Banner Health

1441 North 12th Street
Phoenix, AZ 85006
602-747-4000

August 20, 2014

Tom Betlach
Director
Arizona Health Care Cost Containment System
801 E Jefferson
MD 1400
Phoenix, Arizona 85034

Re: The University of Arizona Health Plans—University Family Care; Request for Additional Information

Dear Mr. Betlach:

In a letter of July 23, 2014, to James Stover, Chief Executive Officer, The University of Arizona Health Plans, Ms. Christina Quast requested the following items from Banner Health in connection with the Change of Ownership Request for the acquisition of The University of Arizona Health Plans--University Family Care ("UFC") by Banner as an important element of Banner's proposed acquisition of University of Arizona Health Network:

- Banner's Master Indenture and Supplements;
- Banner's plan to have UFC excluded as an obligated member of any and all obligated indenture groups;
- Banner's plan to isolate UFC's assets from securing any obligations unrelated to Medicaid (i.e., Banner's long term debt, revolving line of credit, letters of credit and self-insurance program);
- Banner's plan for the scheduled long term debt maturing 2014-2018;

1. Master Indenture and Supplements. Banner's Master Indenture and Supplements have been provided to UFC, and are being submitted as part of UFC's response to the July 23rd request for additional information.

2. Plan to Exclude UFC as Obligated Member of any and all Obligated Indenture Groups. Since its formation following the acquisition of Samaritan Health System by Lutheran Health Systems in September, 1999, Banner has only had one "obligated group" under that certain Master Trust Indenture, dated as of October 1, 1988, as amended and restated by an Amended and Restated Master Indenture, dated as of October 15, 1998, between Banner (then known as Lutheran Health Systems) and U.S. Bank National Association, as Master Trustee, as supplemented and amended from time to time (the "Master Indendure"). Since 1999, Banner

Health has been, and remains, the only member of the obligated group established under the Master Indenture. As such, Banner Health is the only entity liable for any indebtedness and other obligations issued under, and secured by the Master Indenture. Indebtedness and other obligations issued under the Master Indenture are "parity" or "pari passu" obligations, meaning that each such obligation is of equal priority with respect to payment of the obligation. Indebtedness and other obligations issued under the Master Indenture are secured on a parity basis by the "Gross Revenues" of Banner Health (consisting of revenue, receipts, rents, including accounts receivable). No assets of any Banner Health affiliate or subsidiary are pledged or encumbered to secure any indebtedness or other obligations issued under the Master Indenture, and no other assets of Banner Health are pledged or encumbered to secure such obligations and indebtedness. Long-term indebtedness issued under the Master Indenture is rated as AA- by Standard & Poor's Rating Services and Fitch Ratings.

As set forth Section 3.08 of the Master Indenture, no entity may become a member of the obligated group established under the Master Indenture without undertaking a series of specific actions and executing a supplemental indenture affirmatively agreeing to become a member of the obligated group and incurring joint and several liability for the indebtedness and other obligations issued under the Master Indenture. There is no method for any affiliate or subsidiary of Banner to become liable, by operation of law or otherwise involuntarily, for any indebtedness or obligations issued under the Master Indenture. Hence, it would not be possible for UFC to become a member of the obligated group established under the Master Indenture without specific affirmative action by Banner and UFC.

With respect to the plan to have UFC excluded as an obligated member, Banner hereby unconditionally agrees and commits that UFC will not be admitted as a member of the obligated group established under the Master Indenture or to otherwise become liable in any fashion for any indebtedness or other obligations issued under the Master Indenture. Although Banner does not anticipate establishing or joining any other obligated group established under any other obligated indentures, in the event that Banner does establish or join any other such obligated group, Banner agrees and commits that UFC will not be permitted to join any such obligated group or to otherwise become liable for the indebtedness of Banner or any Banner affiliate.

3. Plan to Isolate UFC's Assets from Securing any Obligations Unrelated to Medicaid. As described above, no assets of any Banner affiliate or subsidiary are pledged or otherwise encumbered to secure any indebtedness of Banner Health issued under the Master Indenture. All of Banner's material long-term debt, its revolving line of credit facility with JP Morgan Chase Bank, National Association, and all of its material letters of credit, are evidenced by obligations issued under the Master Indenture, and secured by the pledge of Gross Receivables contained in the Master Indenture. Banner does have some limited indebtedness and letters of credit in small amounts that are unsecured (or secured by cash deposits provided by Banner) and not issued under the Master Indenture.

Banner hereby agrees and commits unconditionally that it will not take any action to cause, or permit, UFC to pledge or otherwise encumber any of its assets to secure any obligations of

Banner or any other Banner affiliate or subsidiary. Banner will also take appropriate measures to maintain strict segregation of UFC's assets (including specifically its cash and investments) from the assets of Banner and Banner's affiliates, including the maintenance of separate bank accounts and investments, so that there is no risk of a creditor of Banner or any other Banner affiliate or subsidiary from having access to such assets to satisfy the indebtedness of Banner or any other Banner affiliate or subsidiary. This segregation of UFC's cash is an improvement over the current operations, as UFC's cash is currently combined with UAHN cash. As of June 30, 2014 UFC had a receivable from affiliate of approximately $75,500,000. This receivable will be satisfied during the transition and the cash will be maintained on the UFC balance sheet. Finally, neither Banner nor any other Banner affiliate or subsidiary will borrow any amounts from UFC or engage in any transactions involving UFC that are the functional equivalent of a loan from UFC, which will eliminate the possibility that a Banner creditor could indirectly access the assets of UFC to satisfy a Banner obligation. In addition, specific written policies will be adopted by Banner and UFC to prohibit the foregoing transactions.

4. Banner's Plan for the Scheduled Long-Term Debt Maturing 2014-2018. Banner assumes that this request pertains to Banner's plan for paying scheduled principal and interest payments on Banner's long-term indebtedness from 2014 to 2018. Banner plans to make payments on this indebtedness using its operating income available for debt service (i.e., net income, plus non-cash expenses such as depreciation, amortization and unrealized losses/income on investments). In keeping with its AA- rating, Banner has maintained a strong cash position relative to its indebtedness, and a high debt service coverage ratio. As of December 31, 2013 and June 30, 2014, Banner's cash-to-debt ratios (i.e., cash + cash equivalents + short-term investments + funds designated for property/plant/equipment + long-term investments divided by long-term debt less current portion) were 1.58x and 1.68x, meaning that Banner had on hand (or readily available) adequate cash reserves to pay off all of its long-term debt. For 2013, Banner's debt service coverage ratio (i.e., the ratio of income available for debt service to pro forma maximum annual debt service coverage) was 5.10 x, meaning that Banner brought in cash from operations that was more than [five] times the amount of cash necessary to pay the maximum amount of annual debt service at any time in the future. Attached is a schedule showing additional details of Banner's debt service coverage, and demonstrates that Banner's plan to pay scheduled long-term debt from 2014 through 2018 is financially sound.

We trust that this plan will satisfy any concerns of AHCCCS regarding the financial stability and safety of UFC as a Banner subsidiary. Moreover, the transfer of ownership of UFC to

Banner should significantly improve the financial outlook for UFC as compared to its current status as a subsidiary of UAHN. Please do not hesitate to contact me if you have any questions or require additional information.

Sincerely,

Dennis A. Dahlen
Senior Vice President/Chief Financial Officer

cc James Stover
David Bixby
Brenda Schaefer