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March 31, 2016

VIA HAND DELIVERY

Joseph DiMemmo, CPA
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation
Pennsylvania Insurance Department
1345 Strawberry Square
Harrisburg, PA 17120

RECEIVED
Corporate & Financial Regulation
MAR 31 2016
Pennsylvania
Insurance Department

Re: Order # ID-RC-13-06
Highmark Health Consolidated Financial Statements

Dear Deputy Commissioner DiMemmo:

In compliance with Condition 13 of the above-captioned Approving Determination dated April 29, 2013, Highmark Health is submitting the enclosed consolidated financial statements for the period ending December 31, 2015. A copy has been forwarded to Mr. Beaser and Mr. DeLacey by email.

Very truly yours,

Jayson R. Wolfgang

JRW/gmt
Enclosure

Highmark Health

Consolidated Financial Statements
December 31, 2015 and 2014

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Independent Auditor's Report

To the Board of Directors of Highmark Health:

We have audited the accompanying consolidated financial statements of Highmark Health and its subsidiaries and affiliates (the "Corporation"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 30, 2016

Highmark Health
Consolidated Balance Sheets
December 31, 2015 and 2014

(in thousands of dollars)

	2015	2014
Assets		
Cash and cash equivalents	$ 1,516,588	$ 1,108,618
Accounts receivable		
Insurance, less allowance for doubtful accounts of $63,548 and $43,200, respectively	2,307,083	2,232,097
Patient service, less allowance for doubtful accounts of $75,589 and $92,592, respectively	172,520	152,650
Other	166,112	152,846
Investments		
Debt securities, available-for-sale at fair value	2,885,303	3,224,940
Equity securities, available-for-sale at fair value	953,981	945,685
Board designated, restricted and other investments at fair value	620,694	744,646
Investment in affiliates	180,516	275,581
Other	125,839	156,230
Reinsurance recoverables	318,728	323,119
Securities lending invested collateral	180,284	258,899
Inventory, net	133,352	124,100
Income tax recoverable, net	156,556	35,924
Deferred income taxes, net	213,322	108,079
Property and equipment, net	1,752,171	1,628,845
Goodwill and other intangible assets, net	842,287	833,124
Prepaid pension plan assets	4,889	1,750
Other assets	619,266	546,214
Total assets	$ 13,149,491	$ 12,853,347
Liabilities and Net Assets		
Claims outstanding	$ 2,908,457	$ 2,391,493
Unearned premium revenue	291,895	300,490
Amounts held for others	500,733	488,643
Accrued salaries and benefits	279,624	322,066
Other payables and accrued expenses	975,777	961,177
Securities lending payable	180,326	258,929
Benefit plan liabilities	870,107	811,615
Debt	1,714,594	1,703,736
Other liabilities	264,378	204,232
Total liabilities	7,985,891	7,442,381
Net Assets		
Unrestricted	4,885,336	5,127,925
Temporarily restricted	25,580	18,787
Permanently restricted	252,684	264,254
Total net assets	5,163,600	5,410,966
Total liabilities and net assets	$ 13,149,491	$ 12,853,347

The accompanying notes are an integral part of these consolidated financial statements.

Highmark Health
Consolidated Statements of Operations
Years Ended December 31, 2015 and 2014

(in thousands of dollars)

	2015	2014
Unrestricted revenue and other support		
Premium revenue	$ 13,190,288	$ 12,812,956
Net patient service revenue	1,854,258	1,645,992
Vision revenue	1,335,557	1,246,978
Management services revenue	925,827	851,408
Other operating revenue	356,733	182,504
Net assets released from restriction	4,287	11,476
Total unrestricted revenue and other support	17,666,950	16,751,314
Expenses		
Claims incurred	11,423,168	10,641,620
Salaries, wages and fringe benefits	3,429,981	3,226,248
Patient care supplies	505,262	445,326
Depreciation and amortization	300,208	288,786
Other operating expenses	2,573,298	2,327,376
Total operating expenses	18,231,917	16,929,356
Operating loss	(564,967)	(178,042)
Net investment income, including net realized gains on investments	294,151	253,779
Interest expense	(60,641)	(62,755)
Nonoperating income (expenses)	5,406	(3,313)
(Deficit) excess of revenue over expenses before merger	(326,051)	9,669
Net assets acquired through merger	249,281	-
(Deficit) excess of revenue over expenses before income taxes	(76,770)	9,669
Income tax provision	7,905	92,701
Deficit of revenue over expenses	$ (84,675)	$ (83,032)

The accompanying notes are an integral part of these consolidated financial statements.

Highmark Health
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2015 and 2014

(in thousands of dollars)

	2015	2014
Unrestricted net assets		
Deficit of revenue over expenses	$ (84,675)	$ (83,032)
Unrealized net holding gains on available-for-sale securities, net of tax of $38,151 and ($28,353), respectively	(79,766)	52,657
Reclassification for net gains on available-for-sale securities included in income, net of tax of $35,085 and $26,346, respectively	(72,979)	(48,929)
Benefit plan asset and liability changes, net of tax of $19,941 and and $95,731, respectively	(45,832)	(315,414)
Acquisition of joint venture	13,500	-
Net assets released from restriction for acquisition of equipment	884	3,190
Income tax benefit on transfers to related parties	27,492	-
Other, net	(1,213)	545
Decrease in unrestricted net assets	(242,589)	(390,983)
Temporarily restricted net assets		
Contributions	11,374	7,485
Net investment income	613	1,464
Net assets released from restrictions used for:		
Operations	(4,179)	(11,476)
Acquisition of equipment	(884)	(3,190)
Other, net	(131)	(159)
Increase (decrease) in temporarily restricted net assets	6,793	(5,876)
Permanently restricted net assets		
Contributions	-	1
Net investment (loss) income	(988)	15,824
Transfer out of trusts to investment income	(10,102)	(10,485)
Other, net	(480)	52
(Decrease) increase in permanently restricted net assets	(11,570)	5,392
Decrease in net assets	(247,366)	(391,467)
Net assets		
Beginning of the year	5,410,966	5,802,433
End of the year	$ 5,163,600	$ 5,410,966

The accompanying notes are an integral part of these consolidated financial statements.

Highmark Health
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

(in thousands of dollars)

	2015	2014
Cash flows from operating activities		
Decrease in net assets	$ (247,366)	$ (391,467)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Provision for doubtful accounts	96,771	101,141
Depreciation and amortization	319,137	311,036
Change in premium deficiency reserves	19,014	(16,354)
Net realized gains on investments	(177,432)	(118,595)
Net unrealized losses (gains) on investments	186,320	(879)
Dividends received from affiliates	9,415	3,926
Undistributed losses of affiliates	10,648	33,855
Benefit plan asset and liability changes	45,832	315,414
Deferred income tax (benefit) provision	(1,321)	9,277
Income tax benefit on related party transfers	(27,492)	-
Restricted contributions	(11,374)	(7,484)
Net assets acquired	(275,812)	-
(Decrease) increase due to change in		
Accounts receivable	(141,959)	(256,252)
Reinsurance recoverables	31,246	(218,802)
Other assets	(22,811)	(55,018)
Claims outstanding	391,478	19,783
Unearned premium revenue	(27,391)	(13,268)
Other liabilities	(154,759)	16,522
Net cash provided by (used in) operating activities	22,144	(267,165)
Cash flows from investing activities		
Purchases of investments	(3,198,547)	(3,525,712)
Proceeds from sales and maturities of investments	3,971,074	3,972,282
Issuance of notes receivable, net	(32,528)	(1,838)
Purchases of property and equipment	(377,306)	(362,496)
Change in securities lending invested collateral	78,603	(16,844)
Cash acquired in conjunction with acquisitions	37,271	-
Net cash provided by investing activities	478,567	65,392
Cash flows from financing activities		
Restricted contributions	11,374	7,484
Change in book overdrafts	3,858	(119)
Receipts from contract deposits	335,001	283,974
Withdrawals from contract deposits	(300,835)	(345,062)
Change in securities lending payable	(78,603)	16,843
Proceeds from issuance of debt	349,849	700,000
Repayment of debt	(414,085)	(627,204)
Stock issuance to noncontrolling interest	700	-
Net cash (used in) provided by financing activities	(92,741)	35,916
Increase (decrease) in cash and cash equivalents	407,970	(165,857)
Cash and cash equivalents		
Beginning of year	1,108,618	1,274,475
End of year	$ 1,516,588	$ 1,108,618

The accompanying notes are an integral part of these consolidated financial statements.

Highmark Health
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

(in thousands of dollars)

	2015		2014	
Supplemental disclosure of cash flow information				
Interest paid, net	$	60,324	$	63,082
Income taxes paid, net	$	99,948	$	23,939
Supplemental disclosure of noncash investing and financing				
Assets acquired through other payables	$	(5,520)	$	6,080
Supplemental schedule of investing and financing activities				
Details of merger transaction				
Fair value of assets acquired	$	673,016	$	-
Liabilities assumed		(353,255)		-
Net assets acquired	$	319,761	$	-

The accompanying notes are an integral part of these consolidated financial statements.

(in thousands of dollars)

1. Nature of Operations

Highmark Health is incorporated as a nonprofit corporation in the Commonwealth of Pennsylvania and is federally recognized as a 501(c)(3). Highmark Health, through its affiliates, Highmark Inc. and its subsidiaries and affiliates (collectively "Highmark"), HM Health Solutions ("HMHS") and Allegheny Health Network and its subsidiaries and affiliates (collectively "Allegheny Health"), is a diversified health and wellness enterprise based in Pittsburgh. Highmark Health, Highmark, HMHS and Allegheny Health are herein referred to as the "Corporation".

Highmark Inc. is incorporated as a nonprofit corporation and operates as a hospital plan corporation and a professional health services plan in the Commonwealth of Pennsylvania. Highmark Inc.'s affiliates, Highmark West Virginia Inc. ("Highmark WV") and Highmark BCBSD Inc. ("Highmark DE"), are nonprofit health services corporations. As a licensee of the Blue Cross Blue Shield Association ("BCBSA"), Highmark underwrites various indemnity and managed care health insurance products for national accounts (primarily groups headquartered in Pennsylvania that have operations in other locations), regional accounts and individual accounts. In addition, Highmark also underwrites Medicaid, Medicare Advantage, Medicare Part D prescription drug and Medicare supplemental insurance products.

Highmark's diversified health business includes vision and dental business. Highmark Inc.'s wholly owned for-profit subsidiary, HVHC Inc. ("HVHC"), through its subsidiaries, operates two distinct lines of vision business: retail and managed vision care. The retail line of business operates specialty optical retail stores, and the managed vision care line of business provides fully integrated eye care services. Highmark Inc.'s wholly owned for-profit subsidiary, United Concordia Companies, Inc. ("UCCI") and its subsidiaries, provide dental services through preferred provider and managed care networks as well as third party administrative services. Highmark Inc.'s other for-profit subsidiaries, including HM Insurance Group, Inc. ("HMIG") offers workers' compensation insurance, stop-loss insurance and other services.

HM Health Solutions is a for-profit corporation that provides health plan platform services, infrastructure management, data center hosting and print management.

Allegheny Health Network is incorporated as a nonprofit corporation in the Commonwealth of Pennsylvania and is federally recognized as a 501(c)(3). Allegheny Health Network's subsidiaries and affiliates are nonprofit health care providers offering routine and tertiary healthcare services, clinical support and healthcare education in Western Pennsylvania. Additionally, Allegheny Health Network's other for-profit and nonprofit subsidiaries manage and develop outpatient medical facilities, which offer a variety of services including pharmacies, primary care and imaging and provide group hospital purchasing services.

2. Merger and Acquisition

Blue Cross of Northeastern Pennsylvania ("BCNEPA")
Effective June 1, 2015, the Pennsylvania Insurance Department (the "Department") approved Highmark's merger with BCNEPA. At the closing of the transaction, BCNEPA merged with and into Highmark, with Highmark as the surviving corporation. Highmark Health became the primary licensee of the BCBSA marks to which BCNEPA was the licensee. BCNEPA and its subsidiaries operated as a nonprofit hospital plan corporation and a nonprofit health maintenance organization in northeastern and north central Pennsylvania.

(in thousands of dollars)

Highmark has included the financial results of BCNEPA in the consolidated financial statements from the date of the merger. For accounting purposes, as Highmark was the surviving corporation, the transaction was treated as an acquisition. In conjunction with the merger, contribution income of $249,281 was recorded based on a fair value analysis of assets acquired and liabilities assumed. The contribution income is not subject to federal income tax and resulted in a favorable adjustment to the Corporation's overall effective tax rate in 2015 (see note 12). Details of the merger are as follows:

Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	$	27,764
Investments		463,692
Other assets		181,560
Claims outstanding		(125,486)
Other liabilities		(227,769)
Total identifiable net assets		319,761
Pre-merger noncontrolling interest		(70,480)
Total contribution income	$	249,281

As Highmark previously had a noncontrolling interest in certain subsidiaries of BCNEPA, additional acquisition accounting adjustments of $70,480 were recorded to contribution income to convert from the equity method to consolidating these entities as wholly-owned subsidiaries. This includes the write-off of goodwill in the amount of $4,875 associated with the previous noncontrolling interest. These adjustments have been included in the pre-merger noncontrolling interest line in the table above.

Celtic Healthcare
Effective January 1, 2015, West Penn Allegheny Health System, Inc. ("WPAHS"), an affiliate of Allegheny Health Network, finalized a contribution agreement with Celtic Healthcare, Inc. to create a new entity ("JV Holdco"), which consolidated each organization's home health and hospice businesses within western Pennsylvania. WPAHS has approximately a 60% equity ownership interest within the newly formed entity which has a fair value of $25,285 based on a valuation of the businesses contributed and the majority control maintained by WPAHS as it has the ability to elect 60% of the Board of Directors. JV Holdco is consolidated by WPAHS based on the majority control and a noncontrolling interest of $11,737 was recorded based upon the proportionate share of the equity of newly formed entities. As part of the transaction, cash of $8,097, property and equipment of $75, and goodwill of $17,113 were recorded.

3. Summary of Significant Accounting Policies

Basis of Financial Presentation
The accompanying consolidated financial statements include the accounts of the Corporation.

The consolidated financial statements are presented on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America ("GAAP").

(in thousands of dollars)

All significant intercompany balances and transactions have been eliminated from the consolidated financial statements.

The Corporation uses the equity method of accounting for 50% or less owned affiliates or those affiliates for which the Corporation does not hold a controlling financial interest but may influence operating or financial decisions.

New Accounting Pronouncements

In February 2016, Financial Accounting Standards Board ("FASB") issued new guidance regarding the recognition of leases. The new guidance requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The new guidance is effective for fiscal years beginning after December 15, 2019. The Corporation is evaluating the impact of the new guidance on the financial position, results of operations and cash flows.

In July 2015, FASB issued new guidance regarding the measurement of defined benefit pension plans, defined contribution pension plans, and health and welfare benefit plans, and eliminates certain related disclosures. The new guidance is effective for fiscal years beginning after December 15, 2015. The adoption of this new guidance is not expected to have a material impact to the financial position, results of operations and cash flows of the Corporation.

In July 2015, FASB issued new guidance requiring that inventory that is not measured using last-in, first-out ("LIFO") or the retail inventory method should be measured at the lower of cost and net realizable value. The new guidance is effective for fiscal years beginning after December 15, 2016. The Corporation is evaluating the impact of the new guidance on the financial position, results of operations and cash flows.

In May 2015, FASB issued new guidance regarding the accounting for insurance contracts. The guidance requires additional footnote disclosures surrounding paid claims and incurred-but-not-reported liabilities. The guidance is effective for annual periods beginning after December 15, 2016. The Corporation is evaluating the impact to the footnote disclosures.

In May 2015, FASB issued new guidance removing the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The new guidance is effective for fiscal years beginning after December 15, 2016. The Corporation is evaluating the impact to the footnote disclosures.

In April 2015, FASB issued new guidance requiring that debt issuance costs related to a recognized debt liability (such as secured and unsecured notes, debentures, bonds, mortgage notes, equipment obligations and some accounts receivable and payable) be presented in the balance sheet as a direct deduction from the carrying amount of debt liability. Debt issuance costs related to line-of-credit arrangements are still permitted to be deferred, presented as an asset and subsequently amortized over the term of the line-of-credit arrangement. This new guidance is effective for fiscal years beginning after December 15, 2015. The adoption of this new guidance is not expected to have a material impact on the Corporation's financial position, results of operations and cash flows.

(in thousands of dollars)

In August 2014, FASB issued new guidance regarding evaluation criteria about whether there is substantial doubt about an entity's ability to continue as a going concern and enhanced related disclosures. The new guidance is effective for fiscal years ending after December 15, 2016. The adoption of this new guidance is not expected to have a material impact on the Corporation's financial position, results of operations and cash flows.

In May 2014, FASB issued new guidance aligning accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings with other typical repurchase agreements, resulting in these transactions generally being accounted for as secured borrowings. This guidance also requires additional disclosures. The new guidance is effective for fiscal years beginning after December 15, 2014. The adoption of this new guidance did not have an impact to the financial position, results of operations and cash flows. However, additional disclosures have been incorporated into the footnotes to the financial statements.

In May 2014, FASB issued new guidance related to revenue recognition for contracts with customers. This new guidance removes most industry-specific revenue recognition requirements and requires that an entity recognize revenue for the transfer of goods or services to a customer at an amount that reflects the consideration to which an entity expects to be entitled in exchange for the goods or services. Insurance contracts are not covered by this guidance. The new guidance also requires additional disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. The new guidance is effective for fiscal years beginning after December 15, 2018. The Corporation is evaluating the impact of the adoption of this new guidance on the financial position, results of operations and cash flows.

In July 2013, FASB issued new guidance regarding the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The guidance requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, subject to certain exceptions. If certain conditions apply, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be consolidated with deferred tax assets. The new guidance is effective for fiscal years beginning after December 15, 2014. The adoption of this guidance did not have a material impact to the Corporation's financial position, results of operations or cash flows.

Use of Estimates
The preparation of the Corporation's consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents
The Corporation considers all highly liquid investments with maturities of three months or less when purchased, excluding donor restricted trusts, to be cash equivalents.

Accounts Receivable
In the normal course of business, the Corporation grants credit to its customers under various contractual arrangements. The Corporation carries its accounts receivable at estimated net realizable value, which reflects the impact of potential credit losses.

(in thousands of dollars)

Insurance accounts receivable is specific to Highmark business and includes amounts related to health, dental, vision, workers' compensation, stop-loss and government program accounts receivable. Government program accounts receivable relate to amounts due from the government in connection with government business, including the Active Duty Dental Program, Federal Employee Programs, Medicare Advantage and Part D products, Medicaid and the Affordable Care Act ("ACA") business.

Patient service accounts receivable is specific to Allegheny Health business and includes amounts receivable from patients, third-party payors and others for services as they are rendered.
An allowance for doubtful accounts is based on a number of factors, including economic experience, past history, trends, coverage type and other indicators. When it is determined an accounts receivable balance is not collectible, it is written off.

Concentrations of credit risk, excluding government payors, are limited due to the large number of Highmark Health customers.

Investments
Debt and equity securities classified as available-for-sale are carried at fair value (based on quoted or estimated market prices), and unrealized gains and losses are reported in unrestricted net assets, net of deferred income taxes. Derivatives embedded within convertible debt securities are bifurcated, with changes in fair value included in earnings; any remaining unrealized gains or losses of the convertible bonds are reported in unrestricted net assets, net of deferred income taxes. Premiums and discounts are amortized using the effective interest method. Realized gains and losses on debt securities are based on amortized cost. Realized gains and losses on equity securities are based on cost (specific identification method). Realized gains and losses on available-for-sale debt and equity securities are reported in net investment income in the consolidated statements of operations.

The Corporation monitors its available-for-sale investments portfolio for unrealized losses that appear to be other-than-temporary. At the time an equity security is determined to be other-than-temporarily impaired, the Corporation reduces the book value of the security to the current market value and records a realized loss in net investment income in the consolidated statements of operations.

In determining if an available-for-sale debt security is other-than-temporarily impaired, the Corporation considers whether it has intent to sell the available-for-sale debt security or whether it is more likely than not that the Corporation will be required to sell the available-for-sale debt security before recovery of its amortized cost basis, which may be at maturity. If the Corporation intends to sell the debt security or it is more likely than not that the Corporation will be required to sell the debt security before recovery of its amortized cost basis, an other-than-temporary impairment is recorded as a realized loss in net investment income in the consolidated statements of operations for the difference between fair value and amortized cost.

(in thousands of dollars)

If the Corporation does not have the intent to sell and it does not believe that it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost, the Corporation performs a detailed review to determine the underlying cause of the unrealized loss and whether an other-than-temporary impairment is warranted. At the time a debt security is determined to be other-than-temporarily impaired, the credit component of the other-than-temporary impairment is recognized in income in the consolidated statements of operations and the non-credit component of the other-than-temporary investment is recognized in the statement of changes in net assets, net of deferred income taxes.

Board designated, restricted and other investments include assets whose use is contractually limited by external parties and assets set aside by the Board of Directors for future capital improvements or liquidity, over which the Board retains control and may at its discretion subsequently use for other purposes, as well as assets held by trustees under indenture agreements. Other investments consist primarily of marketable debt and equity securities and marketable securities maintained in a master trust fund. Investment income or loss (including realized gains and losses, interest and dividends, and unrealized gains and losses) is recorded in net investment income in the consolidated statements of operations unless restricted by donor or law. Investment income related to temporarily and permanently restricted gifts is recorded based on donor restriction as part of the corresponding net asset class in the consolidated statements of changes in net assets.

Other investments include investments in private limited partnerships, real estate trusts and limited liability companies. Private limited partnerships are accounted for under the equity method. The Corporation has committed $96,538 and $41,551 to various private limited partnership investments at December 31, 2015 and 2014, respectively. These commitments are due upon capital calls by the general partners of the partnerships. Generally, limited liability companies are accounted for under the cost or equity method, dependent on certain factors including ownership of a controlling interest. Fair values of real estate investment trusts are approximated based on trustee estimates. The Corporation monitors its other investments for unrealized losses that appear to be other-than-temporary. At the time an investment is determined to be other-than-temporarily impaired, the Corporation reduces the book value to the current market value and records a realized loss in net investment income in the consolidated statements of operations.

The Corporation participates in securities lending transactions, which are accounted for as secured borrowings. The Corporation utilizes a custodian as a lending agent, maintains effective control over the loaned securities and requires collateral initially equal to at least 102% of loaned domestic securities and 105% of loaned international securities at the loan date. Collateral received consists of cash and fixed-income securities. Noncash collateral is not recorded in the consolidated balance sheets, as the Corporation does not have the right to sell, pledge or otherwise reinvest the noncash collateral. Cash collateral is invested in short-term debt securities and is carried at fair value. Changes in fair value are reported as unrealized gains and losses within unrestricted net assets. The fair value of securities held as invested collateral was $180,284 and $258,899 at December 31, 2015 and 2014, respectively. The corresponding liability that represents the Corporation's obligation to return the collateral was $180,326 and $258,929 at December 31, 2015 and 2014, respectively.

The potential risks associated with the transactions include counterparty credit risk, non-cash collateral security risk, lending agent operational risk, and cash collateral reinvestment risk, including the risk that the reinvested collateral would be illiquid, insufficient to repay borrowers, would differ in maturity, or be otherwise unavailable to return the cash collateral to counterparties.

(in thousands of dollars)

The Corporation and its lending agent mitigate those risks by limiting the amount of investments available for loan, limiting the amount of borrowings by any one counterparty, maintaining effective control over loaned securities, evaluating the credit of counterparties, maintaining a list of approved borrowers, requiring overcollateralization, placing limitations, including duration and credit quality, on the investment of cash collateral, conducting daily mark-to-market pricing of securities, collateral and invested collateral, and maintaining a written agreement with the lending agent that includes certain protections.

The Corporation's assets are invested in a variety of financial instruments. Accordingly, the related values as presented in the consolidated financial statements are subject to various market fluctuations, which include changes in the interest rate environment, equity markets and general economic conditions.

Fair Value of Financial Instruments
In accordance with FASB fair value measurement guidance, financial assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level inputs used to measure their fair value.

Reinsurance
In the normal course of business, the Corporation seeks to reduce losses that may arise from risks or occurrences of an unexpected nature that may cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Additionally, the Corporation participates in the ACA temporary reinsurance program. Reinsurance premiums and benefits paid or provided are accounted for in a manner consistent with the original policies issued and the terms of the reinsurance contracts. The Corporation also assumes reinsurance risks from other insurance companies. Such assumed reinsurance activity is recorded principally on the basis of reports received from the ceding companies.

Inventory, Net
Inventory consists primarily of vision related eyewear components and health care delivery related drugs, medical supplies and surgical supplies. Vision related eyewear components include frames, lenses and cases, contact lenses and solutions, laboratory supplies, and packaging materials. Inventory is stated at the lower of cost or market. Vision related inventory cost is determined using the weighted average or first-in first-out basis. Health care delivery related inventory cost is determined using the first-in first-out basis. Obsolescence reserves were $15,924 and $17,987 at December 31, 2015 and 2014, respectively.

Property and Equipment, Net
Property and equipment is recorded at cost, net of accumulated depreciation and amortization. If a donor contributes property and equipment, it is recorded at the fair market value on the date contributed. Maintenance, repairs and minor improvements are expensed as incurred. Certain costs related to the internal development of software or software purchased for internal use are capitalized. Gains or losses on sales or disposals of property and equipment are included in operations.

Depreciation is computed under the straight-line method by annual charges to expense over the estimated useful lives of the various asset types as follows: buildings and building or land improvements, up to 40 years; leasehold improvements, lesser of lease term or useful life; office furniture and equipment, three-30 years; and capitalized software, three-10 years.

(in thousands of dollars)

Property and equipment is reviewed for impairment whenever changes in circumstances indicate that the carrying value of the assets may not be recoverable. Impairment losses are recognized to the extent the carrying amount of an asset exceeds the undiscounted future cash flows expected to result from the use of the asset and its eventual disposal. No impairment losses were recorded in 2015 or 2014.

Goodwill and Other Intangible Assets, Net
Intangible assets with definite lives are amortized using the straight-line method over their estimated lives, which range from three to 25 years. Intangible assets with indefinite useful lives, including goodwill, are not amortized, but are tested for impairment at least annually and more frequently if events or changes in circumstances indicate that an asset may be impaired. If fair value is less than carrying value, the asset is adjusted to the fair value and an impairment loss is recorded in the consolidated statements of operations. Management tested goodwill and other intangible assets with indefinite lives for impairment and concluded that no impairment existed at December 31, 2015 or 2014.

Other Assets
Other assets include prepaid expenses, pharmacy rebates receivable, insurance recoveries associated with medical malpractice, notes receivable and cash surrender values of corporate-owned life insurance policies held in grantor trusts.

Pharmacy rebates receivable is an actuarial estimate based on prescriptions filled and terms of rebate contracts. The actuarial estimates are continually reviewed and any resulting adjustments are included in current operations. The Corporation carries its notes receivable at estimated net realizable value, which reflects the impact of potential credit losses. Changes in cash surrender value are reported in net investment income in the consolidated statements of operations.

Claims Outstanding
Claims outstanding include claims reported and adjudicated but unpaid as well as an estimate of incurred but not reported ("IBNR") claims. The liability for IBNR claims is an actuarial estimate based on historical claims paid data, modified for current conditions and coverage changes. The methods to determine the estimate of IBNR claims use past experience adjusted for current trends. The methods and assumptions are continually reviewed and any resulting adjustments are included in current operations. Corresponding administrative costs to process outstanding claims are estimated and accrued and are included in other payables and accrued expenses in the consolidated balance sheets.

In the ordinary course of business, the Corporation advances operating funds to health care providers. Claims outstanding are reported net of such advances, which were $8,205 and $18,621 at December 31, 2015 and 2014, respectively.

The Corporation recorded $1,154,166 and $951,837 in claim liabilities for certain non-risk administrative arrangements at December 31, 2015 and 2014, respectively. The non-risk administrative receivable is included in insurance accounts receivable and the corresponding provider liability is included in claims outstanding in the consolidated balance sheets.

(in thousands of dollars)

Amounts Held for Others
Amounts held for others include reserves for refunds and deposits received from groups for non-risk administrative arrangements. At December 31, 2015 and 2014, the Corporation held deposits received from groups of $121,362 and $128,471, respectively. Amounts held for others also include amounts related to the BlueCard program, which allows the Highmark members to access other Blue Cross and Blue Shield plans' provider networks.

Other Liabilities
Other liabilities include medical malpractice reserves, deferred grant revenue, premium deficiency reserves, asset retirement obligations, book overdraft and interest rate swap liabilities.

The provision for medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, including costs associated with litigating or settling claims. Anticipated insurance recoveries associated with reported claims are reported in other assets in the consolidated balance sheets at net realizable value.

The Corporation records deferred grant revenue for grant monies received until the revenue is earned or related costs have been incurred. Governmental grant monies received for the acquisition of property and equipment are deferred until the asset is provided or until depreciation expense is recognized.

The Corporation establishes a premium deficiency reserve ("PDR") when it determines that it is probable that future claims incurred and related maintenance costs will exceed future premiums from contracts in force for a given line of business or product grouping within a contract period. The Corporation evaluates the need for a PDR by grouping policies consistent with the way the business is acquired, serviced and measured. In 2015, the Corporation established premium deficiency reserves of $46,952 related to its individual ACA business. In 2014, the Corporation released premium deficiency reserves of $16,354 due primarily to the termination of special care products as a result of the Patient Protection and ACA. At December 31, 2015 and 2014, premium deficiency reserves of $46,952 and $2,211, respectively, were established.

The Corporation accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the Corporation recognizes a gain or loss for any difference between the settlement amount and liability recorded. The Corporation's asset retirement obligation relates to costs associated with future asbestos removal. The asset retirement obligation was $9,862 and $10,016 at December 31, 2015 and 2014, respectively.

Temporarily and Permanently Restricted Net Assets
Temporarily restricted net assets are those whose use is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations. Temporarily restricted net assets are available for capital and other program expenditures.

(in thousands of dollars)

Permanently restricted net assets are those whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by the actions of the Corporation. Investment earnings from permanently restricted net assets may be unrestricted or temporarily restricted for capital or operating needs depending upon the original intent of the donor. Allegheny Health elected a total return investment policy for certain trust accounts which permits income to be redefined as a percentage of a rolling average market value of the charitable trust as averaged over a period of at least three years provided the election is consistent with the charitable trust agreement and long term preservation of principal value of the charitable trust. The investment income percentage distribution is recorded as a transfer out of trusts in permanently restricted net assets.

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released from restrictions and used for operations are recorded in net assets released from restriction. Net assets released from restriction and used for capital purposes are recorded in unrestricted net assets in the consolidated statements of changes in net assets.

Insurance Revenue Recognition
Highmark's business consists of at-risk insurance arrangements and non-risk administrative arrangements. The administrative fees received under non-risk administrative arrangements are shown as management services revenue and recognized in the period in which the related services are performed. Management services revenue also include fees for management of medical services, claims processing and access to provider networks. Under non-risk administrative arrangements, the customer assumes the risk of funding claims. The Corporation does not record premium revenue or claims incurred on non-risk administrative arrangements. The expenses associated with administering the risk and non-risk business are included in salaries, wages and fringe benefits and other operating expenses in the consolidated statements of operations.

Risk business includes all insurance contracts. Premiums are generally billed in advance of the contractual coverage periods and are included in premium revenue as they are earned during the coverage period. The unearned portion of premiums collected is reflected in the consolidated balance sheets as unearned premium revenue. Premium revenue is received from the federal government and certain states according to government specified payment rates and various contractual terms. Changes in revenues from Medicare and Medicaid products resulting from the periodic changes in risk-adjustment scores derived from medical diagnoses for the Corporation's membership are recognized when the amounts become determinable and the collectability is reasonably assured.

Vision Revenue
Vision revenue includes sales from fully integrated eye care services and optical retail stores. Fully integrated eye care service revenues are recognized based upon services rendered. Sales are recognized when title and the risk of loss transfer to the customer, there is evidence of a contractual arrangement and collectability of the resulting receivable is reasonably assured.

(in thousands of dollars)

Net Patient Service Revenue
Net patient service revenue is comprised of gross patient service revenues less contractual allowances, charity care and provision for doubtful accounts. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered at the time the service is performed and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Allegheny Health has agreements with third-party payors that provide for payments to Allegheny Health at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments and contracted amounts. Allegheny Health recognizes patient service revenues associated with services provided to patients who have third-party payor coverage on the basis of established rates for services rendered. A summary of the payment arrangements with major third-party payors is as follows:

Medicare: Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. Allegheny Health is reimbursed for services rendered at a tentative rate with a final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Medicare cost reports have been audited by the Medicare fiscal intermediary through the fiscal year ended June 30, 2013.

Medical Assistance: Inpatient and outpatient services rendered to Medical Assistance eligible patients are paid at prospectively determined rates.

Blue Cross Blue Shield Payors: Inpatient care and outpatient services rendered to subscribers of Blue Cross Blue Shield payors, including services provided under Highmark non-risk administrative arrangements and the BlueCard program, are paid at prospectively determined rates.

Other third-party payors: Inpatient and outpatient services generally rendered to commercial insurance and other payors are paid at prospectively determined rates.

Net patient service revenue, by major payor in 2015 and 2014 was as follows:

	2015	2014
Medicare	$ 843,103	$ 787,037
Medical assistance	208,030	206,045
Blue Cross Blue Shield payors	415,649	358,932
Other third-party payors	401,086	306,233
Patients and residents	51,786	74,272
Total patient service revenue, net of contractual allowances and discounts	1,919,654	1,732,519
Less: Provision for doubtful accounts	(65,396)	(86,527)
Total net patient service revenue	$ 1,854,258	$ 1,645,992

(in thousands of dollars)

In 2015, revenue from Medicare and Medical Assistance programs accounted for 44% and 11%, respectively, of patient service revenue, net of contractual allowances and discounts. In 2014, revenue from Medicare and Medical Assistance programs accounted for 45% and 12%, respectively, of patient service revenue, net of contractual allowances and discounts. Laws and regulations governing Medicare and Medical Assistance programs are extremely complex and subject to interpretation and there is at least a reasonable possibility that actual results could differ from those estimates.

Allegheny Health is subject to a Quality Care Assessment (the "Assessment") imposed by the Pennsylvania Department of Human Services ("DHS") under Pennsylvania Act 49 of 2010, and extended by Pennsylvania Act 55 of 2013. The Assessment was pursued by Pennsylvania in an effort to increase the federal share of Medical Assistance funding under the Medicaid Modernization Act. In turn, DHS provides additional reimbursement to Allegheny Health. The cost of the Assessment was $32,773 and $32,945 in 2015 and 2014, respectively, and was included in other operating expenses in the consolidated statements of operations. Additional reimbursement as a result of Act 55 in 2015 and 2014 was $32,283 and $29,307, respectively, and was included in net patient service revenue in the consolidated statements of operations.

Charity Care

Allegheny Health hospitals provide services to all patients regardless of ability to pay. Allegheny Health hospitals each have a charity care policy under which they provide care to patients at no charge or at discounted rates, provided the patients meet the eligibility requirements stipulated in their policies. The Corporation does not pursue collection of amounts determined to qualify for charity care; therefore, charity care amounts are not recorded as revenue or deducted from gross patient service revenue in arriving at net patient service revenue.

Other Operating Revenue

Other operating revenue includes pharmacy rebates earned on non-risk administrative arrangements, grants, contributions, physician stipends, Medicare and Medicaid electronic health record ("EHR") incentive payments and other ancillary hospital services revenue such as parking, cafeteria, tuition and rent. Other operating revenue also includes the Corporation's proportionate share of affiliate earnings.

Donor-Restricted Contributions

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received as unrestricted gifts within other operating revenue in the consolidated statements of operations. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year are reported as unrestricted contributions in the accompanying consolidated financial statements.

(in thousands of dollars)

Income Taxes
Highmark Health and some of the entities within Allegheny Health are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code ("IRC") and are exempt from federal income taxes on exempt purpose income. These tax-exempt organizations are subject to federal taxes on unrelated business income under section 511 of the IRC. No such tax liability exists in 2015 or 2014, and as such, no provision for unrelated business income tax has been made in the consolidated financial statements.

Highmark Inc., Highmark WV and Highmark DE are subject to federal income taxes, although they remain exempt from state and local taxes. Highmark Inc., Highmark WV and Highmark DE file separate consolidated federal income tax returns. Only the non-insurance subsidiaries and health maintenance organizations of Highmark Inc., Highmark WV and Highmark DE are subject to state income taxes. Certain insurance subsidiaries are subject to state premium taxes. Provisions for the applicable tax liabilities have been made in the consolidated financial statements.

Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using tax rates and laws that are expected to be in effect when the difference is reversed. The Corporation records a valuation allowance against its deferred tax assets when it determines that it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Deficit of Revenue Over Expenses
The consolidated statements of operations includes a deficit of revenue over expenses. Changes in unrestricted net assets which are excluded from the deficit of revenue over expenses, consistent with industry practice, include unrealized gains and losses on available-for-sale securities, benefit plan asset and liability changes, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and certain tax benefits.

Subsequent Events
In connection with the preparation of the consolidated financial statements, the Corporation evaluated events subsequent to the balance sheet date of December 31, 2015 through March 30, 2016, which is also the date the financial statements were available to be issued, and has determined that all material transactions have been recorded and disclosed properly.

4. Insurance Regulation

Highmark Inc. and its insurance subsidiaries and affiliates file financial statements with insurance departments in their states of domicile. These financial statements are prepared in accordance with statutory accounting principles prescribed by such regulatory authorities. Prescribed statutory accounting principles include state laws, regulations and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners ("NAIC"). Permitted statutory accounting practices encompass all accounting practices not prescribed.

(in thousands of dollars)

Financial statements prepared for state insurance departments in accordance with statutory accounting principles differ from the consolidated financial statements prepared in accordance with GAAP. The principal differences in statutory accounting are: (1) certain assets, such as accounts receivable aged more than 90 days, office furniture and equipment, nonoperating software, certain provider advances, certain intangible assets and prepaid expenses, are excluded from statutory reserves; (2) pharmaceutical rebates receivable are limited based on the timing of billing and collection activities; (3) bonds and certain preferred stocks are carried at amortized cost or fair value, not fair value as required under GAAP; (4) equity income or loss of subsidiaries, affiliates and limited partnerships is recorded directly to reserves rather than in results of operations as required under GAAP, with dividends or distributions recognized in statutory net income when declared; (5) certain equity transfers to affiliates are expensed; (6) assets and liabilities pertaining to reinsurance transactions are reported net of reinsurance; (7) deferred tax asset recognition is limited; (8) mergers are accounted for at historical statutory amounts, as if the merger occurred at the beginning of the earliest presented fiscal year; and (9) uncertain tax positions are fully recognized if the probability is greater than 50%.

As a result of the foregoing, statutory reserves at December 31, 2015 and 2014 and statutory net (loss) income for the years then ended was:

	2015	2014
Highmark (excluding Highmark WV and Highmark DE)		
Statutory reserves	$ 3,860,573	$ 4,252,000
Statutory net loss	$ (405,181)	$ (68,171)
Highmark WV		
Statutory reserves	$ 298,400	$ 308,114
Statutory net (loss) income	$ (12,601)	$ 9,484
Highmark DE		
Statutory reserves	$ 120,839	$ 138,405
Statutory net loss	$ (26,505)	$ (4,243)

Highmark Inc. and its insurance subsidiaries and affiliates are subject to minimum risk-based capital ("RBC") requirements that were developed by the NAIC and adopted by various state legislatures. The formula for determining the amount of RBC specifies various weighting factors that are applied to financial balances and various levels of activity based on perceived degrees of risk.

The RBC ratios of Highmark Inc. and its insurance subsidiaries and affiliates are compared to authorized control levels established by the NAIC. Companies below specific ratio thresholds may be required to take specific corrective actions. At December 31, 2015 and 2014, Highmark Inc. and its insurance subsidiaries and affiliates exceeded their respective minimum RBC requirements.

(in thousands of dollars)

The Pennsylvania Insurance Commissioner has determined that an appropriate sufficient operating surplus range for Highmark Inc. is 550% - 750% of the health RBC ratio or the Department's consolidated risk factor ratio, whichever is lower. As long as Highmark Inc. operates above the 550% ratio, it is not permitted to include a risk and contingency factor in its filed premium rates. If Highmark Inc.'s ratio exceeds 750%, it will be required to justify its surplus level and could be required to submit a plan to bring its surplus within the designated appropriate sufficient operating surplus range. At December 31, 2015 and 2014, Highmark Inc.'s health RBC ratio was within the appropriate sufficient operating surplus range determined by the Department.

The ACA enacted significant reforms to various aspects of the U.S. health insurance industry. Certain of these reforms became effective January 1, 2014, including the establishment of federally-facilitated or state-based exchanges which provide individuals and small businesses access to affordable and quality health insurance. Highmark participates in the Pennsylvania, West Virginia and Delaware markets.

The ACA imposes an annual premium-based fee on health insurers for each calendar year beginning on or after January 1, 2014, which is not deductible for tax purposes. The aggregate annual fee for all insurers was $11,300,000 for 2015 and $8,000,000 for 2014. This amount was apportioned among all insurers based on a ratio designated to reflect relative market share of U.S. health insurance business. The fee is based on the ratio of the Highmark's applicable net written premium to total applicable net premiums for all such issuers. Highmark is required to estimate a liability for the health insurer fee and record it in full once qualifying insurance coverage is provided in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized ratably to expense over the same calendar year. In September 2015 and 2014, Highmark paid the federal government $200,103 and $141,321, respectively. The amount of the fee is expected to be approximately $156,643 in 2016.

The ACA also established three premium stabilization programs effective January 1, 2014. These risk spreading programs are applicable to certain commercial medical insurance products. In the aggregate, Highmark's commercial medical insurance products subject to the premium stabilization programs represented approximately 8% and 7% of the total premiums for the years ending December 31, 2015 and 2014, respectively. These programs, commonly referred to as the "3Rs", include a permanent risk adjustment program, a temporary risk corridor program and a transitional reinsurance program designed to more evenly spread the financial risk borne by issuers and to mitigate the risk that issuers would have mispriced products. The transitional reinsurance and risk corridor programs are available for years 2014 through 2016.

(in thousands of dollars)

The permanent risk adjustment program adjusts the premiums that commercial individual and small group health insurance issuers receive based on the demographic factors and health status of each member as derived from current year medical diagnosis as reported throughout the year. This program transfers funds from lower risk plans to higher risk plans in the same state. The risk adjustment program is applicable to commercial individual and small group health plans (except certain exempt, grandfathered and grandmothered plans) operating both inside and outside of the health insurance exchanges established under the ACA. Under the risk adjustment program, a risk score is assigned to each covered member to determine an average risk score at the individual and small group level by legal entity in a particular market in a state. Additionally, an average risk score is determined for the entire subject population for each market in each state. Settlement amounts are determined by utilizing the Centers for Medicare and Medicaid Services ("CMS") risk transfer formula which averages all risk scores in risk adjustment covered plans and uses the plan average risk scores with other factors to calculate the settlement. Settlements are determined on a net basis by legal entity and state.

The estimate of amounts receivable or payable under the risk adjustment program is based on an estimate of both Highmark's and the state average risk scores. Assumptions used in these estimates include but are not limited to historical market experience, member demographics, including age and gender, pricing model, membership data, the mix of previously underwritten membership as compared to new members in plans compliant with the ACA, published third party studies and other publicly available data including regulatory plan filings. Highmark generally relies on providers to appropriately document all medical data, including the diagnosis data submitted with claims, as the basis for risk scores under the program.

For the permanent risk adjustment program, Highmark records receivables or payables as adjustments to premium revenue based on year-to-date experience when the amounts are reasonably estimable and collection is reasonably assured. Final revenue adjustments are determined by CMS in the year following the policy year.

The temporary risk corridor program applies to qualifying individual and small group Qualified Health Plans, as defined by CMS, operating both inside and outside of the exchanges. The risk corridor provisions limit issuer gains and losses by comparing allowable medical costs to a target amount, defined by CMS, and sharing the risk for allowable costs with the federal government. Allowable medical costs are adjusted for risk adjustment settlements, transitional reinsurance recoveries and cost sharing reductions received from CMS. Variances from the target exceeding certain thresholds may result in CMS making additional payments to Highmark or require Highmark to refund CMS a portion of the premiums received.

For the temporary risk corridor program, Highmark records receivables or payables as adjustments to premium revenue based on year-to-date experience when the amounts are reasonably estimable and collection is reasonably assured. Final revenue adjustments are determined by CMS in the year following the policy year.

(in thousands of dollars)

On October 1, 2015, CMS announced they had the ability to pay issuers 12.6% of amounts owed to issuers for their 2014 benefit year risk corridor based on currently available funding. Correspondingly, Highmark recorded premium revenue of $28,090 for 12.6% of the 2014 benefit year risk corridor as of December 31, 2015. Highmark did not record any additional risk corridor premium revenue for the 2014 benefit year and recorded no premium revenue for the 2015 benefit year as collection is not reasonably assured. However, CMS has acknowledged its legal obligations to pay insurers under the risk corridor program for the balance of the 2014 coverage year as well as 2015, as required by ACA.

The transitional reinsurance program requires Highmark to make reinsurance contributions for calendar years 2014 through 2016 based on a national contribution rate per covered member as determined annually by CMS. The contribution rate is three dollars and sixty-seven cents per member per month for calendar year 2015. While all commercial medical plans, including self-funded plans, are required to fund the reinsurance entity, only fully-insured non-grandfathered plans compliant with the ACA in the individual commercial market will be eligible for recoveries if individual claims exceed a specific threshold. In 2015, the reinsurance program thresholds include an attachment point of $45 and a cap of $250 of eligible individuals claims. A coinsurance rate is applied to eligible individual claims that meet the program's criteria. Highmark estimated a coinsurance rate of 55% based on the anticipated excess funding in the transitional program and CMS's intention to distribute excess receipts. The total amount assessed through this provision is $25,000,000 in the 3-year period and an additional administrative expense charges for 2015 and 2014 of $25,400 and $20,300, respectively. Highmark's reinsurance contribution expense in 2015 and 2014 was $41,327 and $65,607, respectively.

Reinsurance contributions associated with eligible individual plans are reported as ceded premiums and estimated reinsurance recoveries are reported as ceded claims. Reinsurance contributions for other insured business are reported in other operating expenses in the consolidated statements of operations. Final recoverable amounts are determined and settled with CMS in the year following the policy year.

The 3Rs receivable and payable amounts at December 31, 2015 were as follows:

	Risk Adjustment	Risk Corridor	Reinsurance	Total
Accounts receivable, insurance	$ (33,474)	$ 3,943	$ -	$ (29,531)
Reinsurance recoverables	-	-	216,005	216,005
Other payables and accrued expenses	-	-	(54,949)	(54,949)
Net receivable	$ (33,474)	$ 3,943	$ 161,056	$ 131,525

(in thousands of dollars)

The 3Rs receivable and payable amounts at December 31, 2014 were as follows:

	Risk Adjustment	Risk Corridor	Reinsurance	Total
Accounts receivable, insurance	$ 42,163	$ -	$ -	$ 42,163
Reinsurance recoverables	-	-	221,391	221,391
Other payables and accrued expenses	-	-	(58,537)	(58,537)
Net receivable	$ 42,163	$ -	$ 162,854	$ 205,017

The 2014 risk adjustment and reinsurance programs were settled for a payment by the Corporation of $767 and a receipt of $201,858, respectively. The interim settlement for the 2014 risk corridor program was $28,090.

Highmark is required to remit payment for the per member reinsurance contribution in January and November of the year following the benefit year, or January and November 2016 for the 2015 benefit year. Risk adjustment and reinsurance settlements will be completed and CMS will notify Highmark of recoveries due or payments owed under these programs by June 30 of the year following the benefit year. Payments due to CMS under the risk adjustment program must be remitted within 30 days of notification and will be collected prior to the distribution of recoveries by CMS. Following this notification, risk corridor calculations are then due by July 31 of the year following the benefit year. Payment and recovery amounts are expected to be settled with CMS annually in the second half of the year following the benefit year.

Amounts described above related to the 3Rs are estimates inherently subject to a number of highly variable circumstances. Consequently, actual results could differ materially from the amounts recorded in the consolidated financial statements.

Highmark Inc. is subject to a Community Health Reinvestment ("CHR") Agreement with the Department, which establishes an annual CHR commitment for Highmark Inc. based on direct written health premiums. Highmark met its minimum social mission commitment of $77,959 and $77,482 in 2015 and 2014, respectively. The 2016 commitment is expected to approximate the 2015 amount. Highmark Inc. has the ability to direct the funds related to the CHR endeavors provided that the funds are used to provide health care coverage for persons who are uninsured or unable to pay for coverage, to fund programs for the prevention and treatment of disease or injury including mental health counseling or the promotion of health or wellness, to fund the prevention of conditions, behavior or activities that are adverse to good health or donations for the benefit of health care providers in furtherance of any of the foregoing purposes.

Because Highmark is not eligible to participate in a Pennsylvania-sponsored guarantee fund, it has established and funded a trust in order to meet a licensing requirement of BCBSA. The fair value of the trust was $335,673 and $330,915 at December 31, 2015 and 2014, respectively, and was reported as debt securities in the consolidated balance sheets.

Medicare Advantage and Medicare Part D Prescription Drug Plan products offered under contracts with CMS accounted for 27.3% and 31.9% of total premiums for the years ended December 31, 2015 and 2014, respectively.

(in thousands of dollars)

CMS uses a risk-adjustment model which apportions premiums paid to Medicare Advantage plans according to the health severity of their members. The risk-adjustment model pays higher premiums for members with certain medical conditions identified with specific diagnostic codes. Under the risk-adjustment methodology, all Medicare Advantage plan sponsors must collect and submit the necessary diagnosis code information from providers to CMS within prescribed deadlines. The CMS risk-adjustment model uses the diagnosis data to calculate the risk-adjusted premium payment to Medicare Advantage plans. Highmark generally relies on providers to code their claim submissions with appropriate diagnoses, which are sent to CMS as the basis for the payment received from CMS under the risk-adjustment model. Highmark also relies on these providers to document appropriately all medical data, including the diagnosis data submitted with claims.

CMS continues to perform audits of selected companies' Medicare Advantage contracts related to this risk adjustment diagnosis data. In February 2012, CMS announced a final Risk Adjustment Data Validation ("RADV") audit and payment adjustment methodology that it will utilize to conduct RADV audits beginning with the 2011 payment year. RADV audits review medical records in an attempt to validate provider medical record documentation and coding practices which influence the calculation of premium payments to Medicare Advantage plans. These audits may result in retrospective adjustments to payments made to health plans. Selected Medicare Advantage contracts will be notified of an audit after the close of the final reconciliation for the payment year being audited. Through the date of this report, Highmark has not been notified by CMS that any of its Medicare Advantage contracts have been selected for audit.

5. Investments

The cost or amortized cost, gross unrealized gains and losses and fair value of investments in debt and equity securities classified as available-for-sale at December 31, 2015 were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. Treasury and agency obligations	$ 749,338	$ 1,776	$ (19,547)	$ 731,567
Agency mortgage-backed securities	406,432	5,351	(1,782)	410,001
State and political obligations	35,095	847	(195)	35,747
Mortgage-backed securities	34,725	119	(286)	34,558
Asset-backed securities	58,011	1,209	(191)	59,029
Corporate and other debt securities	1,642,100	23,517	(51,216)	1,614,401
Total debt securities	2,925,701	32,819	(73,217)	2,885,303
Equity securities				
Domestic	400,245	114,527	(12,552)	502,220
Foreign	444,916	25,959	(19,114)	451,761
Total equity securities	845,161	140,486	(31,666)	953,981
Total	$ 3,770,862	$ 173,305	$ (104,883)	$ 3,839,284

(in thousands of dollars)

The cost or amortized cost, gross unrealized gains and losses and fair value of investments in debt and equity securities classified as available-for-sale at December 31, 2014 were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. Treasury and agency obligations	$ 800,700	$ 59,285	$ (1,324)	$ 858,661
Agency mortgage-backed securities	482,412	10,519	(1,059)	491,872
State and political obligations	63,290	1,557	(280)	64,567
Mortgage-backed securities	44,082	685	(139)	44,628
Asset-backed securities	62,461	2,234	(63)	64,632
Corporate and other debt securities	1,670,244	45,808	(15,472)	1,700,580
Total debt securities	3,123,189	120,088	(18,337)	3,224,940
Equity securities				
Domestic	353,191	158,380	(6,528)	505,043
Foreign	404,830	46,616	(10,804)	440,642
Total equity securities	758,021	204,996	(17,332)	945,685
Total	$ 3,881,210	$ 325,084	$ (35,669)	$ 4,170,625

The gross unrealized losses and fair value of debt and equity investments classified as available-for-sale securities by investment category and length of time an individual security was in a continuous unrealized loss position at December 31, 2015 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities						
U.S. Treasury and agency obligations	$ 555,998	$ (19,490)	$ 5,090	$ (57)	$ 561,088	$ (19,547)
Agency mortgage-backed securities	203,085	(1,549)	7,210	(233)	210,295	(1,782)
State and political obligations	14,871	(186)	3,010	(9)	17,881	(195)
Mortgage-backed securities	26,245	(275)	865	(11)	27,110	(286)
Asset-backed securities	33,051	(183)	698	(9)	33,749	(192)
Corporate and other debt securities	912,444	(44,493)	59,364	(6,722)	971,808	(51,215)
Total debt securities	1,745,694	(66,176)	76,237	(7,041)	1,821,931	(73,217)
Equity securities						
Domestic	201,450	(11,845)	1,973	(707)	203,423	(12,552)
Foreign	359,109	(18,223)	2,972	(891)	362,081	(19,114)
Total equity securities	560,559	(30,068)	4,945	(1,598)	565,504	(31,666)
Total	$ 2,306,253	$ (96,244)	$ 81,182	$ (8,639)	$ 2,387,435	$ (104,883)

(in thousands of dollars)

The gross unrealized losses and fair value of debt and equity investments classified as available-for-sale securities by investment category and length of time an individual security was in a continuous unrealized loss position at December 31, 2014 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities						
U.S. Treasury and agency obligations	$ 238,752	$ (709)	$ 28,969	$ (615)	$ 267,721	$ (1,324)
Agency mortgage-backed securities	32,861	(78)	45,564	(981)	78,425	(1,059)
State and political obligations	26,953	(99)	9,263	(181)	36,216	(280)
Mortgage-backed securities	9,519	(24)	8,602	(115)	18,121	(139)
Residential	320	(1)	180	(12)	500	(13)
Commercial	9,199	(23)	8,422	(103)	17,621	(126)
Asset-backed securities	23,582	(44)	1,398	(19)	24,980	(63)
Corporate and other debt securities	583,686	(13,502)	74,866	(1,970)	658,552	(15,472)
Total debt securities	915,353	(14,456)	168,662	(3,881)	1,084,015	(18,337)
Equity securities						
Domestic	92,652	(6,296)	6,422	(232)	99,074	(6,528)
Foreign	131,922	(7,188)	24,435	(3,616)	156,357	(10,804)
Total equity securities	224,574	(13,484)	30,857	(3,848)	255,431	(17,332)
Total	$ 1,139,927	$ (27,940)	$ 199,519	$ (7,729)	$ 1,339,446	$ (35,669)

At December 31, 2015 and 2014, the Corporation held available-for-sale debt securities with gross unrealized losses of $73,217 and $18,337, respectively. Management evaluated the unrealized losses and determined that they were due primarily to volatility in the interest rate environment and market conditions. The Corporation does not intend to sell the related debt securities and it is not likely that the Corporation will be required to sell the debt securities before recovery of their amortized cost basis, which may be maturity. Therefore, management does not consider the available-for-sale debt securities to be other-than-temporarily impaired as of December 31, 2015 and 2014.

At December 31, 2015 and 2014, the Corporation held available-for-sale equity securities with gross unrealized losses of $31,666 and $17,332, respectively. Management reviews equity securities in which fair value falls below cost. In determining whether an equity security is other-than-temporarily impaired, management considers both quantitative and qualitative information. The impairment review process is subjective and considers a number of factors, including, but not limited to, the length of time and extent to which the fair value has been less than book value, the financial condition and near-term prospects of the issuer, recommendations of investment advisors, the intent and ability to hold securities for a time sufficient to allow for any anticipated recovery in value and general market conditions and industry or sector-specific factors, including forecasts of economic, market or industry trends. Management does not consider the available-for-sale equity securities to be other-than-temporarily impaired as of December 31, 2015 and 2014.

(in thousands of dollars)

The amortized cost and fair value of available-for-sale debt securities at December 31, 2015 are shown below by contractual maturity. Expected maturities could differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due within one year or less	$ 184,136	$ 184,522
Due after one year through five years	1,054,762	1,054,099
Due after five years through ten years	788,866	768,758
Due after ten years	398,768	374,336
Mortgage- and asset-backed securities	499,169	503,588
Total debt securities	$ 2,925,701	$ 2,885,303

Board designated, restricted and other investments by investment type at December 31, 2015 and 2014 consisted of the following:

	2015	2014
Cash and cash equivalents	$ 77,562	$ 103,373
Debt securities		
U.S. Treasury and agency obligations	76,711	128,749
Agency mortgage-backed securities	5,309	13,189
Asset and mortgage-backed securities	7,956	25,933
Corporate and other debt securities	77,724	102,729
Total debt securities	167,700	270,600
Equity securities		
Domestic	115,892	111,994
Foreign	39,768	27,533
Endowments managed by donor selected trustees	219,772	231,146
Total board designated, restricted and other investments	$ 620,694	$ 744,646

(in thousands of dollars)

Board designated, restricted and other investments consist of the following components at December 31, 2015 and 2014:

	2015	2014
Unrestricted		
Other investments	$ 278,770	$ 305,479
Board designated		
Capital improvements	4,110	83,591
Foundation	32,366	41,011
Debt service	5,600	5,590
Self-insurance reserves	3,112	4,412
Grant funds and other	21,214	21,522
Total unrestricted	345,172	461,605
Temporarily restricted	22,838	18,787
Permanently restricted	252,684	264,254
Total board designated, restricted and other investments	$ 620,694	$ 744,646

The following is a summary of net investment income for the year ended December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Interest and dividends	$ 136,877	$ 948	$ 4,274
Net realized gains (losses) on investments	164,049	(19)	8,698
Net unrealized losses on board designated, restricted and other investments	(14,269)	(316)	(13,960)
Net realized gain on extinguishment of debt (Note 11)	7,494	-	-
Total net investment income (loss)	$ 294,151	$ 613	$ (988)

The following is a summary of net investment income for the year ended December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Interest and dividends	$ 150,041	$ 826	$ 4,454
Net realized gains on investments	96,538	849	14,736
Net unrealized gains (losses) on board designated, restricted and other investments	728	(211)	(3,366)
Net realized gain on extinguishment of debt (Note 11)	6,472	-	-
Total net investment income	$ 253,779	$ 1,464	$ 15,824

(in thousands of dollars)

Net realized gains (losses) on unrestricted investments include $19,805 and $2,867 in 2015 and 2014, respectively, in other-than-temporary impairment charges on available-for-sale securities. Other-than-temporary impairments recognized in 2015 and 2014 resulted from the extent and duration of fair value declines due to market conditions, along with credit related concerns in certain instances. Impaired securities included mainly equity and debt securities within the domestic financial services, commodity and energy business sectors, along with international market holdings.

The recognition of unrealized gains and losses on investments that are restricted as to use are recorded directly to temporarily and permanently restricted net assets as required by donor or regulation. These investments consist primarily of equity securities, agency mortgage-backed securities, corporate debt securities and U.S. Treasury obligations. All unrealized gains and losses on marketable unrestricted board designated and other investments are recognized in net investment income.

Certain limited partnership and private equity interests of the Corporation have redemption restrictions relating to both timing and amounts of withdrawals. Distributions are received as the underlying investments generate income or are liquidated. The Corporation estimates that the underlying assets of private equity interests will be liquidated over the next seven to ten years, and the Corporation assumes that the interests will be held until liquidation.

The following is a summary of the remaining contractual maturity of securities lending transactions accounted for as secured borrowings:

	2015				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Securities Lending Transactions					
U.S. Treasury and agency securities	$ -	$ -	$ -	$ 1,100	$ 1,100
Corporate fixed income securities	-	2,765	5,901	9,044	17,710
International fixed income securities	-	1,215	35,204	64,896	101,315
Other	11,685	38,631	8,321	1,522	60,159
Total borrowings	$ 11,685	$ 42,611	$ 49,426	$ 76,562	$ 180,284

6. Fair Value of Financial Instruments

Input levels, as defined by Fair Value Measurement guidance, are as follows:

Level 1: Pricing inputs are based on unadjusted quoted market prices for identical financial assets or liabilities in active markets. Active markets are those in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Pricing inputs include observable inputs other than Level 1 pricing inputs, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Pricing inputs include observable inputs that are supported by little or no market activity and that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

(in thousands of dollars)

The following methods and assumptions were used to determine the fair value of each class of the following assets and liabilities recorded at fair value in the consolidated balance sheets:

Cash equivalents: Cash equivalents include highly rated money market funds, commercial paper or discount notes with maturities of three months or less and bank deposits, and are purchased or deposited daily with specified yield rates. Cash equivalents are designated as Level 1 or Level 2, depending on structure and the extent of credit-related features.

Debt securities, available-for-sale: Fair values of available-for-sale debt securities are based on quoted market prices, where available. These fair values are obtained primarily from a third party pricing service, which generally use Level 1 or Level 2 inputs, for the determination of fair value to facilitate fair value measurements and disclosures. U.S. Treasury securities generally are designated Level 1 securities, while Level 2 securities generally include corporate securities, state and political obligations, mortgage-backed securities, and asset-backed securities. Level 2 inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds. The Corporation has certain fixed maturity, corporate and other debt securities, which are designated as Level 3 securities. For these securities, the valuation methodologies may incorporate broker quotes or assumptions for benchmark yields, credit spreads, default rates and prepayment speeds that are not observable in the markets.

Equity securities, available-for-sale: Fair values of equity securities are generally designated as Level 1 and are based on quoted market prices for identical assets in active markets. For certain equity securities, quoted market prices for identical securities are not always available and the fair value is estimated by reference to similar or underlying securities for which quoted prices are available. These securities are designated Level 2. The Corporation also has certain equity securities, including private equity securities, for which fair value is estimated based on each security's current condition and future cash flow projections or based on the Corporation's share of the entities' undistributed earnings, which approximates fair value. Such securities are designated Level 3.

Board designated, restricted and other investments: Board designated, restricted and other investments include cash equivalents, debt securities and equity securities that follow the same methods and assumptions and fair value designations described above. The fair value for endowments managed by donor selected trustees are designated as Level 3 securities with the interest in these trusts based on the fair value of the underlying trust investments, which approximates the present value of the expected future cash flows for which the Corporation is an income beneficiary.

Real estate investment trusts: The fair value of ownership interest in real estate trusts are approximated based on trustee estimates and are designated as Level 3 securities.

Securities lending invested collateral: Fair values of securities lending collateral are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level 1 or Level 2 inputs for the determination of fair value to facilitate fair value measurements and disclosures.

(in thousands of dollars)

The Corporation uses a third party pricing service to obtain quoted prices for each security. The third party service provides pricing based on recent trades of the specific security or like securities, as well as a variety of valuation methodologies for those securities where an observable market price may not exist. The third party service may derive pricing for Level 2 securities from market corroborated pricing, matrix pricing, discounted cash flow analyses and inputs such as yield curves and indices. Pricing for Level 3 securities may be obtained from investment managers for private placements or derived from discounted cash flows, or ratio analysis and price comparisons of similar companies. The Corporation performs an analysis of reasonableness of the prices received for fair value by monitoring month-to-month fluctuations and determining reasons for significant differences, selectively testing fair values against prices obtained from other sources, and comparing the consolidated fair value of a class of assets against an appropriate index benchmark. The Corporation did not make adjustments to the quoted market prices obtained from third party pricing services that were material to the consolidated financial statements.

The following table summarizes fair value measurements by level at December 31, 2015 for financial assets measured at fair value on a recurring basis:

	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 1,516,588	$ 1,491,976	$ 24,612	$ -
Investments				
Debt securities, available-for-sale				
U.S. Treasury and agency obligations	731,567	409,748	321,819	-
Agency mortgage-backed securities	410,001	-	410,001	-
State and political obligations	35,747	-	35,747	-
Mortgage-backed securities	34,558	-	34,558	-
Asset-backed securities	59,029	-	59,029	-
Corporate and other debt securities	1,614,401	-	1,572,501	41,900
Total debt securities	2,885,303	409,748	2,433,655	41,900
Equity securities, available-for-sale				
Domestic	502,220	489,593	-	12,627
Foreign	451,761	166,354	285,407	-
Total equity securities	953,981	655,947	285,407	12,627
Board designated, restricted and other investments				
Cash and cash equivalents	77,562	77,562	-	-
Debt securities				
U.S. Treasury and agency obligations	76,711	52,880	23,831	-
Agency mortgage-backed securities	5,309	-	5,309	-
State and political obligations	2,004	-	2,004	-
Asset and mortgage-backed securities	7,956	-	7,956	-
Corporate and other debt securities	75,720	-	75,720	-
Equity securities				
Domestic	115,892	115,892	-	-
Foreign	39,768	39,768	-	-
Endowments	219,772	-	-	219,772
Total board designated, restricted and other investments	620,694	286,102	114,820	219,772
Real estate investment trusts	9,051	-	-	9,051
Securities lending invested collateral	180,284	-	180,284	-
Total assets	$ 6,165,901	$ 2,843,773	$ 3,038,778	$ 283,350

(in thousands of dollars)

The following table summarizes fair value measurements by level at December 31, 2014 for financial assets measured at fair value on a recurring basis:

	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$ 1,108,618	$ 1,090,401	$ 18,217	$ -
Investments				
Debt securities, available-for-sale				
U.S. Treasury and agency obligations	858,661	466,790	391,871	-
Agency mortgage-backed securities	491,872	-	491,872	-
State and political obligations	64,567	-	64,567	-
Mortgage-backed securities	44,628	-	44,628	-
Asset-backed securities	64,632	-	64,632	-
Corporate and other debt securities	1,700,580	-	1,653,542	47,038
Total debt securities	3,224,940	466,790	2,711,112	47,038
Equity securities, available-for-sale				
Domestic	505,043	489,751	-	15,292
Foreign	440,642	236,935	203,707	-
Total equity securities	945,685	726,686	203,707	15,292
Board designated, restricted and other investments				
Cash and cash equivalents	103,373	103,373	-	-
Debt securities				
U.S. Treasury and agency obligations	128,749	92,156	36,593	-
Agency mortgage-backed securities	13,189	-	13,189	-
Asset and mortgage-backed securities	25,933	-	25,933	-
Corporate and other debt securities	102,729	-	102,729	-
Equity securities				
Domestic	111,994	111,994	-	-
Foreign	27,533	27,533	-	-
Endowments	231,146	-	-	231,146
Total board designated, restricted and other investments	744,646	335,056	178,444	231,146
Real estate investment trusts	8,198	-	-	8,198
Securities lending invested collateral	258,899	-	258,899	-
Total assets	$ 6,290,986	$ 2,618,933	$ 3,370,379	$ 301,674

Transfers between levels, if any, are recorded annually as of the end of the reporting period unless, with respect to a particular issue, a significant event occurred that necessitated the transfer be reported at the date of the event.

There were no material transfers between Levels 1 and 2 during the years ended December 31, 2015 and 2014.

(in thousands of dollars)

The changes in fair value for assets measured using significant unobservable inputs (Level 3) for the year ended December 31, 2015 was as follows:

	Corporate and other debt securities	Equity securities	Endowments	Real estate investment trusts	Total
Balance at January 1	$ 47,038	$ 15,292	$ 231,146	$ 8,198	$ 301,674
Merger Activity	-	1,402	-	-	1,402
Net unrealized (losses) gains	(298)	-	(13,781)	497	(13,582)
Net realized (losses) gains	(913)	11,008	12,992	437	23,524
Impairments	(957)	-	-	-	(957)
Purchases	23,146	3,163		48	26,357
Sales	(26,116)	(18,238)		(129)	(44,483)
Transfers out of trusts	-		(10,585)	-	(10,585)
Balance at December 31	$ 41,900	$ 12,627	$ 219,772	$ 9,051	$ 283,350

The changes in fair value for assets measured using significant unobservable inputs (Level 3) for the year ended December 31, 2014 was as follows:

	Corporate and other debt securities	Equity securities	Endowments	Real estate investment trusts	Total
Balance at January 1	$ 46,914	$ 12,306	$ 225,750	$ 8,078	$ 293,048
Net unrealized (losses) gains	(1,648)	23	(3,304)	(291)	(5,220)
Net realized gains (losses)	202	(1,411)	19,185	412	18,388
Purchases	35,418	4,501	-	2,971	42,890
Sales	(33,848)	(127)	-	(2,972)	(36,947)
Transfers out of trusts	-	-	(10,485)	-	(10,485)
Balance at December 31	$ 47,038	$ 15,292	$ 231,146	$ 8,198	$ 301,674

(in thousands of dollars)

7. Property and Equipment, Net

Property and equipment at December 31, 2015 and 2014 was comprised of the following:

	2015	2014
Land, buildings and leasehold improvements	$ 1,397,893	$ 1,285,644
Office furniture and equipment	1,042,971	922,146
Capitalized software	655,533	584,566
Construction in progress	145,599	66,668
	3,241,996	2,859,024
Less accumulated depreciation and amortization	(1,489,825)	(1,230,179)
Property and equipment, net	$ 1,752,171	$ 1,628,845

Depreciation and amortization expense related to property and equipment amounted to $282,524 and $278,901 for 2015 and 2014, respectively.

8. Goodwill and Other Intangible Assets, Net

Goodwill consisted of the following at December 31, 2015 and 2014:

Goodwill, at January 1, 2014	$ 780,296
Impairment	-
Goodwill, at December 31, 2014	$ 780,296
Impairment	-
Merger Activity	(4,875)
Acquisitions	19,362
Other	(1,064)
Goodwill, at December 31, 2015	$ 793,719

At December 31, 2015 and 2014, management tested goodwill for impairment and concluded that no impairment existed.

(in thousands of dollars)

The gross carrying amount of intangible assets and accumulated amortization in 2015 and 2014 was as follows:

	2015			2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 42,712	$ 13,957	$ 28,755	$ 42,712	$ 11,982	$ 30,730
Trademarks	16,675	9,735	6,940	16,675	9,152	7,523
Patient records	8,844	4,017	4,827	8,719	2,982	5,737
Other	26,182	18,136	8,046	23,767	14,929	8,838
Total	$ 94,413	$ 45,845	$ 48,568	$ 91,873	$ 39,045	$ 52,828

Amortization expense related to intangible assets was $6,800 and $6,916 in 2015 and 2014, respectively.

At December 31, 2015, estimated future amortization expense for the intangible assets, excluding insurance licenses with indefinite lives of $3,915, was as follows:

Years ending December 31,	
2016	6,273
2017	3,223
2018	2,933
2019	2,846
2020	2,169
Thereafter	27,209
Total	$ 44,653

(in thousands of dollars)

9. Claims Outstanding

Activity in the liability for claims outstanding for the years ended December 31, 2015 and 2014 was as follows:

	2015	2014
Claims outstanding at January 1	$ 2,391,493	$ 2,371,710
Reinsurance recoverables	(323,119)	(104,317)
Net balance at January 1	2,068,374	2,267,393
Claim liabilities assumed through merger	125,486	-
Reinsurance recoverables assumed through merger	(26,856)	-
Net balance assumed through merger	98,630	-
Incurred related to		
Current year	11,345,959	10,766,879
Prior year	77,209	(125,259)
Total incurred claims	11,423,168	10,641,620
Paid related to		
Current year	(10,133,347)	(9,658,173)
Prior year	(1,079,600)	(1,142,415)
Total paid claims	(11,212,947)	(10,800,588)
Change in advances to providers	10,175	1,544
Change in non-risk claim liabilities	202,329	(41,595)
Net balance at December 31	2,589,729	2,068,374
Reinsurance recoverables	318,728	323,119
Claims outstanding at December 31	$ 2,908,457	$ 2,391,493

In 2015, the claims incurred related to the prior year of $77,209 resulted primarily from the oncology arbitration with the University of Pittsburgh Medical Center ("UPMC") as discussed in Note 15 and unfavorable ACA reinsurance settlements, partially offset by claims being settled for amounts less than originally estimated due to lower than expected utilization. In 2014, the favorable incurred claims related to the prior year of $125,259 resulted from claims being settled for amounts less than originally estimated due to lower than expected utilization.

Management has established estimates for claims outstanding to satisfy its ultimate claim liability. However, these estimates are inherently subject to a number of highly variable circumstances. Consequently, actual results could differ materially from the amounts recorded in the consolidated financial statements.

(in thousands of dollars)

10. Employee Benefit Plans

Defined Benefit Plans

The Corporation covers certain employees meeting age and service requirements through multiple non-contributory defined benefit pension plans (the "pension plans"); the Highmark Retirement Plan ("Highmark pension plan"), the Highmark West Virginia Inc. Retirement Program (the "Highmark WV pension plan"), the BCNEPA Pension Plan ("NEPA pension plan"), the West Penn Retirement Plan for Represented Employees and the West Penn Retirement Plan for Nonrepresented Employees (collectively the "WPAHS pension plans"), the Jefferson Retirement Plan (the "JRMC pension plan"), and the Saint Vincent Health System Pension Plan (the "SVHS pension plan"). The Highmark, Highmark WV and WPAHS pension plans provide participants with a frozen legacy benefit as well as a cash-balance account consisting of pay credits, based on age and years of service, interest credits and limited transition credits. The BCNEPA, JRMC, and SVHS pension plans are frozen. Effective January 1, 2014, the Highmark Delaware Retirement Plan (the "Highmark DE pension plan") merged into the Highmark pension plan and Highmark DE pension plan assets of $89,204 and participants were transferred into the Highmark pension plan. Effective January 1, 2016, the Highmark WV pension plan merged into the Highmark Retirement Plan.

The Corporation funds its pension plans according to minimum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. During 2016, the Corporation expects to contribute $75,000 to the pension plans related to the 2015 plan year and $39,000 to the pension plans related to the 2016 plan year.

Highmark Inc. sponsors two defined benefit other postretirement plans; the Highmark Postretirement Welfare Benefits Plan (the "Highmark welfare plan") and the BCNEPA Postretirement Medical Plan (the "NEPA welfare plan", collectively the "other postretirement plans"). Highmark WV is a participant in the Highmark welfare plan. Effective January 1, 2014, the Highmark DE other postretirement plans merged into the Highmark welfare plan and Highmark DE benefit obligations of $47,958 and participants were transferred. Highmark Inc. uses voluntary employees' beneficiary association ("VEBA") trusts to fund its respective retiree other postretirement benefits. In the case of Highmark WV, a 401(h) account is utilized to fund its retiree other postretirement benefits. The Highmark DE component of the Highmark welfare plan and the NEPA welfare plans are unfunded. The Corporation expects to contribute $1,800 to the VEBA trusts and 401(h) account in 2016. The other postretirement plans provide various postretirement health and life insurance benefits to retirees of participating subsidiaries and affiliates. The other postretirement plans are closed to new employees.

(in thousands of dollars)

The amounts recognized in the consolidated balance sheets were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2015	**2014**	**2015**	**2014**
Change in benefit obligations				
Benefit obligations at beginning of year	$ 3,503,185	$ 2,913,912	$ 493,033	$ 455,329
Merger activity	79,158	-	13,771	-
Service cost	86,590	79,076	25,002	22,666
Interest cost	134,270	135,269	17,363	18,903
Plan amendments	-	-	-	(18,376)
Participant contributions	40	-	4,204	3,701
Benefit payments	(193,755)	(105,235)	(28,161)	(21,476)
Settlement gain	(40,325)	(31,800)	-	-
Actuarial (gain) loss	(174,325)	511,963	(16,568)	32,286
Benefit obligations at end of year	$ 3,394,838	$ 3,503,185	$ 508,644	$ 493,033
Change in plan assets				
Net plan assets at beginning of year	$ 2,894,237	$ 2,609,722	$ 292,116	$ 303,154
Merger activity	58,435	-	-	-
Actual return on plan assets	(52,826)	322,385	(9,806)	6,920
Participant contributions	40	-	4,204	3,701
Employer contributions	109,713	99,165	4,567	2,566
Benefit payments	(193,755)	(105,235)	(28,384)	(24,225)
Settlement payments	(40,277)	(31,800)	-	-
Net plan assets at end of year	$ 2,775,567	$ 2,894,237	$ 262,697	$ 292,116
Amounts recognized in the consolidated balance sheets				
Benefit plan assets	$ 4,889	$ 1,750	$ -	$ -
Benefit plan liabilities	$ (624,160)	$ (610,698)	$ (245,947)	$ (200,917)
Amounts included in unrestricted net assets				
Prior service credit	$ 186,780	$ 214,143	$ 23,948	$ 26,989
Actuarial loss	(722,081)	(680,958)	(123,324)	(124,564)
Net amounts recognized	$ (535,301)	$ (466,815)	$ (99,376)	$ (97,575)

The estimated prior service credit and actuarial loss for the pension plans that will be amortized from net assets in 2016 are $27,334 and $29,829, respectively. The estimated prior service credit and actuarial loss for the other postretirement plans that will be amortized from net assets in 2016 are $2,900 and $7,000, respectively.

(in thousands of dollars)

The following table provides the components of net periodic benefit cost for the years ended December 31, 2015 and 2014:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Service cost	$ 86,590	$ 79,076	$ 25,002	$ 22,666
Interest cost	134,270	135,269	17,363	18,903
Expected return on plan assets	(201,077)	(184,817)	(13,865)	(13,938)
Amortization of:	-		-	
Prior service credit	(27,363)	(27,576)	(3,041)	(3,632)
Actuarial loss	38,455	18,766	8,193	5,508
Curtailment gain	-	-	-	-
Settlement loss	59	-	-	-
Net periodic benefit costs	$ 30,934	$ 20,718	$ 33,652	$ 29,507

The Corporation's weighted-average assumptions related to the calculation of the pension benefit obligations and net periodic benefit cost for the pension and other postretirement plans are presented in the tables below:

	Pension Benefits	
	2015	2014
Discount rate:		
Benefit obligations	4.22%	3.89%
Net periodic costs	3.90%	4.77%
Expected asset return	7.26%	7.27%
Compensation increase	2.88 - 8.00%	2.88 - 8.00%

	Other Postretirement Benefits	
	2015	2014
Discount rate:		
Benefit obligations	3.88%	3.60%
Net periodic costs	3.60%	4.40%
Expected asset return	5.00%; 7.25%	5.00%; 7.25%
Compensation increase	3.40 - 7.50%	3.40 - 7.50%

The expected return on pension plan assets is developed using inflation expectations, risk factors and input from actuaries to arrive at a long-term nominal expected return for each asset class. The nominal expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets. The expected return on other postretirement plan assets is developed based on historical returns and the future expectations for returns for each asset class as well as the asset allocation of the other postretirement plan assets.

(in thousands of dollars)

For measurement purposes, at December 31, 2015, the assumed annual rate of increase in the per capita costs of covered health care benefits of the other postretirement plans was 7.04% in 2016, gradually decreasing to 4.50% by the year 2039 and remaining at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement plans. At December 31, 2015, a one-percentage-point change in assumed health care cost trend rates would have had the following effects:

	One-Percentage-Point	
	Increase	Decrease
Effect on total of service and interest cost components	$ 1,022	$ (1,118)
Effect on other postretirement benefit plan obligations	$ 13,200	$ (13,174)

Estimated benefit payments are expected as follows:

	Pension Benefits	Other Postretirement Benefits
2016	$ 184,000	$ 30,000
2017	$ 171,000	$ 32,000
2018	$ 180,000	$ 35,000
2019	$ 188,000	$ 37,000
2020	$ 194,000	$ 38,000
2021-2025	$ 1,060,000	$ 223,000

The pension plans' and other postretirement plans' overall investment strategies are determined by the plans' investment committees, investment advisors and plan administrators. Overall, the goals of the Corporation are to achieve sufficient diversification of asset types, fund strategies and fund managers in order to minimize volatility and maximize returns over the long term, while still having sufficient funds to pay those benefits due in the near term.

Highmark pension plans represent approximately 69% and 70% of total plan assets as of December 31, 2015 and 2014, respectively. Allegheny Health pension plans represent approximately 31% and 30% of total plan assets as of December 31, 2015 and 2014, respectively. Highmark pension plans primarily set an investment strategy to achieve a mix of 41% of long-duration fixed income securities meant to hedge the benefit obligations, 55% of investments for long-term growth and 4% for near-term benefit payments with a diversification of asset types, fund strategies and fund managers. The target allocations for Highmark pension plan assets are approximately 56% fixed income securities, 30% equity securities, 10% alternative investments and 4% cash equivalents. The Allegheny Health pension plans primarily set an investment strategy to achieve a mix of 25% of long-duration fixed income securities meant to hedge the benefit obligations, 73% of investments for long-term growth and 2% for near-term benefit payments with a diversification of asset types, fund strategies and fund managers. The target allocations for Allegheny Health plan assets are approximately 25% fixed income securities, 60% equity securities, 13% alternative investments and 2% cash equivalents. Equity securities primarily include stock investments in U.S. developed and emerging market corporations. Fixed income securities primarily include bonds of domestic and foreign companies from diversified industries, domestic mortgage-backed securities and bonds of U.S. and foreign governments and agencies. Alternative investments include investments in real estate and private equity funds that follow several different strategies.

(in thousands of dollars)

For the other postretirement plans, the Corporation's overall investment strategy is to achieve a mix of 95% of investments for long-term growth and 5% for near-term benefit payments with a diversification of asset types, fund strategies and fund managers. The target allocations for plan assets are 62% equity securities, 33% fixed income securities and 5% cash equivalents. Equity securities primarily include stock investments in U.S., developed and emerging market corporations. Fixed income securities primarily include bonds of domestic and foreign companies from diversified industries and bonds of U.S. and foreign governments and agencies.

The following table summarizes the fair value measurements by level at December 31, 2015:

	Fair Value	Level 1	Level 2	Level 3
Pension plan assets				
Cash and cash equivalents	$ 3,677	$ 3,677	$ -	$ -
Guaranteed insurance contracts	-	-	-	-
Debt securities:				
U.S. Treasury and agency obligations	533,937	533,789	148	-
Agency mortgage-backed securities	14,000	-	14,000	-
State and political obligations	9,842	-	9,842	-
Corporate and other debt securities	616,780	-	616,777	3
Total debt securities	1,174,559	533,789	640,767	3
Equity securities:				
Domestic	319,002	318,758	244	-
Foreign	184,338	184,330	-	8
Total equity securities	503,340	503,088	244	8
Registered investment company shares	533,876	533,876	-	-
Common collective trust interests	376,672	-	376,672	-
Private limited partnerships	89,937	-	-	89,937
Interest in a master trust	64,324	-	64,324	-
Total	$ 2,746,385	$ 1,574,430	$ 1,082,007	$ 89,948
Other postretirement plan assets				
Corporate and other debt securities	$ 8,473	$ -	$ 8,473	$ -
Domestic equity securities	39,885	39,885	-	-
Foreign equity securities	1,276	1,276	-	-
Registered investment company shares	193,984	193,984	-	-
Common collective trust funds	6,896	-	6,896	-
Interest in a master trust	12,008	-	12,008	-
Total	$ 262,522	$ 235,145	$ 27,377	$ -

At December 31, 2015, the fair value of pension plan assets excluded guaranteed insurance contract assets of $23,801, carried at contract value as well as accrued interest and other receivables of $5,381.

(in thousands of dollars)

At December 31, 2015, the fair value of other postretirement plan assets excluded accrued interest and other receivables of $175.

The following table summarizes the fair value measurements by level at December 31, 2014:

	Fair Value	Level 1	Level 2	Level 3
Pension plan assets				
Cash and cash equivalents	$ 743	$ 743	$ -	$ -
Guaranteed insurance contracts	-	-	-	-
Debt securities:				
U.S. Treasury and agency obligations	544,050	539,905	4,145	-
Agency mortgage-backed securities	13,638	-	13,638	-
State and political obligations	4,199	-	4,199	-
Corporate and other debt securities	669,153	-	669,150	3
Total debt securities	1,231,040	539,905	691,132	3
Equity securities:				
Domestic	491,859	490,174	1,685	-
Foreign	188,789	188,784	-	5
Total equity securities	680,648	678,958	1,685	5
Registered investment company shares	488,318	488,318	-	-
Common collective trust interests	320,155	-	320,155	-
Private limited partnerships	63,655	-	-	63,655
Interest in a master trust	68,355	-	68,355	-
Total	$ 2,852,914	$ 1,707,924	$ 1,081,327	$ 63,663
Other postretirement plan assets				
Corporate and other debt securities	$ 8,411	$ -	$ 8,411	$ -
Domestic equity securities	39,617	39,617	-	-
Registered investment company shares	232,065	232,065	-	-
Interest in a master trust	11,831	-	11,831	-
Total	$ 291,924	$ 271,682	$ 20,242	$ -

At December 31, 2014, the fair value of pension plan assets excluded guaranteed insurance contract assets of $26,440, carried at contract value as well as accrued interest and other receivables of $14,883.

At December 31, 2014, the fair value of other postretirement plan assets excluded accrued interest and other receivables of $192.

(in thousands of dollars)

The changes in fair value for pension plan and other postretirement assets measured using significant unobservable inputs (Level 3) for the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Balance at January 1	$ 63,663	$ 41,670
Realized net gains on investments	6,096	2,528
Net unrealized holding gains arising during the period	5,193	5,258
Purchases	32,337	21,718
Sales	(17,341)	(7,511)
Balance at December 31	$ 89,948	$ 63,663

Defined Contribution Plans
The Corporation sponsors several defined contribution savings plans (the "savings plans"), covering substantially all of the Corporation's employees and employees of certain participating affiliates. The savings plans allow participating employees to contribute a percentage of their annual salaries, subject to current Internal Revenue Service ("IRS") limitations. Employee contributions are matched by the Corporation at various percentages. The Corporation recognized expense associated with its contributions to the savings plans of $42,741 and $32,779 for the years ended December 31, 2015 and 2014, respectively.

The Corporation also sponsors deferred compensation plans for certain eligible employees. Participating employees may contribute a certain amount of their annual compensation to these plans. Certain deferred compensation plans provide for matching contributions based on employee deferrals. The deferred compensation plan pays interest on the deferrals at various rates. The Corporation made matching contributions to the deferred compensation plans of $853 and $1,096 in 2015 and 2014, respectively. Deferred compensation plan liabilities of $48,066 and $47,825 were recorded in other payables and accrued expenses in the consolidated balance sheets at December 31, 2015 and 2014, respectively. Changes in the liability are reported in other operating expenses in the consolidated statements of operations.

The Corporation also sponsors unfunded nonqualified supplemental retirement plans (the "nonqualified retirement plans") covering certain eligible employees. The weighted-average assumptions used in the measurement of the nonqualified plan liabilities were consistent with the assumptions used in the measurement of the pension plans and adjusted, when needed, for nonqualified plan specific characteristics. The nonqualified retirement plan liabilities recorded in other payables and accrued expenses in the consolidated balance sheets at December 31, 2015 and 2014 were $74,078 and $77,940, respectively.

(in thousands of dollars)

11. Debt

The Corporation's total debt at December 31, 2015 and 2014 consisted of the following:

	2015	2014
Unsecured Senior Notes due May 15, 2021	$ 349,242	$ 349,101
Unsecured Senior Notes due May 15, 2041	239,600	239,547
Allegheny County Hospital Development Authority Bonds:		
Series 2010A due through March 1, 2040	16,160	16,515
Series 2008A due through March 1, 2038	12,855	13,160
Series 2007A due through May 1, 2025	8,911	9,595
Series 2006A due May 1, 2026	22,000	22,000
Series 2006B due through May 1, 2018	4,915	6,936
Series 2000A due June 1, 2030	10,500	11,000
Series 1998A due May 1, 2023 through May 1, 2029	22,056	22,022
Erie County Hospital Authority Bonds:		
Series 2009 due July 1, 2020	8,203	9,623
Series 2011A due August 18, 2026	6,008	6,585
Series 2010A due July 1, 2027	19,797	19,797
Series 2010B due July 1, 2039	55,485	55,585
Term Loan due May 22, 2019	700,000	700,000
Revolving credit facility with maximum available for draw of $275,000 expires July 2018	200,000	-
Revolving credit facility with maximum available for draw of $75,000 expires June 2015	-	75,000
Revolving credit facility with maximum available for for draw of $400,000 expires March 2018	-	75,000
Floating Rate Restructuring Certificates, payable based on attainment of defined income and cash levels	3,973	19,601
Series 2006A Health Facilities Revenue Notes due through December 2016	276	537
Series 2006B Health Facilities Revenue Notes due through October 2015	-	11,497
Mortgage loan, due March 15, 2032, interest at 6.00%	23,887	24,323
Capital leases due through 2020 at varying interest rates	3,008	9,314
Mortgage and other loans due through 2019 at varying intest rates	7,718	6,998
Total debt	$ 1,714,594	$ 1,703,736

(in thousands of dollars)

A summary of scheduled principal repayments on debt is as follows:

Years ending December 31,		
2016	$	13,531
2017		7,972
2018		207,027
2019		707,975
2020		10,082
Thereafter		768,007
Total	$	1,714,594

Unsecured Notes

At December 31, 2015 and 2014, Highmark Inc. held unsecured Senior Notes of $349,242 and $349,101, respectively, due May 15, 2021 with interest payable semi-annually at 4.75%. The unamortized discount was $758 and $899 at December 31, 2015 and 2014, respectively.

At December 31, 2015 and 2014, Highmark Inc. also held unsecured Senior Notes of $239,600 and $239,547, respectively, due May 15, 2041 with interest payable semi-annually at 6.125%. The unamortized discount was $1,275 and $1,328 at December 31, 2015 and 2014, respectively.

Allegheny County Hospital Development Authority (the "Authority")

JRMC issued Authority Bonds in September 2010, July 2008, February 2007, May 2006, May 2004, May 2000 and March 1998, collective the JRMC Authority Bonds. At December 31, 2015 and 2014, the Corporation had outstanding $97,397 and $101,228, respectively, of JRMC Authority Bonds. The JRMC Authority Bonds are scheduled to mature at various dates through March 1, 2040. Interest rates ranged from 0.02% to 5.125% and 0.04% to 5.125% at December 31, 2015 and 2014, respectively. Proceeds from the JRMC Authority Bonds were used primarily for various capital projects. The JRMC Authority Bonds are collateralized by the general credit of the Jefferson Medical Center and several irrevocable lines of credit totaling $64,328 which expire at various dates through July 15, 2016. The unamortized discount was $404 and premium was $121 at December 31, 2015. The unamortized discount was $438 and premium was $162 at December 31, 2014.

JRMC is party to related interest rate swap agreements designated as fair value hedges with a highly rated, major U.S financial institution. The interest rate swap agreements expire at various dates through 2038. In 2015 and 2014, JRMC paid $1,306 and $1,383, respectively, to the counterparty for settlement under the interest rate swap agreements. These amounts were included in interest expense in the consolidated statements of operations. The Corporation recorded a liability of $6,909 and $6,689 at December 31, 2015 and 2014, respectively, in other liabilities in the consolidated balance sheets related to the swap agreements. At December 31, 2015, the notional value of these derivative instruments was $34,855.

In 2014, WPAHS defeased certain 2007A Bonds by transferring funds into an escrow account, which represented the total outstanding principal and future interest payments of these bonds, thereby, removing all WPAHS bond obligations from the consolidated balance sheet. The Corporation recognized a realized loss of $9,011 on the WPAHS bond defeasance in 2014.

(in thousands of dollars)

Erie County Hospital Authority ("Erie Authority")
SVHS issued the Series 2009 and Series 2010A in December 2009 with the Series 2010B issued in January 2010. At December 31, 2015 and 2014, the Corporation had a total of $83,485 and $85,005, respectively, outstanding in Series 2009 and 2010 Erie Authority Bonds. The Erie Authority Bonds are scheduled to mature at various dates between July 1, 2020 and July 1, 2039. Interest rates ranged from 0.03% to 7.00% and 0.05% to 7.00% at December 31, 2015 and 2014, respectively. Proceeds from the Erie Authority Bonds were used primarily for various capital projects and to advance the refund of previously issued bonds. The Series 2010B Erie Authority Bonds are collateralized by an irrevocable line of credit that expires September 30, 2016. The Erie Authority Bonds are partially collateralized by funds held by a trustee.

The Series 2010B Erie Authority bonds are demand bonds and while subject to long-term amortization periods, may be put to SVHS at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within 12 months after the reporting date, the Board of Trustees of SVHS restricted cash and investments of $45,584 and $61,219 at December 31, 2015 and 2014, respectively, as a source of self-liquidity in the event the put option is enacted.

SVHS issued the Series 2011A Erie Authority Bonds in August 2011. At December 31, 2015 and 2014, the Corporation had outstanding $6,008 and $6,585, respectively, of Series 2011A Erie Authority Bonds. The Series 2011A Erie Authority Bonds are scheduled to mature August 18, 2026. Principal and interest are payable monthly and calculated based on LIBOR plus 2.75%. Interest rates were 2.06% and 2.03% at December 31, 2015 and 2014, respectively. Proceeds from the Series 2011A Erie Authority Bonds were used primarily to refinance the construction loan for the new parking facility.

SVHS is party to multiple interest rate swap agreements with highly rated, major U.S. financial institutions (the "counterparties"). One of the interest rate swaps is designated as a cash flow hedge. The cash flow hedge synthetically converted $21,330 of the variable rate Erie Authority Bonds to a fixed rate. The other two interest rate swaps meet the criteria of fair value hedges pursuant to which $17,000 and $7,112, respectively, of fixed-rate Series 2010B and Series 2011A Erie Authority bonds are converted to variable rate bonds through maturity. At December 31, 2015, the notional value of these derivative instruments was $53,178.

For the years ended December 31, 2015 and 2014, SVHS paid $1,324 and $1,334, respectively, to the counterparties for settlements under the interest rate swap agreements which were included in interest expense in the consolidated statements of operations. The Corporation recorded a liability of $3,372 and $3,511 at December 31, 2015 and 2014, respectively, in other liabilities in the consolidated balance sheets under the swap agreements. The interest rate swaps do not qualify for hedge accounting and changes in fair value are accounted for as nonoperating income (expenses) in the consolidated statements of operations.

(in thousands of dollars)

Term Loans
In May 2014, WPAHS entered into a $700,000 Term Loan Credit Facility. Part of the proceeds were used to purchase and redeem all of the WPAHS Authority Bonds from Highmark Inc. for an aggregate principal amount of $663,905 at a purchase price of 87.5% of par, plus accrued interest as of the purchase date. The Term Loan Credit Facility is fully guaranteed by Highmark Inc. and secured by a pledge of cash and securities. The fair value of the pledged assets was $925,120 and $1,084,423 at December 31, 2015 and 2014, respectively. Highmark Inc. used the proceeds from the WPAHS Authority Bond redemption to repay its outstanding term loan of $543,010, plus accrued interest.

WPAHS is party to a related interest rate swap agreement designated as a cash flow hedge with a highly rated, major U.S. financial institution. In 2015 and 2014, WPAHS paid $9,932 and $5,957, respectively, to the counterparty for settlements under the interest rate swap agreement. This amount was included in interest expense in the consolidated statement of operations. The Corporation recorded a liability of $6,890 and $2,579 at December 31, 2015 and 2014, respectively, in other liabilities related to the swap agreement. The interest rate swap qualifies for hedge accounting and changes in fair value are accounted for as unrestricted net assets in the consolidated statement of changes in net assets. At December 31, 2015, the notional value of the derivative instrument was $700,000.

Revolving Credit Facilities
In July 2015, Highmark replaced its current revolving credit facility with a financial institution with a $275,000 revolving credit facility with four financial institutions that expires on July 17, 2018. Amounts borrowed under this facility bear interest at variable interest rates.

In June 2015, HVHC fully repaid its outstanding borrowings totaling $75,000 on a $400,000 revolving credit facility that expires March 2018.

HVHC is party to a related interest rate swap agreement designated as cash flow hedge with a highly rated, major U.S. financial institution. In 2015 and 2014, HVHC paid $1,580 and $1,539, respectively, to the counterparty for settlements under the interest rate swap agreement. This amount was included in interest expense in the consolidated statements of operations. The Corporation recorded a liability of $0 and $1,250 at December 31, 2015 and 2014, respectively, in other liabilities related to the swap agreements. Deferred net holding losses of $0 and $812 under the interest rate swap agreements were included in unrestricted net assets, net of deferred income taxes of $0 and $437, at December 31, 2015 and 2014, respectively. At December 31, 2015, the notional value of the derivative instrument was $0, as the interest rate swap agreement was terminated in conjunction with the repayment of the revolving credit facility.

In addition to the arrangements set forth in the table above, the Corporation also has a revolving credit facility that provides for total borrowings of $15,000. As of December 31, 2015, there were no amounts outstanding.

(in thousands of dollars)

Other Debt
WPAHS has outstanding Floating Rate Restructuring Certificates ("FRRCs") of $3,973, at December 31, 2015. The FRCCs bear interest at the three-month LIBOR plus 0.25%. Payment of interest is contingent upon WPAHS achieving certain profitability thresholds and maintaining specified liquidity levels. WPAHS has never been required to make an interest payment. The Corporation has not recorded interest to date as the probability of future interest payment requirements is considered remote. WPAHS must make an annual payment of 25% of the WPAHS Obligated Group's adjusted net operating income, as defined in the FRRC indenture, calculated as of June 30 based on the criteria in the FRCC agreements. No annual payments have been earned or due as payment triggers have not been met. In 2015 and 2014, a realized gain of $7,494 and $15,483, respectively, was recognized related to the settlement and subsequent extinguishment of $33,111 of FRRCs debt.

WPAHS has outstanding Series 2006 A of $276 and $537 at December 31, 2015 and 2014, respectively, and had outstanding Series 2006 B of $11,497 at December 31, 2014, to purchase four new helicopters and hospital beds. Principal and interest payments are required monthly. The Series A notes bear interest at 5.25% and are scheduled to be repaid in December 2016. The Series B note was repaid in October 2015.

SVHS had an outstanding mortgage loan of $23,887 and $24,323 at December 31, 2015 and 2014, respectively, related to a medical office building. The mortgage note matures on March 15, 2032 and requires monthly principal and interest payments. The note is secured by the related medical office building.

As a result of the interest rate swap agreements noted above, the Corporation is subject to interest rate risk and default risk. Only cash flows related to the differential in the fixed interest rates and the variable interest rates as applied to the notional amounts of the interest rate swaps are subject to interest rate risk over the terms of the interest rate swap agreements. The notional amounts do not represent the amounts at risk; rather, they are used only as the basis for calculating the amounts due under the interest rate swap agreements.

Several of the debt agreements referred to above contain covenants, including covenants relating to such matters as indebtedness, minimum net worth and financial ratings. At December 31, 2015 and 2014, the Corporation was in compliance with all debt covenants that could affect the financial position or results from operations of the Corporation.

The carrying amount of debt reported in the consolidated balance sheets at December 31, 2015 and 2014 was $1,714,594 and $1,703,736, respectively. Using a discounted cash flow technique that considered credit ratings, with adjustments for duration and risk profile, the Corporation determined that the fair value of its debt at December 31, 2015 and 2014 was $1,796,181 and $1,808,652, respectively.

(in thousands of dollars)

12. Income Taxes

The components of the income tax provision for the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Federal		
Current	$ (7,048)	$ 72,213
Deferred	(3,199)	10,419
	(10,247)	82,632
Foreign		
Current	686	864
Deferred	-	-
	686	864
State		
Current	15,588	10,347
Deferred	1,878	(1,142)
	17,466	9,205
Total income tax provision	$ 7,905	$ 92,701

The components of deferred income taxes at December 31, 2015 and 2014 were as follows:

	2015	2014
Deferred tax assets		
Benefit plan liabilities	$ 170,743	$ 164,502
Net operating loss carryforwards	129,592	93,117
Tax credit carryforwards	78,774	79,803
Other payables and accrued expenses	66,531	54,119
Charitable contribution carryforwards	103,751	30,286
Allowance for doubtful accounts	24,158	18,380
Goodwill and other intangible assets	11,502	12,629
Unearned premium revenue	9,097	8,648
Premium deficiency reserves	16,433	916
Other	26,161	22,666
Total deferred tax assets	636,742	485,066
Less valuation allowance	(338,041)	(216,453)
Total deferred tax assets, net of valuation allowance	298,701	268,613
Deferred tax liabilities		
Net unrealized gains on available-for-sale securities	27,865	101,635
Property and equipment	34,839	40,061
Investment in partnerships/affiliates	18,496	16,516
Other	4,179	2,322
Total deferred tax liabilities	85,379	160,534
Deferred income taxes, net	$ 213,322	$ 108,079

(in thousands of dollars)

The deferred tax asset increased by $93,493 and $93,724 in 2015 and 2014, respectively, as a result of the tax effect of changes in foreign currency translation adjustments, derivative instruments, changes in benefit plan assets and liabilities, the net unrealized gains on available-for-sale securities, and the contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and certain tax benefits. As these changes were recorded within net assets, they did not impact the income tax provision.

The realization of net deferred tax assets is dependent on the Corporation's ability to generate sufficient taxable income in future periods. The amount of deferred tax assets considered realizable, however, could change if estimates of future taxable income change.

At December 31, 2015, the Corporation had non-expiring alternative minimum tax credit carryforwards related to Highmark WV and Highmark DE of $41,325 and $36,918, respectively, available to offset future taxes. Utilization of the alternative minimum tax credit carryforwards will not take place until such time as Highmark WV and Highmark DE cease to be in an alternative minimum tax position or a change in the tax laws occurs. The Corporation recognized a valuation allowance due to the uncertainty of realizing a tax benefit for alternative minimum tax credits and because the lower alternative minimum tax rate is expected to apply when net deductible temporary differences reverse.

At December 31, 2015, various subsidiaries and affiliates of the Corporation had state net operating loss carryforwards totaling $401,577 that expire between 2016 and 2033 and are available to offset future state taxable income of the subsidiary that generated the loss carryforward. The utilization of the state net operating loss carryforwards is subject to certain limitations; therefore, the Corporation recognized a valuation allowance given uncertainty surrounding the realizability of the carryforwards.

At December 31, 2015, the Corporation had federal net operating loss carryforwards, related to Highmark DE, First Priority Life Insurance Co Inc., and Allegheny Health subsidiaries of $29,876, $18,560, and $251,890, respectively, which expire in various amounts through 2035. The utilization of the federal net operating loss carryforwards is subject to certain limitations; therefore, the Corporation recognized a valuation allowance for that portion of the federal net operating loss carryforward not expected to be utilized.

At December 31, 2015, the Corporation had charitable contributions carryforwards, related to Highmark Inc. of $296,432, which expire in various amounts through 2020. The utilization of the charitable contributions carryforwards is subject to certain limitations; therefore, the Corporation recognized a valuation allowance for that portion of the charitable contributions carryforward not expected to be utilized.

(in thousands of dollars)

A reconciliation of income tax expense recorded in the consolidated statements of operations and amounts computed at the statutory federal rate for the years ended December 31, 2015 and 2014 was as follows:

	2015	2014
Income taxes at statutory rate	$ (26,869)	$ 3,384
State taxes, net of federal tax benefit	11,353	5,265
Net assets acquired through merger	(87,248)	-
Health insurance providers fee	68,393	49,215
Change in valuation allowance	35,691	32,027
Nondeductible compensation	8,221	11,701
IRC section 833(b) deduction	(7,976)	(5,930)
Imputed Interest	7,350	4,491
IRC Section 199 Deduction	(4,964)	(4,301)
Dividend Received Deduction	(2,061)	(2,022)
(Income) loss from tax exempt entities	2,796	(563)
Hospital grants	-	(13,118)
Other	3,219	12,552
Total income tax provision	$ 7,905	$ 92,701

Prior to January 1, 1987, the Corporation was exempt from federal income taxes. With the enactment of the Tax Reform Act of 1986 (the "Act"), the Corporation, and all other Blue Cross and Blue Shield plans, became subject to federal income tax. Among other provisions of the Internal Revenue Code, these plans were granted a deduction under Code Section 833(b) (the "special deduction") for regular tax calculation purposes. The special deduction is calculated as the excess of 25% of incurred claims and claim adjustment expenses for the tax year over adjusted surplus, as defined, limited to taxable income. The amount of taxable income before the special deduction has the effect of increasing the adjusted surplus balance used in calculating the special deduction. Once the cumulative adjusted surplus balance exceeds 25% of incurred claims and claim adjustment expenses for the current taxable year, the deduction is eliminated. The special deduction calculation is complicated and little technical guidance has been issued by the taxing authorities. Therefore, some uncertainty exists in the calculation of the special deduction. After evaluating the uncertainties and in recognition of the impending statute expiration associated with certain tax years, during 2011, the Corporation made the decision to file refund claims for the 2004 through 2010 tax years. Through its refund claim filings and the 2010 original tax return filed in 2011, special deduction tax benefits totaling approximately $275,000 were requested. Through 2015, the Corporation recorded current income tax benefits totaling $126,000 related to this item, which is management's estimate of the amount to be realized. A decrease to income tax expense for interest of $133 was recognized in 2015 and an increase to income tax expense for interest of $2,386 was recognized in 2014. Future adjustments may be made to the Corporation's estimated tax benefit as additional information becomes available.

(in thousands of dollars)

The changes in the carrying amount of gross unrecognized tax benefits from uncertain tax positions in 2015 and 2014 were as follows:

	2015	2014
Balance at January 1	$ 166,370	$ 169,055
Additions for tax positions related to		
Current year	6,342	8,307
Prior years	1,450	1,249
Other - Merger Activity	952	-
Reductions to balance relating to		
Changes in tax positions of prior years	(5,255)	(9,635)
Statute of limitation expiration	(2,628)	(2,606)
Balance at December 31	$ 167,231	$ 166,370

At December 31, 2015 and 2014, gross unrecognized tax benefits (excluding the federal benefit received from state positions) were $151,436 and $150,575, respectively, and, if recognized, would have impacted the effective tax rate.

The Corporation recorded potential interest and penalties payable of $375 and $115 at December 31, 2015 and 2014, respectively, in net income tax recoverable in the consolidated balance sheets.

Highmark's consolidated federal income tax return has been examined by the IRS through 2012.

The Corporation does not anticipate that any significant increase or decrease to unrecognized tax benefits will be recorded in 2016.

13. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at December 31, 2015 and 2014, respectively:

	2015	2014
Clinical programs	$ 19,792	$ 12,612
Capital expansion and renovation	1,607	2,151
Health education and other support	4,181	4,024
Total temporarily restricted net assets	$ 25,580	$ 18,787

Temporarily restricted net assets for capital expansion and renovation represent donations, gifts and pledges made for specific hospitals and other facilities. Similarly, temporarily restricted net assets for clinical programs, health education and other support represents donations, gifts and pledges made to support specific programs or departments at hospitals and other facilities. In 2015 and 2014, temporarily restricted net assets were released from donor restrictions by incurring expenditures satisfying the specified restricted purposes in the amount of $5,063 and $14,666, respectively.

(in thousands of dollars)

Permanently restricted net assets at December 31, 2015 and 2014 were $252,684 and $264,254, respectively. These net assets are restricted in perpetuity. Income distributions generated from permanently restricted net assets are either classified as unrestricted or are classified as temporarily restricted based on donor imposed restrictions. At December 31, 2015 and 2014, permanently restricted net assets consisted of endowments managed by donor selected trustees as well as endowments managed by the hospitals of the Corporation.

14. Leases

Several noncancellable operating leases, primarily for EDP equipment and office space, were in effect at December 31, 2015. Rental expense is recognized on a straight-line basis over the lease term. Aggregate future rental commitments for all operating leases having initial or remaining noncancellable lease terms in excess of one year with commitments in one or more of the next five years and thereafter are shown in the following table:

Years ending December 31,	Operating Lease Commitments
2016	$ 164,331
2017	138,216
2018	116,456
2019	93,766
2020	79,774
Thereafter	263,159
Total	$ 855,702

Rent expense of $199,519 and $193,173 in 2015 and 2014, respectively, was recorded in other operating expenses in the accompanying consolidated statements of operations.

(in thousands of dollars)

15. Contingencies

On June 13, 2014, UPMC filed a Demand for Arbitration with the American Health Lawyers Association ("AHLA") on behalf of UPMC Altoona, UPMC Hamot, UPMC Mercy and Children's Hospital of Pittsburgh of UPMC ("UPMC hospitals"). On August 8, 2014, UPMC amended its Demand to include all UPMC hospitals. The demand submitted the dispute to binding arbitration. The claims set forth in the demand relate to: 1) the oncology fee schedule adjustment, 2) reimbursements for non-oncology services (i.e. robotics), 3) reimbursements for evaluating and managing new and established patients ("E&M"). UPMC contended that these fee changes breached the parties' hospital contracts and constituted a breach of the anti-retaliation provision in the 2012 Amendment to the Commercial Agreements. The Corporation and UPMC agreed to stay all arbitrations related to fee changes other than a single arbitration filed with the American Arbitration Association as to the oncology drug and evaluation and management fee changes under the UPMC Presbyterian Shadyside commercial hospital agreement and have subsequently agreed that the arbitration ruling for this single arbitration will be binding for all UPMC hospital contracts. In November 2015, the arbitration panel ruled that the Corporation was not entitled to make the fee changes and awarded UPMC the unadjusted pricing for these drugs and services plus statutory interest. The Corporation recognized $92,052 in claims incurred in the consolidated statement of operations as of December 31, 2015 related to this matter for its risk business. The Corporation made total payments of $230,911 to satisfy its liability related to this arbitration for both its risk business and non-risk administrative arrangements, of which $206,969 was paid subsequent to December 31, 2015.

On January 27, 2016, all of the Western Pennsylvania hospitals affiliated with the UPMC Health System filed a complaint against the Corporation in Cumberland County, Pennsylvania Common Pleas Court alleging that the Corporation breached its Medicare Advantage contracts with such hospitals and the 2012 Mediated Agreement between the Corporation and UPMC by applying a two percent sequestration reduction to certain claims beginning January 1, 2014. The Corporation believes, based on consultation with legal counsel, adequate provision has been made in the financial statements for any potential liability related to these matters, and the amount of the ultimate liability is not expected to materially affect the financial position or results from operations of the Corporation.

On September 23, 2014, twelve hospitals filed a complaint against the Corporation alleging that the Corporation breached its Medicare Advantage contracts with such hospitals by applying a two percent sequestration reduction to all claims submitted by such hospitals beginning January 1, 2014. The Court granted Plaintiffs' Motion for Summary Judgment on May 6, 2015 and entered an Order in favor of Plaintiffs on June 12, 2015. The Corporation filed an appeal of such Order on July 14, 2015 with the Pennsylvania Superior Court and subsequently filed a brief in support of its appeal on September 28, 2015. The Corporation believes, based on consultation with legal counsel, adequate provision has been made in the financial statements for any potential liability related to these matters, and the amount of the ultimate liability is not expected to materially affect the financial position or results from operations of the Corporation.

(in thousands of dollars)

On October 1, 2014, Cole's Wexford Hotel, Inc., on behalf of small group purchasers which have obtained health insurance coverage from July 2010 through March 2012, filed a third amended class action complaint in the United States District Court for the Western District of Pennsylvania alleging that the Corporation and UPMC Health System violated antitrust laws by entering into an illegal agreement to restrain trade and by conspiring to create monopolies in the Western Pennsylvania health insurance market. The Corporation filed a motion to dismiss all claims or, in the alternative, to strike the class allegations in such complaint on October 31, 2014. The Court denied such motion to dismiss on September 1, 2015. UPMC Health System has entered into a settlement agreement with the Plaintiffs which requires court approval. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

A number of class action lawsuits filed throughout the United States against the Corporation and/or other Blue Cross and/or Blue Shield plans (the "BCBS Plans") have been consolidated in a multi-district litigation in the U.S. District Court for the Northern District of Alabama under the caption In re: Blue Cross Blue Shield Antitrust Litigation. The lawsuits state that they were filed on behalf of (i) healthcare providers in the United States who have provided services to any patient insured by or who was a member or beneficiary of the Corporation or any other BCBS Plan and/or (ii) members and subscribers of the Corporation and/or any other BCBS Plan. The lawsuits primarily deal with alleged conspiracy and price fixing by and among the BCBS Plans and BCBSA, the competitive impact of exclusive service areas granted by the Association, and alleged contract provisions of the BCBS Plans. Plaintiffs generally seek a judgment that the defendants have violated Section 1 of the Sherman Act, an injunction prohibiting defendants from entering into agreements that restrict the territories in which any BCBS Plan may compete, and an award of treble damages. In addition, certain of the complaints filed by plaintiffs contain additional claims specifically against the Corporation. The Court has determined that an initial trial by the plaintiffs against only Blue Cross Blue Shield of Alabama will proceed and is scheduled for 2017 to be followed with one or more subsequent trials involving other defendants. The plaintiffs and defendants have had a few mediation sessions regarding this dispute which have been unsuccessful to date though more are contemplated. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

Cyndie Nordi, a direct pay subscriber, brought a class action lawsuit in Allegheny County Orphan's Court on September 26, 2014 which has been subsequently transferred to the Civil Division of the Allegheny County Court of Common Pleas. The complaint seeks relief from the Corporation's alleged unlawful conduct on behalf of policyholders. The case challenges the Corporation's operations and accumulation of surplus funds following a February 2005 Determination ("Determination") by the Department that set parameters for an appropriate, sufficient operating surplus. The plaintiff alleges that, despite acceptance of the Determination, the Corporation unlawfully continues to generate huge underwriting gains. Ms. Nordi seeks relief in the form of monetary damages up to disgorging Highmark of all profits unjustly received and retained. The Court entered a Memorandum and Order on June 19, 2015 granting in part and denying in part the Preliminary Objections that Highmark had filed to the Plaintiff's Complaint. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

(in thousands of dollars)

The Corporation (along with four other BCBS Plans and the BCBSA) is a defendant in an action brought by LifeWatch Services, Inc. ("LifeWatch"). LifeWatch is a provider of mobile cardiac outpatient telemetry ("MCOT") services and claims that the Defendants engaged in a medical policy conspiracy. LifeWatch asserts that the BCBS Plans previously reimbursed it for MCOT devices provided to all Blue members, but changed its practice in 2010 as a result of the conspiracy and no longer reimburses for MCOT devices prescribed to subscribers of other BCBS Plans (the Corporation continues to reimburse for MCOT devices prescribed to its subscribers). LifeWatch requests treble damages and an injunction against the medical policy conspiracy as it relates to MCOT services. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

Plains Township and Plymouth Borough, purchasers of insurance from Blue Cross of Northeastern Pennsylvania, filed an amended class action complaint and a motion for preliminary injunction on October 15, 2015 on behalf of itself and all others similarly situated alleging that Blue Cross of Northeastern Pennsylvania improperly transferred $90,000 to the All One Foundation and AllOne Charities prior to its merger into Highmark Inc. as well as retained $40,000 in other profits as part of the approval of the closing of such merger with Highmark Inc. Plaintiff contends that the $90,000 in donations and the $40,000 in retained profits was unlawful profit as it was solely for the benefit of its policyholders. On November 20, 2015, the Commonwealth of Pennsylvania filed a Petition to intervene, as to which an Answer was filed by the Corporation on January 8, 2016. On November 23, 2015, Preliminary Objections and an Answer in Opposition to the Motion for Preliminary Injunction were filed by the Corporation, as to which the Plaintiffs filed a Response on January 8, 2016 and the Corporation filed a Reply thereto on January 29, 2016. A hearing regarding such pleadings is scheduled for April 19, 2016. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

The National Organization of Life & Health Insurance Guaranty Associations ("NOLHGA") is a voluntary organization consisting of the state life and health insurance guaranty associations located throughout the U.S. Such associations, working together with NOLHGA, provide a safety net for their state's policyholders, ensuring that they continue to receive coverage, subject to state maximum limits, even if their insurer is declared insolvent. The Corporation is aware that the Commissioner has placed Penn Treaty Network America Insurance Company and its subsidiary American Network Insurance Company ("Penn Treaty") in rehabilitation, an intermediate action before insolvency. The state court denied the liquidation petition and ordered the Commissioner to submit a rehabilitation plan. The court held a hearing in July 2015 to begin its consideration of the latest proposed rehabilitation plan. The hearing is scheduled to continue in the spring of 2016. Penn Treaty remains in rehabilitation at this time. If rehabilitation is not successful and Penn Treaty is placed in liquidation, the Corporation may be required to pay a portion of the policyholder claims through state guaranty association assessments in future periods. The Corporation is currently unable to predict the ultimate outcome of this potential insolvency because it cannot predict whether rehabilitation efforts will succeed, the amount of the insolvency, if any, the amount and timing of associated guaranty association assessments or the amount or availability of potential premium tax offsets.

(in thousands of dollars)

Participation in government sponsored health care programs subjects the Corporation to a variety of federal laws and regulations and risks associated with audits conducted under these programs. These audits may occur in years subsequent to the Corporation providing the relevant services under audit. These risks may include reimbursement claims as well as potential fines and penalties. The Corporation believes, based on consultation with legal counsel, adequate provision has been made in the financial statements for any potential liability related to these matters, and the amount of ultimate liability is not expected to materially affect the financial position or results from operations of the Corporation.

In April 2009, a putative collective action was filed in the United States District Court for the Western District of Pennsylvania alleging claims under ERISA, RICO and the Fair Labor Standards Act ("FLSA") against WPAHS, certain of its related entities and certain WPAHS executives ("Federal Case 1"). The suit alleges that current and former employees did not receive compensation for all hours worked. A companion class action suit alleging various state court claims was filed in the Court of Common Pleas of Allegheny County ("State Court case"). In late December 2011, the District Court for the Western District of Pennsylvania denied the certification of the class action suit in Federal case 1, and the Third Circuit affirmed in 2013. In the State Court case, the judge dismissed the meal break claims but preserved potential non-meal break wage claims. The State Court case was stayed pending the outcome of the appeal in Federal Case 1, and has remained inactive despite the decision by the Third Circuit. However, the Court has distributed a notice for a scheduling conference which is expected to occur in 2016. In response to the Third Circuit decision, the law firm that filed Federal Case 1 filed a new action in October 2013 that makes many of the same allegations against WPAHS, certain related entities and certain executives and individuals, and asserts a single cause of action under the FLSA ("Federal Case 2"). The judge ruled that much of Federal Case 2 was barred by the rulings in Federal Case 1, and thus the matter was limited to the named plaintiff. Federal Case 2 was then substantially resolved via a consent judgment. A few of the potential collective action members in Federal Case 2 have filed an appeal with the Third Circuit, which is pending. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

The Corporation is regulated by various federal, state and local governmental agencies. Consequently, the Corporation may be subject to examination or investigation by such governmental agencies. In 2014, the Corporation received information that it may have been overpaid on a contract. With respect to this matter, the Corporation has determined that a refund is both probable and reasonably estimable. Accordingly, the Company has recorded a liability representing the best estimate of the exposure. While the ultimate disposition of each such exam or investigation is not yet determinable, the Corporation does not believe that this matter will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

The Corporation is subject to various other contingencies, including legal and compliance actions and proceedings that arise in the ordinary course of its business. Due to the complex nature of these actions and proceedings, the timing of the ultimate resolution of these matters is uncertain. The Corporation believes, based on consultation with legal counsel, adequate provision has been made in the financial statements for any potential liability related to these matters, and the amount of ultimate liability is not expected to materially affect the financial position or results from operations of the Corporation.

Independent Auditor's Report
on Supplementary Consolidating Information

To the Board of Directors of Highmark Health:

We have audited the consolidated financial statements of Highmark Health as of December 31, 2015 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

PricewaterhouseCoopers LLP

March 30, 2016

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Highmark Health
Consolidating Balance Sheet
December 31, 2015

(in thousands of dollars)

	Highmark Health	Highmark Inc.	HM Health Solutions	Allegheny Health	Eliminations	Total
Assets						
Cash and cash equivalents	$ 6,424	$ 1,333,211	$ 39,336	$ 137,617	$ -	$ 1,516,588
Accounts receivable						
Insurance, less allowance for doubtful accounts of $63,548	-	2,307,083	-	-	-	2,307,083
Patient service, less allowance for doubtful accounts of $75,589	-	-	-	288,997	(116,477)	172,520
Other	16,223	170,397	31,712	63,670	(115,890)	166,112
Investments						
Debt securities, available-for-sale at fair value	-	2,854,959	-	30,344	-	2,885,303
Equity securities, available-for-sale at fair value	1,252	945,660	-	7,069	-	953,981
Board designated, restricted and other investments at fair value	-	-	-	620,694	-	620,694
Investment in affiliates	5,214,385	126,320	1,007	53,189	(5,214,385)	180,516
Other	-	121,329	-	4,510	-	125,839
Reinsurance recoverables	-	318,728	-	-	-	318,728
Securities lending invested collateral	-	180,284	-	-	-	180,284
Inventory, net	-	83,083	-	50,269	-	133,352
Income tax recoverable, net	-	156,861	(305)	-	-	156,556
Deferred income taxes, net	-	211,811	7,009	(5,498)	-	213,322
Property and equipment, net	112,375	579,363	-	1,060,433	-	1,752,171
Goodwill and other intangible assets, net	-	722,687	2,099	117,501	-	842,287
Prepaid pension plan assets	-	4,889	-	-	-	4,889
Other assets	5,608	1,109,059	412	163,582	(659,395)	619,266
Total assets	$ 5,356,267	$ 11,225,724	$ 81,270	$ 2,592,377	$ (6,106,147)	$ 13,149,491
Liabilities and Net Assets						
Claims outstanding	$ -	$ 2,995,075	$ -	$ -	$ (86,618)	$ 2,908,457
Unearned premium revenue	-	291,895	-	-	-	291,895
Amounts held for others	-	500,733	-	-	-	500,733
Accrued salaries and benefits	12,575	152,730	15,929	98,390	-	279,624
Other payables and accrued expenses	22,790	740,192	59,593	270,094	(116,892)	975,777
Securities lending payable	-	180,326	-	-	-	180,326
Benefit plan liabilities	-	486,084	-	384,023	-	870,107
Debt	157,302	788,842	-	1,426,843	(658,393)	1,714,594
Other liabilities	-	59,120	-	235,117	(29,859)	264,378
Total liabilities	192,667	6,194,997	75,522	2,414,467	(891,762)	7,985,891
Net Assets						
Unrestricted	4,885,336	5,030,727	5,748	(100,354)	(4,936,121)	4,885,336
Temporarily restricted	25,580	-	-	25,580	(25,580)	25,580
Permanently restricted	252,684	-	-	252,684	(252,684)	252,684
Total net assets	5,163,600	5,030,727	5,748	177,910	(5,214,385)	5,163,600
Total liabilities and net assets	$ 5,356,267	$ 11,225,724	$ 81,270	$ 2,592,377	$ (6,106,147)	$ 13,149,491

Highmark Health
Consolidating Statement of Operations
Year Ended December 31, 2015

(in thousands of dollars)

	Highmark Health	Highmark Inc.	HM Health Solutions	Allegheny Health	Eliminations	Total
Unrestriced revenue and other support						
Premium revenue	$ -	$ 13,190,636	$ -	$ -	$ (348)	$ 13,190,288
Net patient service revenue	-	-	-	2,450,839	(596,581)	1,854,258
Vision revenue	-	1,335,557	-	-	-	1,335,557
Management services revenue	-	931,216	-	-	(5,389)	925,827
Other operating revenue	18,084	106,805	538,967	186,354	(493,477)	356,733
Net assets released from restrictions	-	-	-	4,287	-	4,287
Total unrestricted revenue and other support	18,084	15,564,214	538,967	2,641,480	(1,095,795)	17,666,950
Operating expenses						
Claims incurred	-	11,969,047	-	-	(545,879)	11,423,168
Salaries, wages and fringe benefits	95,090	1,633,998	287,248	1,428,646	(15,001)	3,429,981
Patient care supplies	-	-	-	505,262	-	505,262
Depreciation and amortization	945	176,013	-	123,250	-	300,208
Other operating expenses	(47,972)	2,290,752	244,646	620,787	(534,915)	2,573,298
Total operating expenses	48,063	16,069,810	531,894	2,677,945	(1,095,795)	18,231,917
Operating (loss) gain	(29,979)	(505,596)	7,073	(36,465)	-	(564,967)
Net investment income, including net realized gains on investments	44	286,871	-	16,227	(8,991)	294,151
Interest expense	(4,431)	(35,506)	-	(29,695)	8,991	(60,641)
Equity losses of subsidiaries	(50,309)	-	-	-	50,309	-
Nonoperating (expenses) income	-	(3,450)	-	8,856	-	5,406
(Deficit) excess of revenues over expenses before merger	(84,675)	(257,681)	7,073	(41,077)	50,309	(326,051)
Net assets acquired through merger	-	249,281	-	-	-	249,281
(Deficit) excess of revenues over expenses before income taxes	(84,675)	(8,400)	7,073	(41,077)	50,309	(76,770)
Income tax provision (benefit)	-	6,896	3,081	(2,072)	-	7,905
(Deficit) excess of revenues over expenses	$ (84,675)	$ (15,296)	$ 3,992	$ (39,005)	$ 50,309	$ (84,675)