BEFORE THE INSURANCE DEPARTMENT OF THE COMMONWEALTH OF PENNSYLVANIA

Statement Regarding the Acquisition of Control of or Merger with Domestic Insurers:

Highmark Inc.; First Priority Life Insurance Company, Inc.; Gateway Health Plan, Inc.; Highmark Casualty Insurance Company; Highmark Senior Resources Inc.; HM Casualty Insurance Company; HM Health Insurance Company, d/b/a Highmark Health Insurance Company; HM Life Insurance Company; HMO of Northeastern Pennsylvania, Inc., d/b/a First Priority Health; Inter-County Health Plan, Inc.; Inter-County Hospitalization Plan, Inc.; Keystone Health Plan West, Inc.; United Concordia Companies, Inc.; United Concordia Dental Plans of Pennsylvania, Inc.; United Concordia Life and Health Insurance Company

By UPE, a Pennsylvania nonprofit corporation

RESPONSE TO PID INFORMATION REQUEST 4.3.13.1 FROM THE <u>PENNSYLVANIA INSURANCE DEPARTMENT</u>

REQUEST 4.3.13.1:

Discuss any changes in credit rating or outlook for Highmark, any Highmark Affiliate, WPAHS and/or WPAHS Affiliate related to the Transaction.

RESPONSE:

UPE understands that no changes have been made to the credit ratings of Highmark or its insurance subsidiaries by the rating agencies (Moody's, Standard & Poors, A.M. Best) as a result of the Transaction to date.

On November 2, 2011, A. M. Best revised its outlook on Highmark and its insurance subsidiaries (HM Insurance Group and UCCI) from "stable" to "under review with negative implications" citing concerns and uncertainty associated with the Transaction. See attached copy of the full A.M. Best press release regarding the change in outlook.

Highmark's other rating agencies, Moody's and Standard & Poors, have both maintained Highmark's rating outlook at stable.

UPE 120 Fifth Avenue Pittsburgh, PA 15222

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A.M. Best Places Ratings of Highmark Inc. and Its Subsidiaries Under Review With Negative Implications

Print this article

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FOR IMMEDIATE RELEASE

OLDWICK, N.J., NOVEMBER 02, 2011

A.M. Best Co. has placed under review with negative implications the financial strength ratings (FSR), issuer credit ratings (ICR) and debt ratings of **Highmark Inc.** (Highmark) (Pittsburgh, PA) and its insurance subsidiaries. (See below for a detailed listing of the companies and ratings.)

The rating actions follow the announcement that Highmark and West Penn Allegheny Health System (WPAHS) have signed a definitive agreement for the two organizations to affiliate. As part of the agreement, Highmark has committed a total of \$400 million to WPAHS over the next three years, through a combination of grants and loans. Additionally, Highmark is providing \$75 million to fund scholarships for medical students affiliated with WPAHS and to support other health professional education programs.

The under review status reflects A.M. Best's concerns regarding Highmark's affiliation with WPAHS. A.M. Best needs to meet with Highmark to gain a better working knowledge of the proposed new organization structure and the debt at WPAHS. A.M. Best has concerns with the integration and the financial viability of WPAHS, its large outstanding debt as well as WPAHS' troubled financial past. The ratings will remain under review pending A.M. Best's discussions with management, as well as the completion of the transaction, which is expected in 2012, subject to regulatory approval.

The FSR of A (Excellent) and ICR of "a" have been placed under review with negative implications for **Highmark, Inc.** and its following subsidiaries:

- -- Highmark West Virginia Inc.
- -- Keystone Health Plan West, Inc.

The FSR of A- (Excellent) and ICR of "a-" have been placed under review with negative implications for the following life, property/casualty and dental subsidiaries of **Highmark, Inc.**:

- -- HM Life Insurance Company
- --- HM Life Insurance Company of New York
- -- Highmark Casualty Insurance Company
- --- HM Casualty Insurance Company
- -- United Concordia Companies, Inc.
- -- United Concordia Life and Health Insurance Company

- --- United Concordia Insurance Company
- -- United Concordia Insurance Company of New York
- -- United Concordia Dental Plans of California, Inc.
- -- United Concordia Dental Plans of Pennsylvania, Inc.
- -- United Concordia Dental Plans, Inc.

The following debt ratings have been placed under review with negative implications:

Highmark, Inc.---

- -- "a-" \$375 million 6.8% of senior unsecured notes, due 2013
- -- "a-" \$350 million 4.75% of senior unsecured notes, due 2021
- -- "a-" \$250 million 6.125% of senior unsecured notes, due 2041

The principal methodology used in determining these ratings is Best's Credit Rating Methodology -<u>Global Life and Non-Life Insurance Edition</u>, which provides a comprehensive explanation of A.M. Best's rating process and highlights the different rating criteria employed. Additional key criteria utilized include: "A.M. Best's Ratings & the Treatment of Debt" and "Rating Health Insurance Companies." Methodologies can be found at <u>www.ambest.com/ratings/methodology</u>.

Founded in 1899, A.M. Best Company is the world's oldest and most authoritative insurance rating and information source.

<u>View a list of companies</u> related to this press release. The list will include Best's Ratings along with links to additional company specific information including related news and reports.

A.M. Best's credit ratings are independent and objective opinions, not statements of fact. A.M. Best is not an Investment Advisor, does not offer investment advice of any kind, nor does the company or its Ratings Analysts offer any form of structuring or financial advice. A.M. Best's credit opinions are not recommendations to buy, sell or hold securities, or to make any other investment decisions.

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