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 SUPPLEMENTAL REQUEST 4.3.13.2 FROM THE PENNSYLVANIA INSURANCE DEPARTMENT

SUPPLEMENTAL REQUEST 4.3.13.2 (via letter from the PID dated September 26, 2012):

Provide a fully and complete copy of any materials submitted to credit rating agencies by any UPE Entity related to the Supplemented Transaction. This Supplemental Filing Request does not include materials previously submitted in response to Request 4.3.13. Also discuss any changes in credit rating for any UPE Entity related to the Supplemented Transaction.

SUPPLEMENTAL RESPONSE:

UPE hereby supplements its prior responses to this Request by attaching at Tab A the December 4, 2012 Standard & Poor's ratings update for WPAHS.

UPE 120 Fifth Avenue Pittsburgh, PA 15222

TAB A



RatingsDirect[®]

Summary:

Allegheny County Hospital Development Authority, Pennsylvania West Penn Allegheny Health System; System

Primary Credit Analyst:

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Summary: Allegheny County Hospital Development Authority, Pennsylvania West Penn Allegheny Health System; System

Credit Profile

 Allegheny Cnty Hosp Dev Auth, Pennsylvania

 West Penn Allegheny Hith Sys, Pennsylvania

 Allegheny Cnty Hosp Dev Auth (West Penn Allegheny Health System)

 Long Term Rating
 CC/Negative

Downgraded

Rationale

Standard & Poor's Ratings Services lowered its rating to 'CC' from 'B-' on the \$726 million series 2007A bonds issued for West Penn Allegheny Health System (WPAHS) by the Allegheny County Hospital Development Authority, Pa. and removed it from CreditWatch where it had been placed with negative implications on Sept. 28. The outlook is negative.

The rating downgrade reflects our assessment of:

- Highmark Inc.'s (A/Stable) desire to have WPAHS declare bankruptcy or otherwise restructure its debt and pension obligations prior to any affiliation;
- Breakdown in the affiliation discussions after WPAHS notified Highmark that it was in breach of the agreement. Although talks have resumed after a legal ruling prohibited WPAHS from seeking other suitors, there remains significant uncertainty as to whether the parties will reach an agreement that will be subsequently approved by the Pennsylvania Insurance Department;
- Extremely low unrestricted cash and investment balances as of Sept. 30, 2012 with approximately \$233 million equal to 55 days' cash on hand and about one-quarter of outstanding debt (\$894 including \$100 million owed to Highmark). Without the Highmark transfers, which have totaled at least \$200 million over the past two years, WPAHS would have minimal unrestricted reserves remaining and the system still has ample pension and capital needs;
- Continued weak financial performance with 2012's very high \$113 million operating loss above 2011's \$75 million loss and a bottom line loss of \$37 million in 2012 compared with a loss of \$17 million in 2011 with \$50 million in gifts from Highmark in both years;
- Insufficient financial and operating benefits from the affiliation agreement and the February reopening of The Western Pennsylvania Hospital (WPH) to reduce the operating losses, which have been stable to slightly increasing for the past three quarters. Based on the first quarter 2013 run rate, current year earnings will be insufficient to cover debt service;
- Steady volume declines over the past five years from 2008 through 2012 which continue through the first quarter of 2013 with a 2.2% decline in inpatient admissions and declining births, surgeries, and emergency department visits. While some of the volume loss is attributable to the economy and shift to observation visits -- which rose almost

DECEMBER 4, 2012 2 1044707 | 301874758 20% in the first quarter -- the opening of UPMC's facility in competition with Forbes was also a factor;

- Continued presence of interim management although WPAHS has extended the current management contact; and
- Receipt of a Wells notice from the Securities and Exchange Commission with potential future financial penalties.

WPAHS operates five acute-care hospitals in and around Pittsburgh: Allegheny General Hospital, WPH, the Forbes Regional campus of WPH in Monroeville where UPMC recently opened a new hospital, Canonsburg General Hospital, and Alle-Kiski Medical Center doing business as Allegheny Valley Hospital.

Securing the 2007A bonds is a mortgage and gross revenue pledge of the obligated group, which includes all but a few smaller subsidiaries in the system. WPAHS is not a party to any swaps as the majority of its debt is fixed rate. We based all 2012 figures in the report on unaudited financial statements and management indicates that it expects to publish the audit within the time frame required by the bond documents (180 days after the end of the fiscal year). For more information see the articles published Sept. 28, 2012, and May 23, 2012, on RatingsDirect on the Global Credit Portal.

Outlook

The negative outlook reflects our opinion of the possibility of a bankruptcy filing or debt restructuring given WPAHS's thin financial profile and ongoing losses. We would assign a lower rating should WPAHS file bankruptcy, restructure its debt, or miss a principal or interest payment. A higher rating within the one-year term of our outlook period could be possible if WPAHS consummates the affiliation agreement with Highmark with no disruption in debt service payments and there is evidence of tangible financial and operating benefits from the affiliation.

Related Criteria And Research

USPF Criteria: Not-For-Profit Health Care, June 14, 2007

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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