Shareholder Value Analysis of Case History B-1 (Most significant Observations)

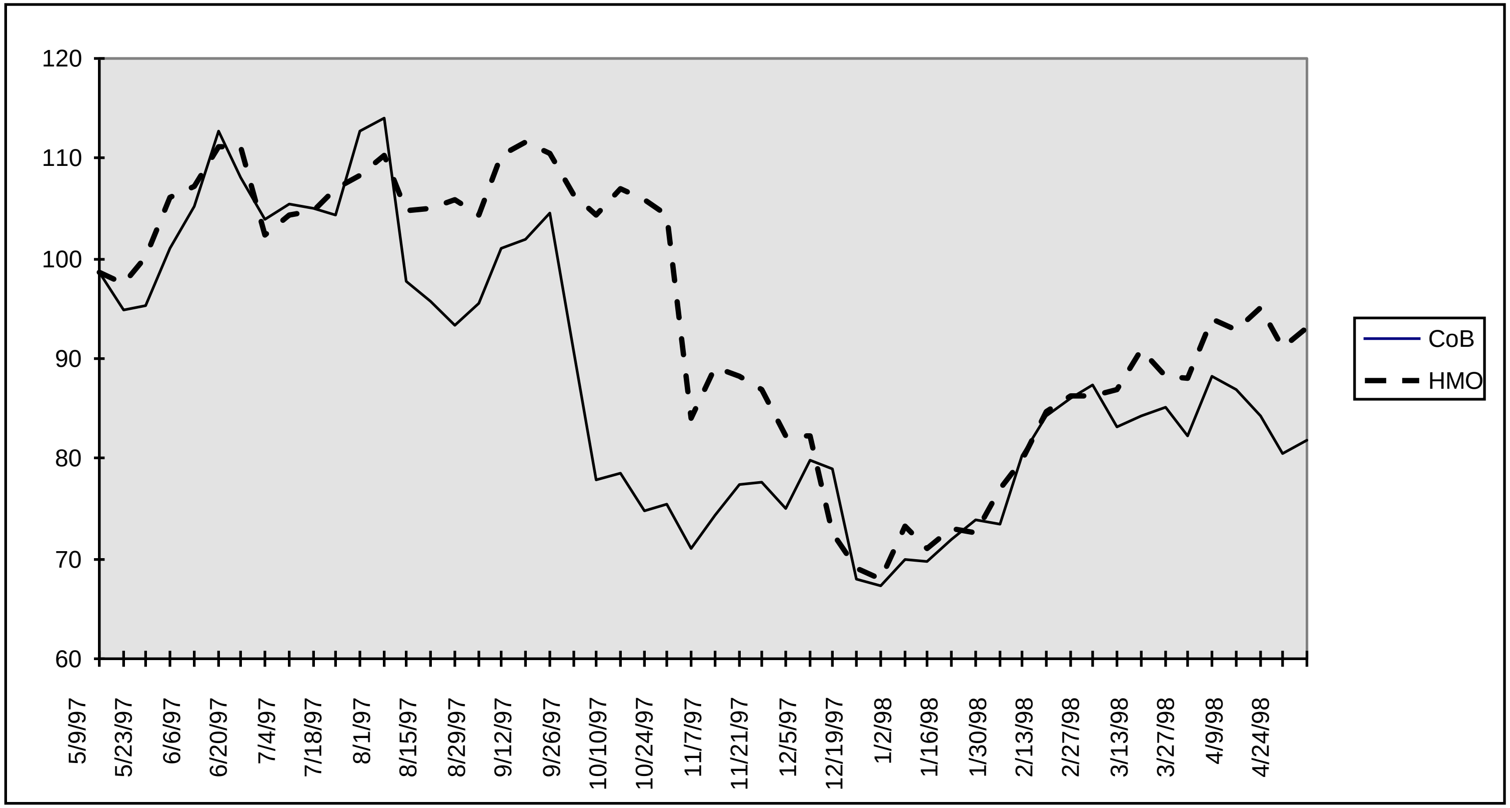
This valuation has been based exclusively on publicly available information

Most Significant Observations

- Company B-1 is trading at 54% of its Full Economic Value* as of June 1998. Full Economic Value is identified using precision benchmarking of peer companies for each division.
- The Group division has the highest M/B ratio at 4.02, and significantly outperforms its peers.
- The HMO division has the lowest M/B ratio at 0.51, and significantly underperforms its peers.
- If all of Company B-1's book capital is counted (including all goodwill), Company B-1 has 23% more capital than its peers** in 1997 (GAAP). But if goodwill level is adjusted to match the peers' average, Company B-1 has 47% less capital than its peers.
- Predyct Analytics believes that Company B-1's deficiency of tangible net worth to asset compared to that of the peers has increased its discount rate by at least 1/3 (compared to its peers). This is what has caused its value to decline by nearly one-half compared to its peers.
- Company B-1's stock value is driven down by the market's perception of the operating risk of HMO business and its lack of capital to support its non-HMO businesses. Predyct recommends that Company B-1 divest its HMO business or continue to decline in value until a downgrade or shareholder pressure forces a restructuring on much worse terms than can be secured today.

* Full economic value is the value of a company if it performs as good as its peers financially.
** Adjusting for separate account.

Company B-1's stock price for the past year seems to be driven by the same forces that drive HMO market.



Shareholder Value Analysis

We first identify surrogates to match the businesses of each of Company B-1's divisions.

Division	Business Description	Surrogates
1. HMO	HMO, POS, PPO	United Healthcare Foundation Humana Oxford PacifiCare
2. Group Insurance	Group life Disability	John Alden PennCorp Provident UNUM
3. Retirement	Group Benefits Benefits administration	Conseco Nationwide Hartford SunAmerica Protective Reliastar Liberty Torchmark

Our analysis reveals which of Company B-1's businesses the market thinks are generating the most value and have the most potential.

Market Surrogates* and Applicable Statistics

Surrogate Average	HMO	Group Insurance	Retirement
M/B	3.34	1.78	2.62
P/E	27.5	19.9	19.8
Required Return (RR)	15.3%	12.3%	13.6%
Long-term Earnings Growth	11.7%	7.3%	8.5%
ROE	12.1%	8.9%	13.2%
# of SD of capital	2.71	3.49	3.51

This reveals that the HMO business is generally outperforming B-1's traditional lines of business in terms of market valuation and long term growth potential.

*These valuations represent the average result for all the surrogates used to value each division.

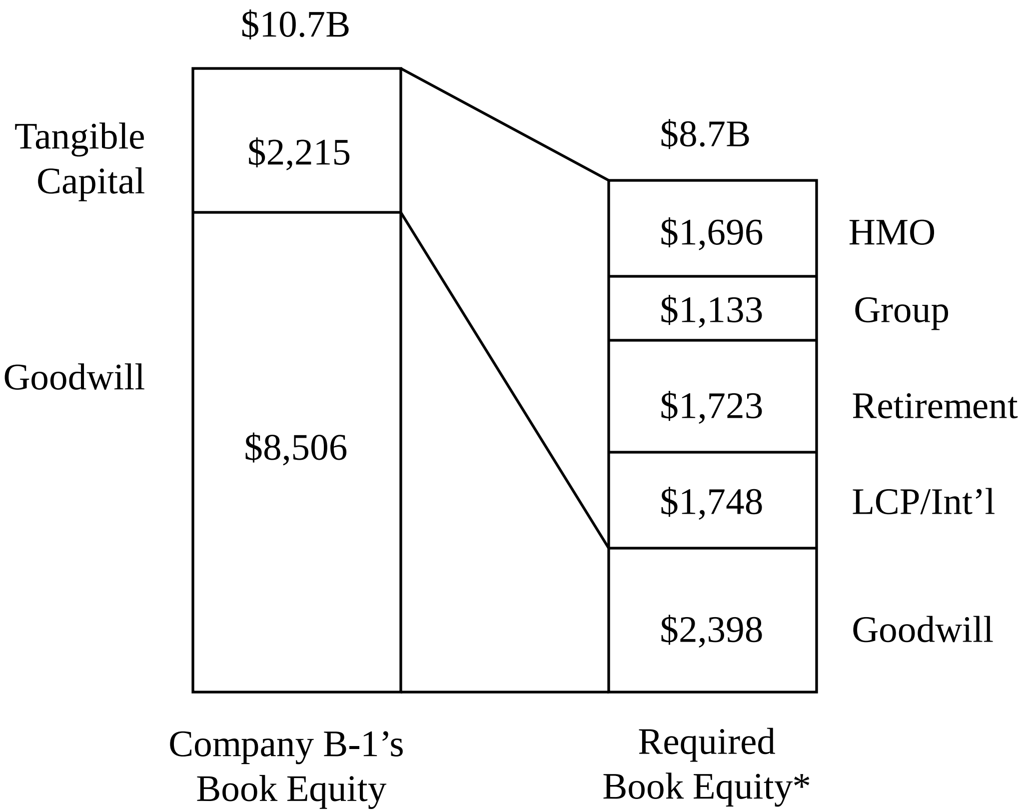
Business Unit Valuations - 'Full Economic Value'

Full Economic Value is the value of Company B-1's divisions if they mirror the market performance of their peers for risk, growth and ROE. The five major valuation methodologies are presented below.

Valuation Method*

	Revenue/ MV	Total Volatility	Market/Book BV by Sales	Core Earnings Multiple	Price/ Earnings	Market/Book BV by Asset	Value Assigned
HMO	5237	17139	6523	4841	NMF	16816	9233
Group Insurance	3828	406	3724	5590	6285	551	3305
Retirement	5354	2922	3984	3828	4529	4988	4267

Company B-1 is more leveraged than its peers in terms of tangible capital. If Company B-1 had the same leverage as its peers its profit margin would be below average except for the Group division.



	Peers’ ROE	Company B-1’s Risk Adj** ROE
HMO	24.3%	12.8%
Group	16.1%	40.3%
Retirement	21.2%	17.7%

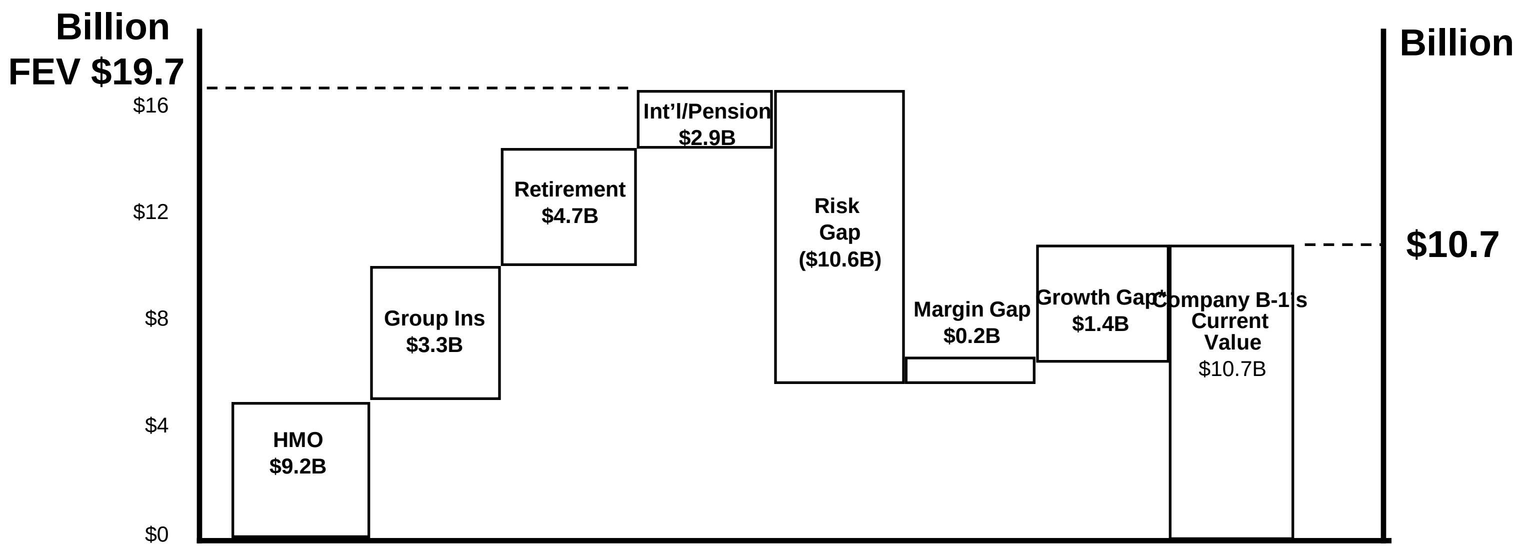
Note: ROE based on core earnings

Note: All financial data are from Company B-1’s 10K of 1997. Book equity of Company B-1 adjusted to reflect surrogates’ level of goodwill.
* GAAP equity required to maintain the same leverage as that of its peers
** ROE if Company B-1 has the same capital ratio as its peers, based on GAAP. Book Equity of Company B-1 adjusted to reflect peers’ level of goodwill

Company B-1's Valuation Overview

Full Economic Value: $19.7B

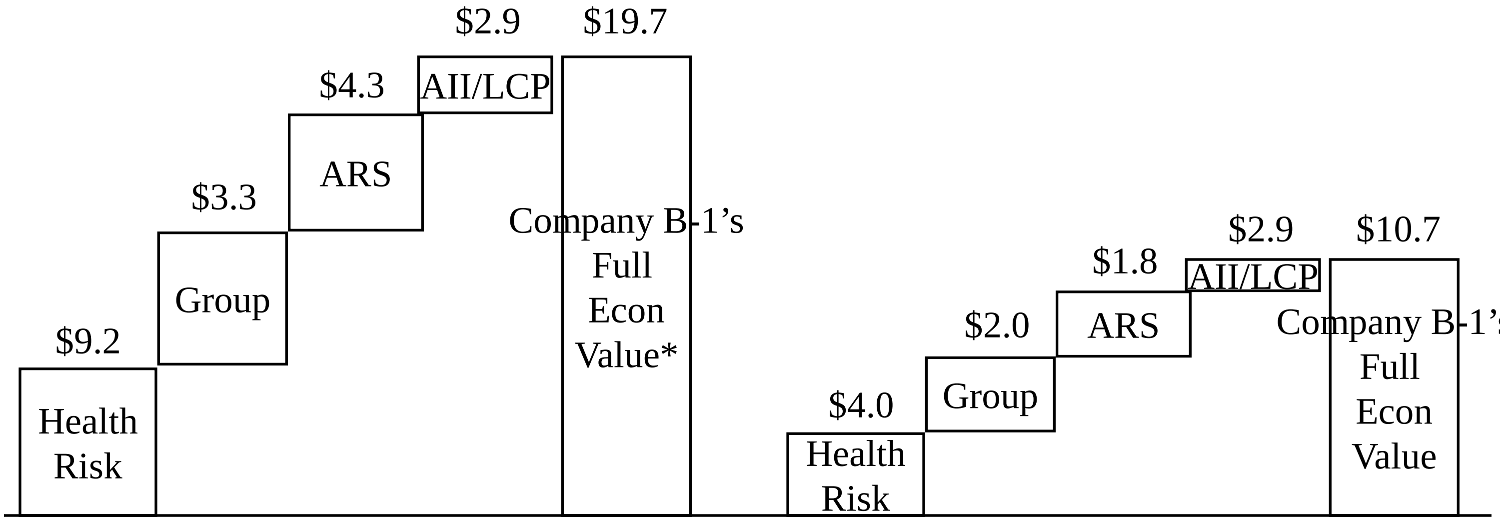
Current Market Value: $10.7B



B-1 would be valued at $19.7 billion if it performed at least as well as the average of each of its peers. However, we observe in the risk gap above that B-1 has significantly levered itself with the acquisition of the HMO business. The risk gap signifies how much more levered B-1 is relative to its peer group. We told B-1's senior management that this large a risk gap was unsustainable.

Company B-1 Valuation Overview

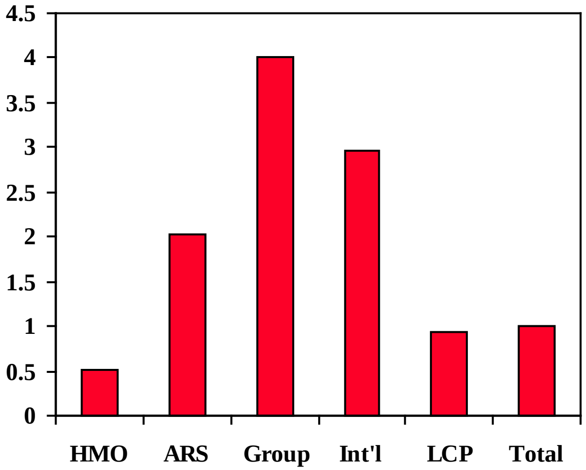
This chart compares the Full Economic Value of Company B-1's business with their current value. The current value of each business is determined by allocating the three "gaps" on the preceding slide to the Full Economic Value of each business.



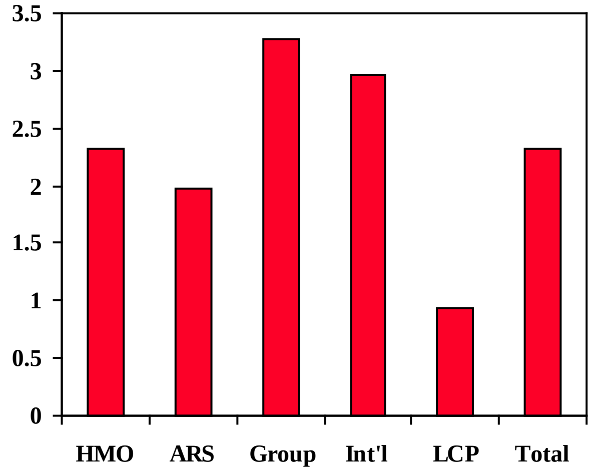
* Company B-1's full economic value if it performed at the same level as the average of its peers.

The market-to-book ratio, the price-earnings ratios of each division are calculated.

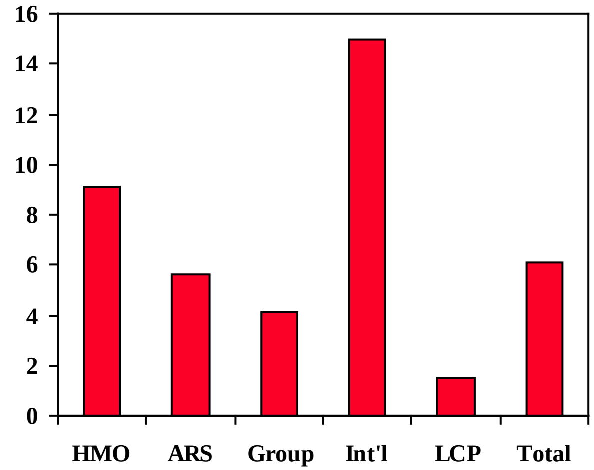
M/B Ratio* (full goodwill)



M/BRatio* (normal goodwill)



P/E Ratio (Oper Inc)



*Based on 1997 GAAP results. ‘Full goodwill’ use existing Company B-1 book capital. ‘Normal goodwill’ use Company B-1 book capital minus excess goodwill. Excess goodwill is defined as current goodwill minus goodwill level of Company B-1’s peers.