

**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 5.2.17.2 FROM
THE PENNSYLVANIA INSURANCE DEPARTMENT**

REQUEST 5.2.17.2:

Please identify the efficiencies and benefits from the Transaction that are achievable only by the Transaction as opposed to by the current or an expanded joint venture between or among any Highmark Entity or BCNEPA Entity.

RESPONSE:

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

As outlined in the Merger Agreement, which was submitted with the Form A filing as Tab B, BCNEPA will be merged with and into Highmark Inc. Given that BCNEPA will be merged with and into Highmark, BCNEPA does not have any descriptions or documents related to efficiencies anticipated that will result from the Transaction. As the entity being acquired, BCNEPA would not have sufficient information regarding the detailed operations of Highmark to make the required assumptions. As a result, BCNEPA did not do an analysis to identify the efficiencies from the Transaction that are achievable only by the Transaction as opposed to by the current or an expanded joint venture between or among any Highmark Entity or BCNEPA Entity. BCNEPA anticipates that Highmark will provide a more substantive response to this Request with respect to anticipated efficiencies that will be achieved as a result of the Transaction.

BCNEPA and Highmark have worked cooperatively via joint ventures for more than 70 years to serve the needs of customers across northeastern and north central Pennsylvania by

jointly providing Blue Cross/Blue Shield coverage. As outlined in the Overview of BCNEPA Business Perspective, which was submitted with the Form A filing as Tab F, BCNEPA concluded that it needed to pursue an affiliation as a result of several environmental and business challenges, which included pressure on operating results, heightened exposure to risk, need for significant financial investment, the capital strength of its competitors, scale limitations and an expanding government marketplace. Despite the historical success of the joint ventures with Highmark, including the current joint venture, BCNEPA does not believe that the current joint venture or expanding the joint venture can solve the environmental and business challenges outlined above. BCNEPA believes that it has maximized the value of joint venturing with Highmark and must pursue a more formal affiliation with a larger organization to serve the long-term needs of the residents of northeastern and north central Pennsylvania.

As outlined in the Overview of BCNEPA Business Perspective, which was submitted with the Form A filing as Tab F, the BCNEPA concluded that a merger with Highmark is in the best interests of its customers, employees and the community. A merger with Highmark is the best option for achieving BCNEPA's goals and is the logical next step in a long and successful relationship between the two companies. BCNEPA expects the following results from a merger with Highmark which cannot be achieved via our current joint venture or an expanded joint venture:

- A merger will position the merged company to continue providing the affordable, high-quality health care options and excellent customer service that BCNEPA customers have come to expect, all under an enhanced Blue brand. A merger will continue BCNEPA's longstanding mission as part of a nonprofit, community-based and community-minded company, while at the same time adding the scale that draws on the merged company's long-term financial strength and ability.
- A merger will expand access to capital for new investments to benefit BCNEPA subscribers through: innovative tools and technology that improve care quality and patient wellness; more cost-effective and quality-driven partnerships with providers; and expanded access to health insurance as the ACA is implemented, with efficiencies that can be passed on to customers.
- A merger will provide the larger geographic footprint that will be necessary to effectively compete for commercial and government business.

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