

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

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

Highmark Inc.; First Priority Life Insurance Company, Inc.;
Gateway Health Plan, Inc.; Highmark Casualty Insurance Company;
Highmark Senior Resources Inc.; HM Casualty Insurance Company;
HM Health Insurance Company, d/b/a Highmark Health Insurance Company;
HM Life Insurance Company; HMO of Northeastern Pennsylvania, Inc.,
d/b/a First Priority Health; Inter-County Health Plan, Inc.;
Inter-County Hospitalization Plan, Inc.; Keystone Health Plan West, Inc.;
United Concordia Companies, Inc.; United Concordia Dental Plans of Pennsylvania, Inc.;
United Concordia Life and Health Insurance Company

By UPE, a Pennsylvania nonprofit corporation

**RESPONSE TO
SUPPLEMENTAL REQUEST 4.3.13.2
FROM THE PENNSYLVANIA INSURANCE DEPARTMENT**

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

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

RESPONSE:

UPE hereby supplements its prior responses to this Request by attaching at Tab A the following documents:

1. January 11, 2013 Fitch Ratings rating action for WPAHS.
2. January 24, 2013 Moody's Investors Service rating action for Highmark.
3. January 28, 2013 Standard & Poor's Ratings Services revised outlook for Highmark.

UPE
120 Fifth Avenue
Pittsburgh, PA 15222

TAB A

Fitch Ratings

Fitch Downgrades West Penn Allegheny Health System (PA) Revs to 'C' Ratings

Endorsement Policy
11 Jan 2013 10:40 AM (EST)

Fitch Ratings-New York-11 January 2013: Fitch Ratings has downgraded West Penn Allegheny Health System's (WPAHS) approximately \$726 million series 2007A health system revenue bonds issued by the Allegheny County Hospital Development Authority to 'C' from 'CCC'.

The rating action follows a press report that WPAHS, Highmark Inc., and WPAHS bondholders have tentatively agreed to a plan that would reduce the amount owed to bondholders and prevent a bankruptcy filing by WPAHS. Highmark and WPAHS confirm only that discussions with bondholders are underway. Fitch notes that information from management is limited due to the terms of a nondisclosure agreement among the parties.

Nevertheless, Fitch believes that a negotiated debt restructuring appears to be inevitable to forestall insolvency, given WPAHS's financial deterioration and the failure of WPAHS and Highmark to complete a proposed merger. In addition, on Jan. 3, 2013, WPAHS's bond trustee issued a notice of default regarding WPAHS's failure to release audited financial statements for the year ended June 30, 2012, which were due 180 days from the end of the fiscal year. WPAHS has 30 days to cure the default.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

- 'Revenue-Supported Rating Criteria' (June 12, 2012);
- 'Nonprofit Hospitals and Health Systems Rating Criteria' (July 23, 2012).

Applicable Criteria and Related Research:

Nonprofit Hospitals and Health Systems Rating Criteria
Revenue-Supported Rating Criteria

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MOODY'S

INVESTORS SERVICE

Rating Action: Moody's reviews Highmark's ratings (sr. debt at Baa2) for downgrade following announced proposal to purchase WPAHS bonds

Global Credit Research - 24 Jan 2013

Approximately \$1.1 billion of rated debt affected

New York, January 24, 2013 -- Moody's Investors Service has placed Highmark Inc.'s (Highmark's) Baa1 insurance financial strength (IFS) rating and Baa2 senior unsecured debt rating on review for downgrade following its announced plan to purchase the West Penn Allegheny Health System (WPAHS, Ca senior debt rating, negative outlook) 2007A series bonds (issued by the Allegheny County Hospital Development Authority) for cash at 87.5 percent of par amount. The agreement, which is subject to regulatory approval, advances the proposed Highmark-WPAHS affiliation, which has been under discussion for over a year.

RATINGS RATIONALE

Moody's stated that the review for downgrade reflects the adverse potential financial impact of the proposed transaction, which may include the issuance by Highmark of approximately \$600 million of new debt to fund the purchase. According to the rating agency, after the close of the transaction Highmark's financial profile would be weakened as a result of the projected increase in financial leverage and the uncertainty of repayment of the purchased bonds, which lowers the company's quality of capital.

Moody's noted that at the end of 2013, Highmark's proforma adjusted debt to capital (where debt includes unfunded pension liabilities and operating leases) is expected to increase to approximately 35% from 28% as of September 30, 2012. The rating agency's projection assumes \$600 million of new debt to fund the bond purchase, the successful closing of the previously announced partnership with Jefferson Regional Medical Center (Jefferson Regional, Baa2 senior debt rating, stable outlook), which includes Highmark's guarantee of Jefferson Regional's debt and pension obligations (estimated to be \$160 million), and the repayment of approximately \$300 million of Highmark's senior notes maturing in August with available cash.

Moody's Senior Vice President, Steven Zaharuk, commented: "Highmark's affiliation with WPAHS gives Highmark needed flexibility in its provider network, considering the unique circumstances of the Western Pennsylvania health care market, which is dominated by Highmark on the insurer side and the University of Pittsburgh Medical Center (UPMC, Aa3 senior debt rating, positive outlook) on the provider side." The rating agency added that the transaction also provides opportunities for the insurer to seek healthcare cost saving opportunities with a health provider as a partner. Zaharuk added, "However, the current proposed transaction increases Highmark's investment in WPAHS from \$475 million to over \$1 billion, creating a concentrated network investment that reduces its ability to pursue other investments and limits its flexibility with respect to its commitment with WPAHS."

The rating agency stated its review will focus on the ability of Highmark to obtain bondholder and regulatory approval as well as the actual financial and funding terms of the transaction. Moody's indicated that based on the preliminary funding terms, which involve Highmark borrowing \$600 million, it anticipates a potential one notch downgrade to Highmark's ratings when the review is concluded. However, the rating agency noted that if Highmark's commitment to WPAHS involves a significant additional investment the rating could be downgraded further. Moody's added that there may be downward pressure on the ratings even if the transaction is not approved, as further delays in the company's attempt to form an affiliation with WPAHS threatens its strategy to develop an alternative delivery system to UPMC. Alternatively, Moody's said Highmark's ratings could be confirmed if the affiliation with WPAHS is approved with terms that do not require a substantial additional debt burden or cash outlay beyond the original expected outlay of about \$475 million.

The following ratings were placed on review for downgrade:

Highmark Inc. -- insurance financial strength rating at Baa1; senior unsecured debt rating at Baa2.

Highmark Inc., based in Pittsburgh, PA, is incorporated as a non-profit corporation and is a licensee of the Blue Cross and Blue Shield Association. It underwrites various indemnity and managed care health insurance products in Western and Central Pennsylvania. Through Highmark West Virginia Inc., and Highmark BCBSD, Inc. the company offers BCBS health insurance products in West Virginia and Delaware. Through its non-Blue branded subsidiaries, the company offers an array of specialty products nationwide. For the first nine months of 2012, the company had consolidated GAAP revenues of approximately \$9.6 billion. At September 30, 2012, total reserves (assets minus liabilities) were approximately \$5.5 billion and total enrollment (excluding BlueCard and Part D members) was approximately 4.8 million medical members.

<http://www.moody.com/research/Moodys-reviews-Highmarks-ratings-sr-d...> 1/28/2013

Moody's insurance financial strength ratings are opinions of the ability of insurance companies to pay punctually senior policyholder claims and obligations.

The principal methodology used in rating Highmark was Moody's Rating Methodology for U.S. Health Insurance Companies, published in May 2011. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

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UPE-0021302

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Highmark Inc. d/b/a Highmark BCBS & Highmark Blue Shield Outlook Revised To Negative From Stable; 'A' Rating Affirmed

Publication date: 28-Jan-2013 12:48:12 EST

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- We are concerned about Highmark's operating performance, and the prospect for additional financial commitments related to its integrated delivery network strategy.
- We have revised our outlook on the company to negative and affirmed our long-term 'A' rating.
- We expect Highmark's operating earnings to weaken further in 2013 before rebounding in 2014.

NEW YORK (Standard & Poor's) Jan. 28, 2013--Standard & Poor's Ratings Services said today that it affirmed its 'A' long-term counterparty credit rating on Highmark Inc. d/b/a BCBS & Highmark Blue Shield and revised the outlook to negative from stable.

"The outlook revision reflects our expectation that Highmark's operating earnings will weaken further in 2013 primarily because of concessionary pricing actions implemented during the company's contentious contract negotiations with UPMC, as well as expenses related to its integrated delivery IDN strategy and preparing for Healthcare Reform," said Standard & Poor's credit analyst Jon Reichert. We expect the company's return on revenue (ROR) to decline to around 1.5% in 2013 from an estimated 2% in 2012. With the run-off of the concessionary pricing actions in 2013 and the bulk of the Healthcare Reform preparedness expenditures ending, we expect operating earnings to improve in 2014, producing an ROR of more than 3% again, which is in line with our longer-term expectations. The negative outlook reflects our concern that, at the lower earnings level in 2013, the company is more susceptible to unexpected expense increases (e.g., higher utilization or IDN-related expenses), which could impede efforts to return earnings to a level that supports the ratings.

Our ratings on Highmark continue to reflect the company's strong competitive position and very strong capitalization. The company has a significant and well-entrenched position in its core markets of western and central Pennsylvania, and its diversified services segment (vision, dental, and stop-loss insurance) provides a considerable degree of both geographic and earnings diversification. Its consolidated business scale is significant when considering controlled affiliates and relationships with other Blues.

The negative outlook reflects our expectation that Highmark's operating earnings will decline further in 2013, and our concern that the company will not be able to restore earnings to a level supportive of the ratings within the next two years. We believe WPAHS will continue to be a potential draw on Highmark's financial resources until it is able to generate sustainable, positive earnings. Significant financial commitments to WPAHS specifically, or the broader IDN strategy in general, more than what the company currently expects will put downward pressure on the ratings. We expect an ROR of around 1.5% for 2013, and longer-term annual RORs of around 3%. We could lower our ratings on Highmark if it can't achieve this level of operating performance, maintain 'AA' capital redundancy, or if our longer-term expectation for fixed-charge coverage drops to less than 5x.

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