

**BEFORE THE INSURANCE DEPARTMENT
OF THE
COMMONWEALTH OF PENNSYLVANIA**

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

**Hospital Service Association of Northeastern Pennsylvania
d/b/a Blue Cross of Northeastern Pennsylvania;
First Priority Life Insurance Company, Inc.;
HMO of Northeastern Pennsylvania, Inc.,
d/b/a First Priority Health**

By Highmark Inc.

**BCNEPA RESPONSE TO INFORMATION REQUEST 2.5.3.3 FROM THE
PENNSYLVANIA INSURANCE DEPARTMENT**

REQUEST 2.5.3.3:

Explain in detail the criteria used in determining the nature and structure of the Transaction, and provide a copy of all Expert Opinions relating thereto.

RESPONSE:

BCNEPA certifies to the best of its information, knowledge and belief the following:

BCNEPA determined that a merger represented the best vehicle for BCNEPA and Highmark to address the market challenges BCNEPA is facing. BCNEPA and Highmark had previously established joint venture agreements (ex. FPLIC and FPH), outsourcing arrangements (ex. IT infrastructure) and joint risk arrangements (ex. Medicare Advantage Plan). While these relationships have value, they do not provide BCNEPA the full advantages that come with a merger including but not limited to:

- Access to capital for necessary investments
- Increased scale to better control administrative costs and manage increasing risks
- Geographic footprint to compete effectively for commercial and government business

Furthermore, BCNEPA retained Cozen & O'Connor to provide transactional, regulatory, anti-trust, tax and general legal advice to BCNEPA during this transaction to assist in many ways, including but not limited to, assuring the most advantageous structure of the Transaction resulted.

**Hospital Service Association of
Northeastern Pennsylvania
d/b/a Blue Cross of Northeastern
Pennsylvania ("BCNEPA")
19 North Main Street
Wilkes-Barre, PA 18711**