

January 23, 2013

Jack M. Stover, Esquire  
Buchanan Ingersoll & Rooney PC  
One South Market Square  
213 Market Street, 3<sup>rd</sup> Floor  
Harrisburg, PA 17101-2121

RE: Application of UPE for Approval of the Acquisition of Control of  
Highmark, Inc. and its Pennsylvania Domiciled Insurance Subsidiaries (the  
"Form A Filing") - Filing of Amendment 2

Dear Mr. Stover:

The purpose of this letter is to acknowledge receipt of the filing of Amendment No. 2 ("Amendment 2") to the Form A Filing and to provide you with an overview of the review process that the Pennsylvania Insurance Department (the "Department") will need to undertake to review and evaluate the filing in light of the significant changes proposed by UPE.

The Department is committed to reviewing the revised filing as expeditiously as possible. Given the nature and significance of the filing, our review must allow for public disclosure and comment in order to provide for a thorough and transparent evaluation process. The Department will make a prompt decision on the filing at the conclusion of our review.

Amendment 2 represents additional and material changes in the substance of the initial Form A filing, which was submitted in November 2011. In the past year, the proposed transaction continued to evolve and grow in terms of its scope and complexity, as well as the magnitude of the associated financial obligations. The following points highlight some of the material changes between the initial filing and the current filing.

- **Highmark will purchase most or all of West Penn's bond obligations.**

From the initial filing through yesterday's filing of Amendment 2, Highmark's position has been that Highmark would not be liable for the bonds or pension obligations of West Penn Allegheny Health System ("West Penn"). That is no longer the case. Amendment 2 proposes that Highmark will expend approximately \$600 million to purchase most or all of the outstanding bonds (now with a "C" rating from Fitch Ratings) of West Penn. If the transaction is approved, Highmark will own most or all of West Penn's bonds, with no assurance that the bonds can be refinanced or sold in the future without the necessity of Highmark retaining liability on the bonds through the provision of credit enhancements.

- **Highmark's evolving Integrated Delivery Network ("IDN") strategy has increased the complexity of the transaction.** The initial filing, made in November 2011, focused on the change of control, the establishment of UPE and UPE Provider Sub, and the proposed affiliation with West Penn. It publicly disclosed expenditures of \$475 million for the proposed affiliation. By the time Amendment 1 was filed in August 2012, additional expenditures of \$525 million were described related to Highmark's implementation of a broader IDN, including an affiliation with Jefferson Regional Medical Center.

Highmark has proceeded to implement its IDN strategy. This included, for example, an affiliation agreement, announced in October 2012, with Saint Vincent Health System; and in December 2012, a ground-breaking ceremony for a 174,000 square foot "medical mall." Amendment 2 confirms Highmark's investments in its expanding IDN and reflects additional investments in West Penn.

- **The total cost of the transaction has significantly increased.** With the filing of Amendment 2, the cost of the transaction has increased from the initial publicly disclosed \$475 million to at least \$1.6 billion. This includes approximately \$600 million that Highmark proposes to expend purchasing West Penn's bonds plus additional or amended financial commitments relating to West Penn. Moreover, payment of the \$1.6 billion does not include any funds for West Penn's pension obligations.

Overall, the amended filing significantly changes the level of risk and the transaction is now materially different than what was presented in the initial November 2011 filing. The Department will review this new filing using the same statutory standards that was applied to the initial filing, with particular focus on the transaction's potential effect on Highmark's financial stability, policyholders and the insurance buying public.

In terms of a timeline moving forward, following are general steps that the Department will take to ensure a thorough and expeditious review of the amended Form A filing:

- **Public disclosure and comment.** Amendment 2 has been posted on the Department's website for public comment. The public comment period will continue for at least the next 30 days and until closed by the Department.

- **Initial review of Amendment 2.** The Department and its consultants will review Amendment 2. Based upon that review, the Department will determine whether the filing includes sufficient specificity and disclosure to permit the Department to evaluate the change of control and related transactions consistent with the Department's statutory obligations.

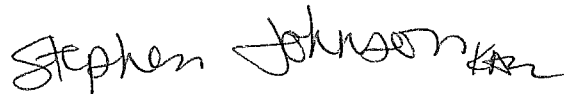
- **Consultants' reports.** The Department's financial and economic consultants will prepare reports evaluating the amended filing for the Department. We estimate that preparation of reports will take approximately 10 weeks from today. This time frame, of course, assumes that sufficient information needed to complete the consultants'

review has been provided in Amendment 2 (or in other filings) and that any required additional information is provided in a timely manner. Once the consultants' reports are finalized, they will be posted on the Department's website for public comment.

- **Department review.** The Department will consider public comments on the filing and the consultants' reports. After concluding its review of all submitted information, the Department will apply the applicable legal standards and will promptly make a decision on the amended Form A filing.

The Department recognizes the importance of this transaction to the applicant and the Western Pennsylvania community. Accordingly, the Department has put into place appropriate procedures to permit it and its consultants to move expeditiously to finalize the review of the amended filing through a process that is both transparent and provides an appropriate opportunity for public input and comment. To accomplish this, the Department requests and expects to continue to receive full cooperation from UPE, Highmark and West Penn.

Sincerely,

A handwritten signature in black ink that reads "Stephen Johnson" with a stylized flourish at the end.

Stephen J. Johnson, CPA  
Deputy Insurance Commissioner  
Office of Corporate and Financial Regulation