Directors of the Company adopted a formal plan for one of the Company's HMO's, Free State Health Plan, Inc. (FSHP), to fully exit its public sector HMO segment. The public sector HMO segment included all of the operations surrounding FSHP's Medicare and Medicaid risk products. The decision to exit the Medicare portion of this segment had been previously made by management and the Board of Directors of the Company in July 2000.

The Company has accounted for the disposal of the segments under Accounting Principles Board opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business and Extraordinary Unusual and Infrequently Occurring Events and Transactions" (APB 30). APB 30 requires that the results of the continuing operations be reported separately from those of discontinued operations for all periods presented and that any gain or loss from disposal of a segment of business be reported in conjunction with the related results of discontinued operations. Accordingly, the Company has restated its results of operations for all prior periods. The Company recorded an after-tax loss on disposal of its public sector business of approximately \$2,126.

The summarized results of the discontinued operations segment are as follows:

	2000	1999
Revenues	\$ 460,224	\$ 517,817
Cost of care	(458,438)	(501,357)
General and administrative	(24,040)	(25,549)
Total operating expenses	(482,478)	(526,906)
Loss from discontinued operations before benefit for income taxes	(22,254)	(9,089)
Benefit for income taxes	5,697	2,327
Net loss from discontinued operations	\$ (16,557)	\$ (6,762)

The following is a summary of the current assets and liabilities of discontinued operations as of December 31, 2000 and 1999, respectively, which are reflected in the accompanying consolidated balance sheets.

	2000	1999
Advances to providers	\$ 43,970	\$ 39,174
Accounts receivable, net	25,861	23,212
Other	370	5,224
Medical claims payable	(67,864)	(70,535)
Unearned revenues	(101)	(20,275)
Net current assets (liabilities) of discontinued operations	\$ 2,236	\$ (23,200)

As of December 31, 1999, FSHP carried a \$2,189 investment in CarePartners, LLC (CarePartners) which was included in net long-term assets of discontinued operations in the accompanying balance sheet. CarePartners served as a preferred provider network for the Group's State of Maryland Medicaid enrollees and coordinated the delivery of health care services to those State of Maryland Medicaid enrollees who selected a primary care physician in certain designated geographic areas. The Group also served as a claims processor for CarePartners. In December 2000, FSHP recorded an impairment charge of \$2,189 against the CarePartners investment. This charge has been included within the loss on disposal of discontinued operations.

International operations – BCBSD

During 2000, BCBSD entered into two transactions, which effectively resulted in a discontinuance of its international operations.

On June 30, 2000, BCBSD sold its entire interest in Allnacion Uruguay S.A. (BCBSU) and Allnacion Argentina S.A. (BCBSAR) to a third party. A gain of \$824 was recorded on the sale and has been included within the loss from discontinued operations within the consolidated statement of operations. The loss from discontinued operations includes the operating results of BCBSU and BCBSAR prior to the sale.

Subsequent to the sale, the Company determined that it would discontinue the remaining international operations of Allnacion Insurance Company (Allnacion) which resulted in the Company following APB 30 as described above.

In January 2001, the Company entered into an agreement to sell the remaining international operations of Allnacion to another

insurance company. This sale must be approved by the Delaware Department of Insurance. For BCBSD, the loss from discontinued operations of its international operations after affecting for the gain described above was \$1,624 net of applicable tax benefits.

The assets and liabilities related to this operation have been combined and shown separately at their net realizable value as net assets or net liabilities of discontinued operations on the balance sheets. The balances that make up these net assets and liabilities at December 2000 and 1999, are as follows:

	2000	1999
CURRENT:		
Cash and cash equivalents	\$ 1,400	\$ 2,162
Reinsurance receivables	1,435	748
Short-term investments	99	100
Other current assets	1,465	72
	\$ 4,399	\$ 3,082
Medical claims payable	\$ (2,100)	\$ (1,540)
Unearned revenues	(3,147)	(2,604)
Accounts payable and accrued expenses	(3,028)	(49)
	\$ (8,275)	\$ (4,193)
Net current liabilities of discontinued operations	\$ (3,876)	\$ (1,111)
LONG-TERM:		
Long-term investments	\$ 1,517	\$ 1,174
Investment – Taiwan Branch	249	264
Fixed assets, net	—	53
Net long-term assets of discontinued operations	\$ 1,766	\$ 1,491

4 PHN acquisition:

In November 2000, one of CFMI's subsidiaries acquired the outstanding stock of PHN for consideration, including previous investments and forgiveness of certain receivables of \$4,539. This transaction was accounted for as a purchase; thus, the consideration was allocated to the acquired assets and liabilities based on their estimated fair value at the time of acquisition. The estimated fair value of the assets acquired and (liabilities) assumed were as follows:

Cash	\$ 1,634
Accounts receivable, net	15,269
Other current assets	304
Property and equipment, net	11
Investments	3,288
Medical claims payable	(24,950)
Other	(4,497)
Net liabilities assumed	\$ (8,941)

Prior to the acquisition, Free State Health Plan, Inc. (FSHP) received a transfer of certain interests in PHN from CFMI. Intangible assets related to the PHN acquisition are being amortized over 20 years.

5 Regulatory matters:

The Company is subject to regulation and supervision by regulatory authorities of the various jurisdictions in which it is licensed to conduct business. The authorities mandate, among other things, the maintenance of minimum statutory reserves and prohibit certain transactions without prior regulatory approval. In addition, the Company also must comply with various conditions, restricting certain operations and financial transactions, that were contained in regulatory orders approving the affiliation of CFMI and GHMSI and the affiliation of the Company and BCBSD.

Financial statements filed by certain of the regulated companies with the regulatory authorities are prepared in accordance with statutory accounting practices prescribed or permitted by said authorities, which differ from generally accepted accounting principles (GAAP). The most significant differences result from the exclusion of certain assets from statutory reserves, differences in the carrying value of investments, including investments in subsidiaries, treatment of subsidiary net income (losses) as an unrealized capital gain, recording the note payable as reserves and other funds, recording the deferred gain on the 1998 sale of GHMSI's home office land and building as reserves and other funds for statutory accounting and as a liability for GAAP, classification of affiliation costs and the modification or exclusion of certain Statements of Financial Accounting Standards.

As of December 31, 2000 and 1999, the statutory reserves and unassigned funds for the Company exceeded minimum statutory requirements.

6 Investments:

Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that equity securities with readily determinable fair values and all debt securities need to be classified as either trading securities, held to maturity securities or available-for-sale securities. In order to maintain maximum flexibility in utilization

of invested assets, the Company's investments in securities are primarily classified as available-for-sale. Investments in debt and traded equity securities are carried at fair value, which is determined based on quoted market prices. Non-traded equity securities, without readily determinable fair market values, and held to maturity securities are carried at amortized cost. Investment income is recognized when realized and reported net of investment expenses. These investments consist of the following:

	Amortized cost basis	Gross unrealized losses	Gross unrealized gains	Aggregate fair value
DECEMBER 31, 2000:				
Debt securities issued by the U.S. Treasury and other U.S. government agencies	\$ 398,883	\$ 2,366	\$ 3,973	\$ 400,490
Foreign government debt securities	2,277	3	72	2,346
Corporate debt securities	323,898	7,133	7,254	324,019
Equity securities, traded	90,225	5,118	13,594	98,701
Mortgage-backed securities	15,432	10	345	15,767
Total investments	\$ 830,715	\$ 14,630	\$ 25,238	\$ 841,323
	Amortized cost basis	Gross unrealized losses	Gross unrealized gains	Aggregate fair value
DECEMBER 31, 1999:				
Debt securities issued by the U.S. Treasury and other U.S. government agencies	\$ 486,218	\$ 22,676	\$ 92	\$ 463,634
Foreign government debt securities	1,049	16	5	1,038
Corporate debt securities	216,510	8,916	3,052	210,646
Equity securities, traded	90,703	6,308	9,216	93,611
Equity securities, non-traded	447	—	—	447
Mortgage-backed securities	23,115	701	—	22,414
Total investments	\$ 818,042	\$ 38,617	\$ 12,365	\$ 791,790

The Company's policy is to classify all investments with contractual maturities within one year as current. Actual maturities may differ from contractual maturities of mortgage-backed securities, because borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The contractual maturities of the Company's available-for-sale securities, excluding equity securities which have no contractual maturity as of December 31, 2000, are as follows:

	Amortized cost basis	Aggregate fair value
Within 1 year	\$ 19,804	\$ 19,725
After 1 year through 5 years	170,589	171,570
After 5 years through 10 years	211,387	214,796
After 10 years	338,710	336,531
Total	\$ 740,490	\$ 742,622

Available-for-sale securities were sold as follows for the years ended December 31:

	2000	1999
Proceeds from sales	\$ 276,051	\$ 507,889
Gross realized gains	13,508	12,402
Gross realized losses	10,374	6,656

For purposes of computing realized gains and losses, the specific identification method of determining cost was used.

Securities held to maturity consist of corporate debt securities carried at an amortized cost of \$919 and \$994 as of December 31, 2000 and 1999, respectively. These securities have contractual maturities ranging from five to ten years.

7 Property and equipment:

Property and equipment are recorded at cost and are depreciated on the straight-line method over useful lives ranging from eighteen months to five years for computer equipment and software, three to fifteen years for furniture and equipment and twenty to forty years for buildings and building improvements. Leasehold improvements are amortized over the terms of the respective leases. Property and equipment are comprised of the following as of December 31:

	2000	1999
Land	\$ 8,114	\$ 8,114
Buildings and building improvements	32,602	32,594
Leasehold improvements	17,892	17,531
Computer equipment and software	217,500	161,193
Furniture and equipment	64,837	65,933
	340,945	285,365
Less— accumulated depreciation and amortization	197,685	169,110
Property and equipment, net	\$ 143,260	\$ 116,255

Depreciation and amortization expense on property and equipment was \$33,272 and \$28,204 for the years ended December 31, 2000 and 1999, respectively, and are included as components of cost of care and general and administrative expenses in the accompanying consolidated statements of operations.

In October 1999, CFMI wrote off software development costs of \$22,100 associated with a billing, enrollment and care system for which the vendor would not support the future planned development.

8 Sale/leaseback of GHMSI headquarters building:

On December 3, 1998, GHMSI sold its headquarters building in Washington, D.C. The sale resulted in a realized gain, based on depreciated cost, of \$41,079.

In connection with the sale, GHMSI entered into a five-year leaseback for all of the net rentable space in the building. The purchaser has the right to recapture a portion of the space upon notice to GHMSI at various points in time during the leaseback period.

Due to the leaseback arrangement, approximately \$25,019 of the realized gain from the sale of the building was recorded as a deferred liability in the accompanying consolidated balance sheets and is being amortized over the life of the leaseback period in proportion to the lease payments. In 2000 and 1999, \$5,032 and \$4,856, respectively, was amortized against rent expense. The originally recorded deferred gain was equal to the net present value of the future lease payments, using a discount rate of 6.5 percent. The deferred gain is to be adjusted downward through other income in periods in which the purchaser exercises its recapture rights.

On August 25, 2000, pursuant to the lease recapture provision, the purchaser gave notice that certain space in the building would be recaptured. Under the lease recapture provision, the space will be recaptured on May 31, 2001. Resulting from this notice, \$555 of the deferred gain was recognized through other income, net in the accompanying consolidated statement of operations. On January 3, 2001, pursuant to the lease recapture provision, the purchaser gave notice additional space would be recaptured on May 31, 2001. Resulting from this notice, \$5,246 of the deferred gain will be recognized as other income in 2001, reflecting the period in which the lease modification was received. Accordingly, future lease payments related to both recapture events have been excluded from minimum future lease payments listed below.

Minimum future lease payments at December 31, 2000 (reflecting the above recapture of space by the purchaser) are as follows:

2001	\$ 3,955
2002	3,088
2003	3,134
Total minimum payments	\$ 10,177

9 Medical claims payable:

The liability for medical claims payable is computed in accordance with generally accepted actuarial practices and is based upon authorized health care services and past claims payment experience, together with current factors which, in management's judgment, require recognition in the calculation. These estimates are periodically reviewed and any adjustments are reflected in current operations. Activity in the liability account for medical claims is summarized as follows:

	2000	1999
Balance at January 1	\$ 607,820	\$ 527,369
Liability acquired in connection with PHN acquisition	24,950	—
Adjusted balance	632,770	527,369
INCURRED RELATED TO:		
Current year	4,473,407	3,961,096
Prior years	544	(11,472)
Total incurred	4,473,951	3,949,624
PAID RELATED TO:		
Current year	3,816,269	3,397,467
Prior years	565,318	471,706
Total paid	4,381,587	3,869,173
Balance at December 31	\$ 725,134	\$ 607,820

The methodology used in calculating the liability for medical claims has been consistently applied between years. During 2000 and 1999, a portion of the adjustment to prior year incurred claims relates to self-insured groups and FEP and is offset by revenue adjustments in an equivalent amount.

The Company accrues estimated claims processing expenses relating to the liability for unpaid claims. These accruals totaled \$27,064 and \$20,716 as of December 31, 2000 and 1999, respectively, and are included in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

10 Note payable:

GHMSI has a note payable held by BCS Plan Investors Corporation (BPIC), an affiliate of BCBSA. The outstanding balance of the note was \$17,874 and \$26,810 as of December 31, 2000 and 1999, respectively. The note is unsecured and bears interest at 6 percent per annum. The note is guaranteed by CFMI and CareFirst, Inc. Interest is payable out of 50 percent of the previous calendar year's statutory earnings and profits generated by GHMSI and CFMI (as determined by reference to GHMSI's and CFMI's audited statutory financial statements ended on December 31 of such calendar year) and is due April 30. In addition, GHMSI agreed to repay the balance in equal annual installments, beginning April 30, 1998, through April 30, 2002. Pursuant to the Note Purchase Agreement, GHMSI is required to make a mandatory prepayment of principal if GHMSI's and CFMI's combined reserves (determined by generally accepted accounting principles) exceed the greater of 150 percent of the BCBSA's capital benchmark and 150 percent of the highest required reserves and unassigned funds of GHMSI's and CFMI's regulators. Both interest and principal payments require the prior approval of the District of Columbia Department of Insurance and Securities Regulation.

GHMSI incurred interest expense of \$1,251 and \$1,787, respectively, on the note for the years ended December 31, 2000 and 1999.

11 Lease commitments:*Operating obligations*

The Company leases certain administrative and medical facilities and equipment under operating leases. Some of these lease agreements contain escalation clauses for increases in real estate taxes and operating costs over base year amounts. These leases expire on various dates with renewal options available on many of these leases.

Future noncancelable minimum payments for leases, excluding GHMSI's building lease discussed previously, are as follows:

2001	\$ 23,612
2002	21,565
2003	19,395
2004	18,680
2005	16,160
2006 and thereafter	85,824
Total minimum payments	\$ 185,236

Rent expense for the years ended December 31, 2000 and 1999, for all operating leases was \$23,525 and \$20,833, respectively.

Capital obligations

BCBSD leases a building under a capital lease and the property has a cost of \$7,700 and accumulated depreciation of \$5,635. Minimum future lease payments for this lease are as follows:

2001	\$ 1,167
2002	1,167
2003	1,167
2004	1,167
2005	1,167
2006 and thereafter	582
	6,417
Less— amounts representing interest and executory costs	2,847
	\$ 3,570

12 Pension benefits:

The Company has noncontributory defined benefit retirement plans covering substantially all full-time employees. The annual contributions are not less than the minimum funding standards set forth in the Employee Retirement Income Security Act of 1974, as amended. The plans provide for eligible employees to receive benefits based principally on years of service with the Company and a percentage of certain compensation prior to normal retirement.

Effective January 1, 1999, the CFMI and GHMSI plans were amended to support a consistent benefit package across the CFMI and GHMSI entities. The plans' traditional Excess Defined Benefit formula was changed so that both plans will use a Pension Equity formula. The resulting overall liability for the CFMI defined benefit plan remained substantially the same. The resulting overall liability for the GHMSI defined benefit plan was lowered due to these changes; however, employer matching contributions were added as an enhancement to the GHMSI 401(k) plan.

The following tables set forth the Company's plans' funded status and amounts recognized in the accompanying consolidated financial statements as of December 31:

	2000		
	CFMI	GHMSI	BCBSD
Actual present value of benefit obligations:			
Accumulated benefit obligation	\$ (107,784)	\$ (166,180)	\$ (39,560)
Projected benefit obligation for service rendered to date	\$ (135,380)	\$ (179,198)	\$ (48,910)
Plan assets at fair value	108,688	232,341	45,253
Projected benefit obligation (greater) less than plan assets	(26,692)	53,143	(3,657)
Unrecognized net transition asset	(578)	—	(193)
Unrecognized prior service asset	(18,396)	(22,397)	22
Unrecognized net loss (gain)	25,473	(24,306)	(1,462)
(Accrued) prepaid pension cost included in the accompanying consolidated balance sheets	\$ (20,193)	\$ 6,440	\$ (5,290)

	2000		
	CFMI	GHMSI	BCBSD
Net periodic pension cost includes the following components:			
Normal service cost-benefits earned during the period	\$ 7,561	\$ 4,986	\$ 1,504
Interest cost on projected benefit obligation	9,273	12,326	3,417
Actual return on plan assets	2,303	(6,470)	(3,938)
Net amortization and deferral	(13,091)	(16,652)	(79)
Net periodic pension cost	\$ 6,046	\$ (5,810)	\$ 904

	1999		
	CFMI	GHMSI	BCBSD
Actual present value of benefit obligations:			
Accumulated benefit obligation	\$ (103,106)	\$ (141,943)	\$ (35,172)
Projected benefit obligation for service rendered to date	\$ (113,100)	\$ (142,829)	\$ (44,854)
Plan assets at fair value	118,663	232,433	48,601
Projected benefit obligation less than plan assets	5,563	89,604	3,747
Unrecognized net transition asset	(950)	—	(278)
Unrecognized prior service asset	(20,491)	(24,637)	28
Unrecognized net loss (gain)	1,330	(64,337)	(9,035)
(Accrued) prepaid pension cost included in the accompanying consolidated balance sheets	\$ (14,548)	\$ 630	\$ (5,538)
Net periodic pension cost includes the following components:			
Normal service cost-benefits earned during the period	\$ 8,769	\$ 4,901	\$ 1,756
Interest cost on projected benefit obligation	7,813	10,067	3,316
Actual return on plan assets	(18,662)	(18,215)	(3,587)
Net amortization and deferral	9,476	(2,431)	(40)
Net periodic pension cost	\$ 7,396	\$ (5,678)	\$ 1,445

The following tables set forth employer contributions to the plans, benefits paid from the plans and certain actuarial assumptions for the years ended December 31:

	2000		
	CFMI	GHMSI	BCBSD
Employer contributions	\$ 400	\$ —	\$ 1,152
Benefits paid	8,071	6,562	3,213
Weighted average discount rate	7.50%	7.50%	7.50%
Increase in future compensation levels	5.00%	5.00%	5.00%
Expected long-term rate of return	9.00%	9.00%	9.00%
	1999		
	CFMI	GHMSI	BCBSD
Employer contributions	\$ 473	\$ —	\$ —
Benefits paid	8,472	6,422	3,193
Weighted average discount rate	7.75%	7.75%	7.75%
Increase in future compensation levels	5.00%	5.00%	4.75%
Expected long-term rate of return	9.00%	9.00%	9.00%

In addition, the Company sponsors 401(k) plans for the benefit of all eligible employees. The Company contributes to certain of these plans and recognized expense of \$3,711 and \$3,458 for the years ended December 31, 2000 and 1999, respectively.

CFMI also has a nonqualified supplemental retirement benefit plan covering certain officers, which provides for eligible employees to receive additional benefits based principally on compensation and years of service. As of December 31, 2000 and 1999, respectively, CFMI has accrued \$6,302 and \$4,457 for these benefits. Supplemental retirement benefit plan expense for the years ended December 31, 2000 and 1999, was \$1,845 and \$1,891, respectively.

GHMSI has noncontributory, nonqualified defined benefit pension plans for the benefit of certain current and former executives. GHMSI accounts for its nonqualified pension plans on the accrual basis. As of December 31, 2000 and 1999, respectively, GHMSI has accrued \$5,591 and \$6,226 for these benefits, of which \$2,076 and \$2,080 is recoverable through the cash surrender value of life insurance policies covering former executives. During 2000 and 1999, GHMSI recognized expense of \$418 and \$428, respectively, related to these plans.

BCBSD has nonqualified supplemental retirement plans covering certain employees, which provide for incremental pension payments based principally on compensation and years of service. As of December 30, 2000 and 1999, respectively, BCBSD has accrued \$14,460 and \$6,868 for these benefits. Supplemental retirement benefit plan expense for the years ended December 31, 2000 and 1999, was \$8,481 and \$1,339, respectively.

13 Postretirement benefits:

The Company provides certain benefits for retired employees. Substantially all employees become eligible for those benefits if they reach early retirement age while working for the Company and meet certain eligibility requirements. The Company's postretirement benefit programs provide for specific benefits based primarily on the retiree's age and years of service with the Company.

In accordance with Statement of Financial Accounting Standards No. 106, the Company records the expected cost of these benefits as expense during the years that employees render service. The following tables set forth the postretirement benefit programs' funded status and amounts recognized in the accompanying consolidated financial statements as of December 31:

	2000		
	CFMI	GHMSI	BCBSD
Accumulated postretirement benefit obligation	\$ (23,059)	\$ (14,546)	\$ (16,404)
Unrecognized net transition liability	—	7,067	5,286
Unrecognized prior service cost	(1,321)	478	127
Unrecognized net loss (gain)	4,241	(6,100)	5
Accrued postretirement benefit cost included in accounts payable and accrued expenses in the accompanying consolidated balance sheets	\$ (20,139)	\$ (13,101)	\$ (10,986)
Net periodic postretirement benefit cost includes the following components:			
Normal service cost-benefits during the period	\$ 711	\$ 324	\$ 779
Interest cost on projected benefit obligation	1,620	1,020	1,098
Net amortization and deferral	(83)	212	368
Net periodic postretirement benefit cost	\$ 2,248	\$ 1,556	\$ 2,245

	1999		
	CFMI	GHMSI	BCBSD
Accumulated postretirement benefit obligation	\$ (19,206)	\$ (15,167)	\$ (12,495)
Unrecognized net transition liability	—	7,656	5,633
Unrecognized prior service cost	(1,527)	518	109
Unrecognized net loss (gain)	1,349	(5,278)	(2,550)
Accrued postretirement benefit cost included in accounts payable and accrued expenses in the accompanying consolidated balance sheets	\$ (19,384)	\$ (12,271)	\$ (9,303)
Net periodic postretirement benefit cost includes the following components:			
Normal service cost-benefits during the period	\$ 805	\$ 356	\$ 743
Interest cost on projected benefit obligation	1,346	1,081	873
Net amortization and deferral	(62)	484	380
Net periodic postretirement benefit cost	\$ 2,089	\$ 1,921	\$ 1,996

The following table sets forth employer benefits paid from the plans and certain actuarial assumptions for the years ended December 31:

	2000		
	CFMI	GHMSI	BCBSD
Benefits paid	\$ 1,493	\$ 726	\$ 562
Weighted average discount rate	7.50%	7.50%	7.50%
Annual rate of next year increases in per capital cost of covered health care benefits	5.00%	6.50%	6.00%
Assumed rate of change in future costs	5.00%	5.50%	6.00%

	1999		
	CFMI	GHMSI	BCBSD
Benefits paid	\$ 1,106	\$ 921	\$ 750
Weighted average discount rate	7.75%	7.75%	7.75%
Annual rate of next year increases in per capital cost of covered health care benefits	5.00%	7.00%	6.00%
Assumed rate of change in future costs	5.00%	5.50%	6.00%

14 Income taxes:

The Company files a consolidated federal income tax return and reflects federal tax expense at alternative minimum tax (AMT) rates. The Company has regular tax loss carryforwards of approximately \$131,537 at December 31, 2000, which expire between 2002 and 2013, and accumulated AMT credits of approximately \$83,980 as of December 31, 2000. Both the carryforwards and the credits can be used, in certain circumstances, to offset future regular taxable income and tax, respectively. GHMSI also has AMT tax loss carryforwards of approximately \$264 as of December 31, 2000.

As a result of the CFMI and GHMSI business affiliation, GHMSI's net operating loss carryforwards will be limited under Section 382 of the Internal Revenue Code.

CFMI is exempt from Maryland income tax under the Maryland Insurance Code. GHMSI is exempt from all income taxes in the District of Columbia, Maryland and Virginia. BCBSD is exempt from Delaware state income taxes. Subsidiary operations are subject to the applicable state or District of Columbia income taxes.

Provision for income taxes includes deferred income taxes resulting from the availability of state net operating losses and temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The principal sources of temporary differences between the tax basis of assets and liabilities include nondeductible accruals, accounts receivable, property and equipment, and medical claims payable.

The provision (benefit) for income taxes consists of the following, for the years ended December 31:

	2000	1999
Current:		
Federal	\$ 19,977	\$ 11,835
State	3,164	1,707
	23,141	13,542
Deferred:		
Federal	808	57
State	(3,972)	(1,518)
	(3,164)	(1,461)
Provision for income taxes	\$ 19,977	\$ 12,081

As of December 31, 2000 and 1999, the Company had deferred tax assets of \$175,836 and \$156,506, respectively, and deferred tax liabilities of \$14,200 and \$11,315, respectively. Valuation reserves of \$129,614 and \$113,115, primarily against the regular tax loss carryforwards and AMT credits, have been recorded against the net deferred tax assets in the accompanying consolidated balance sheets as of December 31, 2000 and 1999, respectively. Management does not believe the Company will be subject to regular tax prior to the expiration of these carryforwards. Management has determined, based on the Company's long-term history of operating earnings and its expectations for the future, that operating income of the Company will more likely than not be sufficient to fully realize the net recorded deferred tax assets.

15 Other comprehensive income:

In accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130), comprehensive income (loss) includes net income plus certain items designated as "other comprehensive income." For the Company, other comprehensive income is comprised of unrealized gains and losses on certain investments in debt and equity securities, foreign currency translation adjustments and minimum pension liability adjustments. SFAS 130 requires the Company to classify items of other comprehensive income (loss) by their nature in the financial statements and to display the accumulated balance of other comprehensive income (loss), net of taxes, separately from retained earnings in the consolidated balance sheets. The Company has chosen to present other comprehensive income (loss) items in the accompanying consolidated statements of changes in reserves and display the accumulated balances as accumulated other comprehensive income in the accompanying consolidated balance sheets.

Under SFAS 130, reclassification adjustments are made to avoid double counting in comprehensive income (loss) items that are displayed as part of net income for a period that also have been displayed as part of other comprehensive income in that period or earlier periods. The reconciliation of net unrealized holding gains and losses to net unrealized holding gains and losses net of reclassification adjustments and taxes, foreign currency translation adjustments and minimum pension liability adjustments is as follows for the years ended December 31:

	2000		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Net unrealized gains and losses arising during the period	\$ 37,993	\$ (6,725)	\$ 31,268
Less: reclassification adjustments for net gains and losses realized in net income	1,133	(181)	952
Net unrealized gains and losses	36,860	(6,544)	30,316
Minimum pension liability adjustment	(631)	124	(507)
Foreign currency translation adjustment	(61)	12	(49)
Total other comprehensive income (loss)	\$ 36,168	\$ (6,408)	\$ 29,760

1999

	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Net unrealized gains and losses arising during the period	\$ (37,315)	\$ 7,689	\$ (29,626)
Less: reclassification adjustments for net gains and losses realized in net income	4,712	(911)	3,801
Net unrealized gains and losses	(42,027)	8,600	(33,427)
Foreign currency translation adjustment	36	(7)	29
Total other comprehensive income (loss)	\$ (41,991)	\$ 8,593	\$ (33,398)

16 Related party transactions:

One of CFMI's subsidiaries has a 10 percent interest in CarePartners, L.L.C. (CarePartners). This investment was recorded using the equity method and was included in intangible and other assets in the accompanying consolidated balance sheet as of December 31, 1999. CarePartners serves as the preferred provider network for a portion of CFMI's State of Maryland Medicaid enrollees and coordinates the delivery of health care services to those State of Maryland Medicaid enrollees who select a primary care physician in certain designated geographic areas. CFMI also serves as a claims processor for CarePartners. As a result of the discontinued operations discussed in Note 13, one of CFMI's subsidiaries has recorded an impairment charge of \$2,189 against the CarePartners' investment. This charge has been included within the loss on disposal of discontinued operations.

A related professional association of physicians provides medical care to certain of CFMI's members on a capitated basis. Capitation expense related to these services totaled \$103,008 and \$79,823 for the years ended December 31, 2000 and 1999, respectively, and is included in cost of care in the accompanying consolidated statements of operations. CFMI maintains a commitment to support the operations and liquidity of this related professional association.

17 Commitments and contingencies:

In the jurisdictions in which the Company is licensed to conduct business, associations have been created for the purpose, among others, of protecting insured parties under health insurance policies. The Company is contingently liable for assessments in any calendar year, in order to provide any required funds to carry out the power and duties of the associations.

The Company operates under licensing agreements with BCBSA, whereby the Company uses the service marks of BCBSA in the course of its business. The Company files periodic reports with BCBSA.

One of CFMI's subsidiaries entered into employment agreements with certain physicians with terms through 2006. Early termination of the contracts by the subsidiary is allowable with two years written notice. Upon such termination, the employer shall pay to each physician two years salary and benefits, along with other defined compensation. Approximate compensation due under the contracts is \$8,000 annually through 2006, subject to allowable consumer price index or market rate changes. Additionally, certain compensation is guaranteed to these physicians during the remaining term of their contracts. Total

wages paid under these agreements in 2000 and 1999 were approximately \$8,120 and \$8,222, respectively. CFMI and one of CFMI's subsidiaries are jointly and severally liable for payments under these agreements.

Various lawsuits, including class action lawsuits, and other claims occur in the normal course of business and are pending against the Company. Management, after consultation with legal counsel, is of the opinion that the lawsuits and other claims, when resolved, will not have a material effect on the accompanying consolidated financial statements.

The Company's professional liability coverage is on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured. The claims-made policy has been renewed through March 31, 2001. The Company also purchases extended reporting period endorsements to ensure that all claims made against physicians no longer employed by the Company are insured.

The Company has a commitment for a credit facility with a commercial bank under which certain of its affiliates may borrow up to a maximum amount of \$60,000. There have been no draws made on this line of credit during 2000 or 1999.

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CareFirst Networks, Products and Affiliates

With a customer base throughout the Mid-Atlantic region, CareFirst and its affiliates provide health insurance and other health care services to businesses, organizations and governments of all sizes. The CareFirst membership includes individual customers and employee groups and their families throughout the company's service area; local, state and federal workers; students; retirees and the self-employed. The Blue Cross and Blue Shield names have earned the respect and trust of members, business partners and health care professionals.

NETWORKS

More than 80 percent of the medical professionals practicing in the CareFirst service area – including all of Delaware, Maryland, Washington, D.C., and Northern Virginia – participate in one or more of CareFirst's provider networks. It is a unique regional health care resource of more than 33,600 carefully selected and committed primary care physicians and participating medical specialists. CareFirst has negotiated special arrangements with hospitals and health care professionals throughout the region to provide our members with broad access to quality care at affordable rates.

PRODUCTS

The CareFirst portfolio includes products ranging from traditional fee-for-service health care insurance to fully managed care. With optional features and services, these plans can be enhanced and tailored to meet specific personal, medical and financial needs of individual and employer accounts. Available are Point-of-Service plans that can be structured to combine the advantages of traditional indemnity insurance in a managed care

setting and Preferred Provider Organizations that offer the flexibility of a preferred physician or hospital while still coordinating care costs. CareFirst's family of HMOs win high scores in annual ratings by independent organizations, state agencies and national publications. The BlueCard assures CareFirst members when travelling that competent health care is available from the nearest participating Blue Cross and Blue Shield physician or hospital, just as it would be when at home. CareFirst Options offers discounts to members for alternative therapies and wellness services such as acupuncture, massage therapy, chiropractic therapy, yoga classes, fitness centers and spas.

AFFILIATES

CareFirst, Inc.'s affiliates include CareFirst of Maryland, Inc. and Group Hospitalization and Medical Services, Inc., both doing business as CareFirst BlueCross BlueShield; and Blue Cross Blue Shield of Delaware, Inc.

Other affiliates include Preferred Health Network; Willse and Associates, Inc., doing business as CareFirst Administrators and National Capital Administrative Services, offering third-party administrative services and claims processing for self-insured employer groups; CareFirst Insurance Agency, Inc., offering life, accidental death and dismemberment insurance, disability products and flexible spending accounts; and three Health Maintenance Organizations serving Maryland, Delaware, Washington, D.C. and Northern Virginia – CapitalCare, FreeState Health Plan, and Delmarva Health Plan.

CareFirst also is affiliated with two physicians groups – Potomac Physicians Practice Association and Patuxent Medical Group.

