

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

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

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

By Highmark Inc.

**BCNEPA RESPONSE TO INFORMATION REQUEST 2.6.6 FROM THE
PENNSYLVANIA INSURANCE DEPARTMENT**

REQUEST 2.6.6:

Please identify the specific recipient(s) of the Contributed Property and Excluded Property and, if such recipients are not currently known or identified, the criteria to be used in identifying the recipients of such property.

RESPONSE:

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

As described in the Merger Agreement, on the Closing Date, but prior to the Effective Time, BCNEPA may make to one or more Charitable Organizations (as defined in the Merger Agreement), out of its surplus capital, a contribution of up to \$90M, subject to certain limitations. In addition, as described in the Merger Agreement, BCNEPA may contribute, dispose of or otherwise transfer without consideration all or any portion of the business, operations or assets, together with all of the liabilities, or all or any portion of the ownership interests of, AHG and/or HRC to any Charitable Organization at any time prior to the Effective Time.

Charitable Organization, as defined in the Merger Agreement, means (i) any currently existing or subsequently formed nonprofit Person that (A) qualifies as a charitable organization

exempt from the payment of federal income tax pursuant to Section 501(c)(3) of the Code, or (B) that is intended to qualify and that will promptly submit after the Closing Date (after providing it for review by Highmark), a Form 1023 (Application For Recognition of Exemption) that will, if determined by the IRS, entitle such Person to be recognized by the IRS as exempt from the payment of federal income tax pursuant to Section 501(c)(3) of the Code, (ii) that is or would be eligible to receive any portion of the Closing Contribution and the contribution contemplated by Section 6.4(a) of the Merger Agreement without resulting in any Tax payable by BCNEPA or any Highmark Entity or by any of their respective Affiliates, and (iii) whose entity purpose is to support health care, economic and community development and other purposes that complement or supplement the historic mission of BCNEPA.

The Hospital Service Association of Northeastern Pennsylvania Foundation d/b/a The Blue Ribbon Foundation of Blue Cross of Northeastern Pennsylvania, a charitable organization exempt from the payment of federal income tax pursuant to Section 501(c)(3) of Internal Revenue Code of 1986, as amended, which is not being merged with and into Highmark, will change its name and be converted to a nonmember nonprofit corporation and this private foundation will serve as one of the Charitable Organizations outlined above (the “Foundation”). The majority of the Contributed Property will be contributed to the Foundation.

A yet to be named purely public charity will be created, prior to Closing of the Transaction, meeting the requirements as outlined in the definition of a Charitable Organization. AHG / HRC as well as a portion of the Contributed Property will be contributed to this newly formed Charitable Organization (the “Public Charity”). The Public Charity is being created because the Foundation, as a private foundation, would be subject to significant tax penalties if it owned the stock of AHG/ HRC which are both for-profit entities.

A further description of the Foundation and the Public Charity, including their anticipated governance structure, is included in BCNEPA’s response to Request 5.4.8.5. The Public Charity does not yet exist and the Boards of the Foundation and the Public Charity, as they are presently contemplated, have yet to be established. It is anticipated that these Boards, when established, will adopt guidelines and protocols for the Foundation’s and the Public Charity’s charitable activities consistent with their missions and the Board’s fiduciary duties and with input from advisors with experience with the operation of charitable organizations.

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