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At IAS Part 35 of the Supreme Court of the State of New York, County of New York, at the courthouse, 60 Centre Street, in the County, City and State of New York, on the 30th day of November, 2017.

PRESENT:

HON. CAROL R. EDMEAD, J.S.C.

MS# 6

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In the Matter of

Index No. 450500/2016

the Liquidation of

ORDER TO SHOW CAUSE

HEALTH REPUBLIC INSURANCE OF NEW YORK, CORP.

-----X

Based upon the affirmation of Eliot Kirshnitz ("Affirmation"), an attorney with the New York Liquidation Bureau, the organization that carries out the duties of Maria T. Vullo, Superintendent of Financial Services of the State of New York as liquidator ("Liquidator") of Health Republic Insurance of New York, Corp. ("Health Republic"), dated November 28, 2017, and upon all other papers previously submitted and all proceedings heretofore had herein;

NOW, on motion of the Liquidator, and after due deliberation having been had thereon,

LET all claimants and all interested in the affairs of Health Republic show cause before this Court at IAS Part 35, Room 438, 60 Centre Street, New York, New York 10007, on the 7th day of February, 2018 at 10⁰⁰ o'clock a.m. ("Return Date"), or as soon thereafter as counsel can be heard, why an order, substantially in the form of the proposed order attached as Exhibit C to the Affirmation, should not be made: (a) approving the Liquidator's report on the status of Health Republic and the financial transactions described therein; (b) authorizing the continued payment of actual and necessary expenses incurred by the Liquidator in the administration of the liquidation proceeding; (c) authorizing the Liquidator to

HON. CAROL EDMEAD

distribute Health Republic's assets to allowed claimants to the extent that, in the Liquidator's discretion, sufficient funds are available, and as consistent with this Court's orders and the requirements of the Insurance Law; and (d) granting such other and further relief as the Court may deem just and proper.

AND, sufficient cause having been alleged therefore, it is hereby

ORDERED, that the Liquidator shall give notice of this application by: (i) posting this Order to Show Cause and its supporting papers on the Health Republic Internet web page at <http://www.healthrepublicny.org/> and the New York Liquidation Bureau Internet web page at <http://www.nylb.org/> at least ten (10) days before the Return Date; and (ii) publishing the notice substantially in the form attached as Exhibit B to the Affirmation in the *New York Post* and the *New York Daily News* within the thirty (30) days following the date of issuance of this Order to Show Cause; and it is further

ORDERED, that a copy of answering papers, either in support of or opposition to the relief sought herein ("Answering Papers"), shall be served on the Liquidator at the following address:

Superintendent of Financial Services of the State of New York
as Liquidator of Health Republic Insurance of New York, Corp.
110 William Street, 15th Floor
New York, New York 10038
Attention: General Counsel

at least seven (7) days before the Return Date, and the original Answering Papers, together with an affidavit of service, shall be filed with the Court on or before the Return Date.

ENTER



J. S. C.

HON. CAROL R. EDM EAD
2 J.S.C.

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

-----X

In the Matter of

Index No. 450500/2016

the Liquidation of

AFFIRMATION

HEALTH REPUBLIC INSURANCE OF
NEW YORK, CORP.

-----X

Eliot Kirshnitz, an attorney at law, duly admitted to practice law before the Courts of the State of New York, hereby affirms the following to be true under the penalties of perjury:

1. I am an attorney with the New York Liquidation Bureau (“Bureau”), the organization that carries out the duties of Maria T. Vullo, Superintendent of Financial Services of the State of New York as liquidator (“Liquidator”) of Health Republic Insurance of New York, Corp. (“Health Republic”). I make this affirmation upon information and belief, the sources of which are files maintained by the Bureau and communications made to the affirmant by employees of the Bureau.

2. Health Republic was incorporated in New York as a not-for-profit corporation on October 4, 2011, with the purpose of obtaining a license to issue health insurance under Article 43 of the Insurance Law and to operate as a Consumer Operated and Oriented Plan under the federal Patient Protection and Affordable Care Act.

3. On September 25, 2015, due to Health Republic’s financial condition, the New York State Department of Financial Services directed Health Republic to cease writing new health insurance policies. Health Republic ceased paying member and provider claims in October 2015. Health Republic’s health insurance policies terminated as of November 30, 2015, and Health Republic’s members were transitioned to other health insurance coverage.

4. On May 11, 2016, this Court entered an order (“Liquidation Order”) placing Health Republic into liquidation, finding, among other things, that: (i) Health Republic was insolvent under Section 1309 of the Insurance Law; (ii) the company’s Board of Directors had consented to liquidation by unanimous vote; and (iii) it was in the best interest of Health Republic’s policy holders, creditors, and the general public for the Liquidator to be appointed to take possession of Health Republic’s property to liquidate its business and affairs.

5. The Liquidator now submits her report (“Report”), attached as Exhibit A hereto, on the status of the Health Republic liquidation proceeding and requests authority to distribute assets.

6. The Report sets forth the Liquidator’s activities pursuant to the Liquidation Order and Article 74 of the Insurance Law, including the Liquidator’s efforts to identify Health Republic’s creditors, adjudicate claims, and marshal Health Republic’s assets. Since the date of the Liquidation Order, the Liquidator has (i) protected Health Republic’s former members, (ii) taken possession of Health Republic’s business and assets, (iii) preserved Health Republic’s critical claim processing systems, (iv) managed Health Republic’s service provider relationships to reduce expenses, (v) reviewed Health Republic’s claims and liabilities, (vi) collected monies owed to Health Republic, (vii) taken steps to pursue additional monies that may be owed to Health Republic, (viii) established Court-approved procedures for the adjudication of claims, (ix) issued 186,348 claim determinations in the form of Explanations of Benefits, and (x) otherwise taken steps to wind down Health Republic’s affairs.

7. This application seeks an order: (a) approving the Report on the status of Health Republic and the financial transactions described therein; (b) authorizing the continued payment of actual and necessary expenses incurred by the Liquidator in the administration of the

liquidation proceeding; (c) authorizing the Liquidator to distribute Health Republic's assets to allowed claimants to the extent that, in the Liquidator's discretion, sufficient funds are available, and as consistent with this Court's orders and the requirements of the Insurance Law; and (d) granting such other and further relief as the Court may deem just and proper.

8. The Liquidator requests that this Court issue the accompanying Order to Show Cause approving a return date ("Return Date") for a hearing on the Liquidator's application to be held before this Court at least thirty (30) days after the date of issuance of the Order to Show Cause.

9. Notice is sought through (i) posting the Order to Show Cause and its supporting papers on the Health Republic Internet web page at <http://www.healthrepublicny.org/> and the New York Liquidation Bureau Internet web page at <http://www.nylb.org/> at least ten (10) days before the Return Date; and (ii) publishing the notice substantially in the form attached as Exhibit B hereto in the *New York Post* and the *New York Daily News* within the thirty (30) days following the date of issuance of this Order to Show Cause.

10. No previous application for the relief sought herein has been made to this or any other court of judge thereof.

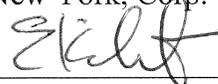
WHEREFORE, the Liquidator respectfully requests that this Court grant an order substantially in the form of the proposed order attached as Exhibit C hereto (a) approving the Report on the status of Health Republic and the financial transactions described therein; (b) authorizing the continued payment of actual and necessary expenses incurred by the Liquidator in the administration of the liquidation proceeding; (c) authorizing the Liquidator to distribute Health Republic's assets to allowed claimants to the extent that, in the Liquidator's discretion, sufficient funds are available, and as consistent with this Court's orders and the

requirements of the Insurance Law; and (d) granting such other and further relief as the Court may deem just and proper.

Dated: New York, New York
November 28, 2017

JOHN PEARSON KELLY,
Attorney for Maria T. Vullo, Superintendent of
Financial Services of the State of New York as
Liquidator of Health Republic Insurance of
New York, Corp.

By: _____



Eliot Kirshnitz
New York Liquidation Bureau
110 William Street, 15th Floor
New York, New York 10038

EXHIBIT A

(Court Report)

**REPORT ON THE STATUS OF THE LIQUIDATION OF
HEALTH REPUBLIC INSURANCE OF NEW YORK, CORP.
AND REQUEST FOR AUTHORITY TO DISTRIBUTE ASSETS**

Maria T. Vullo, Superintendent of Financial Services of the State of New York as liquidator (“Liquidator”) of Health Republic Insurance of New York, Corp. (“Health Republic”), by her Agent, David Axinn, Special Deputy Superintendent of the New York Liquidation Bureau (“NYLB”), hereby submits this report (“Report”) on the status of the Health Republic liquidation proceeding (“Liquidation Proceeding”) and requests authority to distribute assets.

SUMMARY AND INTRODUCTION

As of the date of this Report, all essential functions of managing Health Republic have been transitioned to the Liquidator, all preparations for claims adjudications have been completed, all known and submitted claims under policies have been determined and claims determinations have been mailed to claimants in the form of explanations of benefits (“EOBs”). In addition, the financial records and balances of the company have been reviewed and determined. Financial audits for 2015 and 2016 have been concluded and have received unqualified opinions by the auditors. The auditors have also completed a review of the company’s internal controls under Form A-133 of the Office of Management and Budget Circular A-133 for the 2015 year. In addition, the Liquidator has commenced a lawsuit in the United States Court of Federal Claims against the Federal Government seeking over \$575 million in payments in connection with federal programs under the Patient Protection and Affordable Care Act (“ACA”).

Approximately 18 months into the liquidation, many of the critical functions of the liquidation have been completed. In this Report, the Liquidator is now seeking authorization to make a partial distribution of Health Republic’s assets to allowed claimants subject to obtaining a statement of no-objection from the Federal Government.

Health Republic was placed into liquidation by order (“Liquidation Order”) of the Supreme Court, entered May 11, 2016. Since that date, the Liquidator has (i) protected Health Republic’s former members, (ii) taken possession of Health Republic’s business and assets, (iii) preserved Health Republic’s critical claim processing systems, (iv) managed Health Republic’s service provider relationship to reduce expenses, (v) reviewed Health Republic’s claims and liabilities, (vi) collected monies owed to Health Republic, (vii) taken steps to pursue additional monies that may be owed to Health Republic, (viii) established Court-approved procedures for the adjudication of claims, (ix) issued approximately 186,346 claim determinations in the form of EOBs, and (x) otherwise taken steps to wind down Health Republic’s affairs. As of September 30, 2017, Health Republic had total assets of approximately \$39,927,230¹ and Class Two liabilities of approximately \$212,943,662 relating to claims of members and health care providers under policies. These amounts do not include the Liquidator’s lawsuit against the Federal Government seeking over \$575 million in recoverables under ACA programs, or claims by the Federal Government against Health Republic under the Risk Adjustment program or for loan repayment, which the Liquidator asserts are subordinated to Class Two claims under New York law.

The Liquidator submits this Report to advise the Court of the status of the Liquidation Proceeding and to request the Court’s (i) approval of the Report and the financial transactions described herein, (ii) authorization for the continued payment of administrative expenses under the Court’s supervision, (iii) authorization for the Liquidator to distribute Health Republic’s assets to allowed claimants, at the Liquidator’s discretion, and as consistent with this Court’s orders and the requirements of the Insurance Law, and (iv) granting such other and further relief as the Court may deem just and proper.

¹ All dollar amounts in this Court Report are presented on an unaudited basis.

**HEALTH REPUBLIC'S BUSINESS
AND COMMENCEMENT OF THE LIQUIDATION PROCEEDING**

Health Republic was incorporated in New York as a not-for-profit corporation on October 4, 2011. Health Republic was formed for the purpose of obtaining a license to issue health insurance under Article 43 of the Insurance Law and to operate as a Consumer Operated and Oriented Plan ("Co-Op") under the ACA. Health Republic offered individual and small group health insurance policies on and off the New York State of Health marketplace for the 2014 and 2015 plan years. Health Republic ultimately insured more than 200,000 members, issuing policies that covered health care and pharmaceutical services pursuant to health benefit and prescription drug plans underwritten by the company.

On September 25, 2015, due to Health Republic's financial condition, the New York State Department of Financial Services directed Health Republic to cease writing new health insurance policies. Health Republic's board of directors consented to the appointment of an independent monitor to oversee the company's affairs, and an external corporate restructuring firm was engaged to manage the wind-up of the business. Health Republic ceased paying member and provider claims in October 2015. Health Republic's health insurance policies terminated as of November 30, 2015, and Health Republic's members were transitioned to other health insurance coverage.

On May 11, 2016, this Court entered the Liquidation Order, finding, among other things, that: (i) Health Republic was insolvent under Section 1309 of the Insurance Law; (ii) the company's Board of Directors had consented to liquidation by unanimous vote; and (iii) it was in the best interest of Health Republic's policy holders, creditors, and the general public for the Liquidator to be appointed to take possession of Health Republic's property to liquidate its business and affairs.

CONDUCT OF THE LIQUIDATION PROCEEDING

Upon issuance of the Liquidation Order, the Liquidator, through the NYLB, took possession of Health Republic's business, including assuming control of Health Republic's bank accounts and its electronic and paper records and files. Health Republic's business operations were vast, including over 200,000 members, a pending inventory of over 600,000 claims and 14,000 appeals, 30 plan designs and approximately 69 terabytes of electronic data. In the first year of liquidation, the Liquidator had two major priorities: (1) preserve existing functions and data in order to protect former Health Republic policyholders and assist in their transition to other health plans; and (2) prepare the systems, processes and data for the determination of member and provider claims.

A. Intake and Transition of Incumbent Vendors

i. Initial Intake

The intake of a large health care provider requires significant resources. Following the Liquidation Order, the Liquidator was responsible for:

- Securing and transferring bank accounts and other assets to the Liquidator's control
- Preparing an opening balance sheet
- Inventorying, securing and transferring electronic data to the Liquidator's control and determining long term data storage solutions
- Reviewing and terminating or renegotiating vendor agreements
- Reviewing potential financial recoverables, including reinsurance contracts
- Continuing Health Republic's reporting and other obligations under the ACA

ii. Opening Balance Statement and Financial Audit

A critical step in Health Republic's intake was to establish an opening balance sheet. In the case of Health Republic, the Liquidator was also responsible for filing a Form A-133 Compliance Statement subject to the Office of Management and Budget Circular A-133 in connection with the company's participation in ACA programs.

The Liquidator engaged EisnerAmper to perform an audit ("2015 Audit") of Health Republic's statutory basis financial statements, and to report on internal controls at the company, as of December 31, 2015. The auditors initially encountered difficulty reconciling Health Republic's financial records, due to an imperfect changeover of Health Republic's general ledger systems by Health Republic's prior management. The Liquidator's staff, with the assistance of outside consultants, reconstructed the general ledger and successfully reconciled the relevant accounts. The auditors issued an unqualified opinion regarding Health Republic's financial statements as of December 31, 2015, and reported on Health Republic's internal controls over compliance. Later, the auditors performed an audit of Health Republic's modified cash basis financial statements as of December 31, 2016, and for the period May 11, 2016 (date of liquidation) through December 31, 2016, and issued an unqualified opinion regarding the same. By letter dated October 13, 2017, the Office of Inspector General of the Department of Health and Human Services notified Health Republic that the Federal Audit Clearinghouse had accepted the 2015 Audit and that it was found to have met Federal audit requirements.

EisnerAmper's 2015 and 2016 reports of Health Republic's audited financial statements are available on the Health Republic website.

iii. Management of Vendors

Prior to liquidation, many of Health Republic's core functions were performed by third-party vendors. The more significant of these service providers were: (i) POMCO, Health Republic's claims administrator; (ii) Alvarez & Marsal, the restructuring firm and manager of day-to-day operations in Health Republic's wind-down period; (iii) Garden City Group, administrator of Health Republic's website, user portal, and telephone call in-center and provider of legal notices and other communications; and (iv) Weil Gotshal & Manges, Health Republic's outside counsel. Collectively, these vendors are referred to as the "Incumbent Vendors". In addition, several other vendors provided other necessary services such as cloud storage for Health Republic's electronic data and hosting Health Republic's general ledger and financial information.

In order to prevent loss of critical data and to preserve Health Republic's core system, the Liquidator continued, on an interim basis, engagements with the Incumbent Vendors that provided essential services for the liquidation. This approach permitted the Liquidator to continue to provide services to members who had been transitioned to other health plans but needed assistance with their prior health claims. The approach also permitted members and health care providers to use the company's electronic portal to look up information about submitted claims or to submit new claims. In the first year of liquidation, approximately 70,000 claims were added to the proceeding and 84,000 inquiries were handled by the company's call center.²

² The Liquidator has provided information and assistance to thousands of members who required ongoing support including: (i) providing information and paperwork to assist members to transition to new health coverage; (ii) providing historical claim information to members such as plan eligibility and records of co-pays and deductibles; (iii) finding and sending federal tax forms to members; (iv) processing and sending premium refunds; (v) updating claimants' contact information; (vi) providing the status of claims

Within one year of the Liquidation Order, three of the four Incumbent Vendors had been either terminated or reduced to an hourly rate for needed projects. Garden City Group, which hosts the company's website, continues to manage the call-in center and provides creditor communications. As of October 31, 2017, the latest date for which comprehensive data is available, the Health Republic website had received 77,228 visits from 56,147 unique visitors, and the Health Republic call-in center had fielded 15,419 calls.

B. Processing of Claims

The Liquidator's second priority in the first year of liquidation was to establish the processes framework to expeditiously determine member and provider claims under Health Republic insurance policies.

i. New Claims Portal

The first step was to continue Health Republic's public website to provide legal information, FAQs and contact information to members and health care providers with claims in the liquidation. The website provides Spanish translations and includes portals for the public to submit inquiries or new claims or to confirm that a previously submitted claim had been received by Health Republic.

ii. Adjudication Procedures

By Order entered October 17, 2016, this Court approved the Liquidator's proposed procedures for the adjudication of claims ("Adjudication Procedures"). The Adjudication Procedures provide an efficient process for the Liquidator to recommend the allowance or disallowance of claims for payment under Health Republic insurance policies while offering an

and explaining how to use the website portal; (vii) sending medical information to members' new insurance carriers; and (viii) assisting members who were subject to improper balance billing by providers.

appeal and objection procedure to offer due process to claimants who disagree with the Liquidator's determinations.

The Adjudication Procedures provide that the Liquidator's determinations of policy claims are to be issued in the form of EOBs that are substantially similar to the EOB form issued by Health Republic to members and providers when the company was an operating health insurer. The Adjudication Procedures also establish an appeal and objection process for claimants to submit challenges to the Liquidator's determinations. Following the Liquidator's review and denial of an objection, a claimant is entitled to have the claim heard by a Court-appointed referee or, if appropriate, a qualified medical claims examiner.

As provided by the Liquidation Order, the Liquidator has refrained from determining claims other than administrative expenses and member and provider claims for payment under Health Republic insurance policies. Unless it appears that the estate's assets will be sufficient to pay claims below the priority of member or provider policy claims, the Liquidator will continue to exercise her discretion to refrain from expending estate assets to determine such lower priority claims.

iii. Appointment of Referees and Authorization of Medical Claims Examiner

On February 8, 2017, the Liquidator posted an invitation for candidates for referees and medical claims examiners on the Health Republic and NYLB websites, and, following an internal review process, the Liquidator determined that three candidates (a) were competent and qualified, (b) possessed the requisite skills and expertise, and (c) were able to provide the necessary services consistent with the appropriate fee scale.

The Liquidator then sought, by Order to Show Cause, an order seeking the appointment of two recommended referees and authorization to engage the selected independent medical

review service provider. The Liquidator proposed that the two referees serve as a panel, and hear unresolved objections on a rotating basis. In the event that the referee hearing an objection finds that the review requires an independent medical review, the referee will have the discretion to refer the objection, or any individual issue(s) therein, to the independent medical review service provider, which will provide the results of any such medical review to the referee. Following the referee's review of the objection, the referee will issue a report and recommended resolution of the objection and the reasons therefor.

By Order entered May 26, 2017, this Court (i) appointed Anthony J. Carpinello, Esq., and Alberto Torres, Esq., as Referees to hear and report on the validity of any unresolved objections to the Liquidator's determination of claims, and (ii) authorized the Liquidator to engage Independent Medical Expert Consulting Services, Inc. ("IMEDECS") to provide independent medical review services on an as-needed basis. The Court subsequently reviewed and approved the Liquidator's engagement agreement with IMEDECS.

iv. Treatment of Potential Member-Provider "Duplicate" Claims

During a conference before the Court held October 11, 2016, a question was raised regarding the potential for a Health Republic member and a provider to seek payment for the same covered services and whether the "anti-assignment" clause found in Health Republic's insurance policies might preclude the Liquidator from paying the claimant who is entitled to be paid.

The Liquidator, through counsel, prepared the requested memorandum and presented the legal analysis to the Court in the form of an Order to Show Cause. The Liquidator's analysis concluded that Health Republic's insurance policies expressly provide that the Liquidator may make claim payments directly to the claimant who is entitled to be paid for covered services,

whether the claimant is a member, an in-network provider, or an out-of-network provider, regardless of whether an assignment had been made. Further, in the unlikely event that the anti-assignment provision in a policy interferes with such payment, the Liquidator's analysis concluded that New York law permits the Court to enforce a member's assignment of benefits notwithstanding the anti-assignment clause.

By Order entered February 22, 2017, this Court ordered that, notwithstanding the existence of an anti-assignment provision in a Health Republic insurance policy, the Liquidator may, where appropriate, make an allowed payment directly to a health care provider for the costs of covered services, whether the claim for payment was made by the policyholder, the health care provider, or both.

v. Claims Review

Health Republic entered liquidation with a pending inventory of over 600,000 claims for payment by former Health Republic members and their providers under Health Republic insurance policies. Approximately 70,000 additional claims were included after the commencement of the Liquidation.

As part of the Liquidator's responsibility to confirm that claims are accurately determined, the Court approved Truven Health Analytics ("Truven"), a qualified medical claim auditor, to conduct an independent review of the initial determinations of Health Republic's administrator. Truven was asked to review the claims determinations and confirm their compliance with Health Republic's 30 unique plan designs, including benefits, exclusions, and eligibility requirements. Truven concluded its review of the determinations in June 2017.

vi. Issuance of the EOBs

The Liquidator began issuing EOBs to members and providers with policy claims on August 7, 2017 and concluded the process on October 27, 2017. In total, 186,346 EOBs have been issued, amounting to approximately \$211,465,166 in recommended allowances. Each EOB adjudicates multiple individual claims for services, which when taken in aggregate amount to 2,147,606 individual determinations or records of service. The Adjudication Procedures provide that claimants have 60 days from the date of the EOB to submit an appeal to the Liquidator, which may be extended by agreement of the parties. As of October 31, 2017, the Liquidator has received 1,095 appeals, or approximately 0.6% of the total EOBs.

C. Litigation Against the Federal Government

As a not-for-profit Co-Op under the ACA, Health Republic participated in several federal premium stabilization and financial assistance programs. In the 2014 and 2015 benefit years, Health Republic participated in the ACA's Risk Corridors, Reinsurance, Risk Adjustment, Advanced Premium Tax Credit, and Cost-Sharing Reduction programs ("ACA Programs"). The Liquidator's review of Health Republic's records shows that the Federal Government failed to pay balances owed to Health Republic under certain of these programs.

On September 1, 2017, the Liquidator, on behalf of Health Republic's policyholders and other claimants, filed a complaint ("CMS Complaint") through counsel against the United States in the U.S. Court of Federal Claims under case number 17-1185C, seeking to recover over \$575 million owed to Health Republic under ACA Programs. By order dated October 4, 2017, the Court of Federal Claims granted a stay of the case until the earlier of January 12, 2018 or the issuance of a decision by the U.S. Court of Appeals for the Federal Circuit in the companion

appeals of Land of Lincoln Mutual Health Insurance Company v. United States and Moda Health Plan, Inc. v. United States, which raise similar issues to certain claims raised by Health Republic.

FINANCIAL CONDITION AND ADMINISTRATIVE EXPENSES OF HEALTH REPUBLIC

A. Financial Condition as of September 30, 2017

As of September 30, 2017, Health Republic had assets of approximately \$39,927,230, and Class Two liabilities of \$212,943,662 relating to claims of members and health care providers under policies. These amounts do not include the Liquidator's lawsuit against the Federal Government seeking over \$575 million in recoverables under ACA Programs, or claims by the Federal Government against Health Republic under the Risk Adjustment program or for loan repayment, which the Liquidator asserts are subordinated to Class Two claims under New York law.

1. Assets

Health Republic's unaudited financial statements as of September 30, 2017 indicate that the company had \$39,927,230 in assets, of which \$38,683,203 consisted of cash, cash equivalents and investments. Health Republic carries a \$51,736,710 asset for the recovery of balances owed by the Federal Government under the ACA's Reinsurance program. This recoverable has no impact on Health Republic's balance sheet, however, because Health Republic's auditor has established a reserve in the same amount based on its opinion that the balance may be uncollectible. In addition, Health Republic carries an asset for \$435,215,631 in recoverables under the ACA's Risk Corridors program, which has similarly been reserved at full amount by Health Republic's auditors due to the potential that it may be uncollectible.

2. Liabilities

As of September 30, 2017, Health Republic's total liabilities were \$710,720,635. New York Insurance Law Section 7434 establishes a priority scheme for the payment of distributions. The priority scheme, followed by Health Republic's liabilities associated with each priority, are listed below.

- I. **Class One.** Claims with respect to the actual and necessary expenses of administration incurred by a liquidator: \$513,266.
- II. **Class Two.** All claims under policies, including claims of federal, state or local government for losses incurred, third party claims, claims for unearned premiums, and all claims of security funds or guaranty associations, but excluding claims under reinsurance contracts: \$212,943,662.
- III. **Class Three.** Claims of the Federal Government, except those under Class Two: \$197,571,069.
- IV. **Class Four.** Claims for wages owing to employees of an insurer against whom an Article 74 proceeding is commenced and claims for unemployment insurance contributions required by Article 18 of the New York Labor Law: \$0.
- V. **Class Five.** Claims of state and local governments, except those under Class Two: \$19,159,690.
- VI. **Class Six.** Claims of general creditors, including but not limited to claims arising under reinsurance contracts: \$15,566,548.
- VII. **Class Seven.** Claims filed late or any other claims other than claims stated in Class Eight or Class Nine: \$0.

VIII. **Class Eight.** Claims for advanced or borrowed funds made pursuant to Insurance Law Section 1307: \$264,966,400.

IX. **Class Nine.** Claims of shareholders or other owners in their capacity as shareholders: \$0.

B. Administrative Expenses

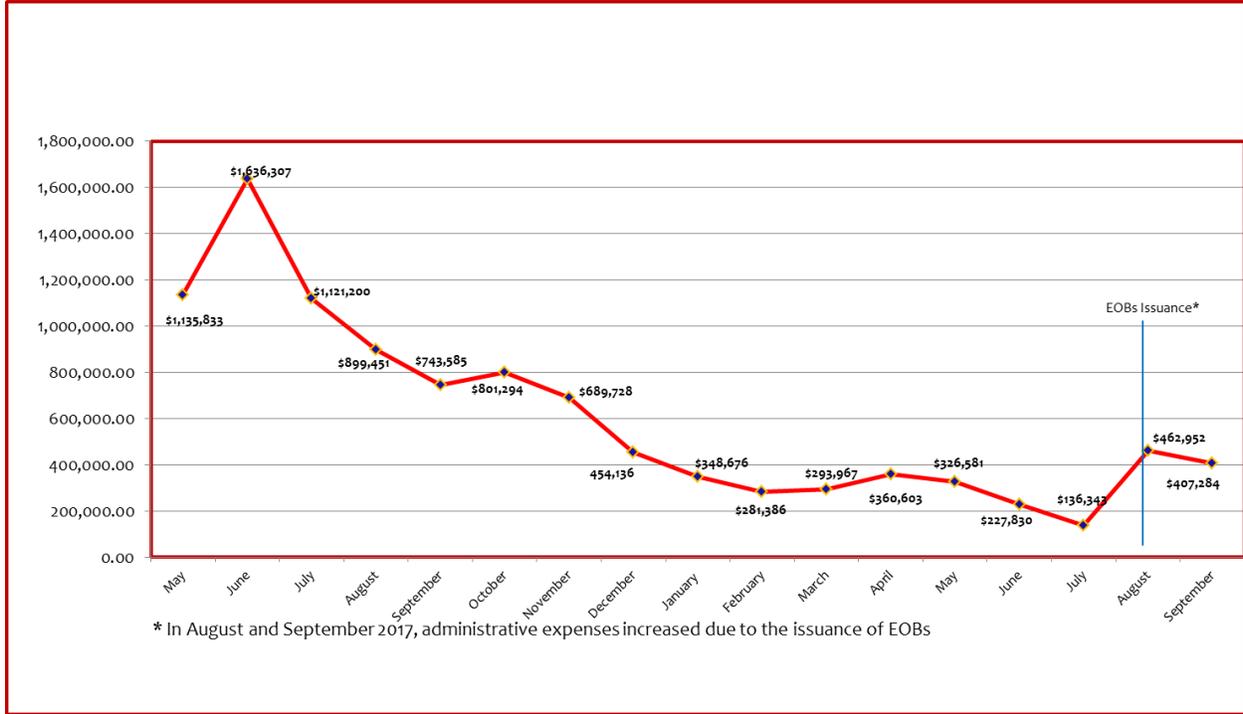
The Liquidator has adopted a modified cash basis of accounting in which expenses are generally recognized when paid. This method can result in a differential between the time at which an expense is accrued and when it is paid and recognized. For purposes of this discussion, and to provide a more accurate presentation of when the Liquidator's expenses were incurred, this section of the Court Report will discuss expenses when they are incurred.

For the 17-month period commencing on the date of the Liquidation Order on May 11, 2016 and ending on September 30, 2017, the Liquidator's incurred administrative expenses totaled \$10,327,156. Approximately sixty-one percent of that amount, or \$6,337,670, was incurred in the first six months of the liquidation when most of Health Republic's systems, processes, data and knowledge were transferred from the company and its outside vendors to the Liquidator's staff. As reflected in Table 1, the Liquidator's expenses have been steadily declining.

Table 1

Total Incurred Expenses May 2016 – September 2017

\$10,327,156

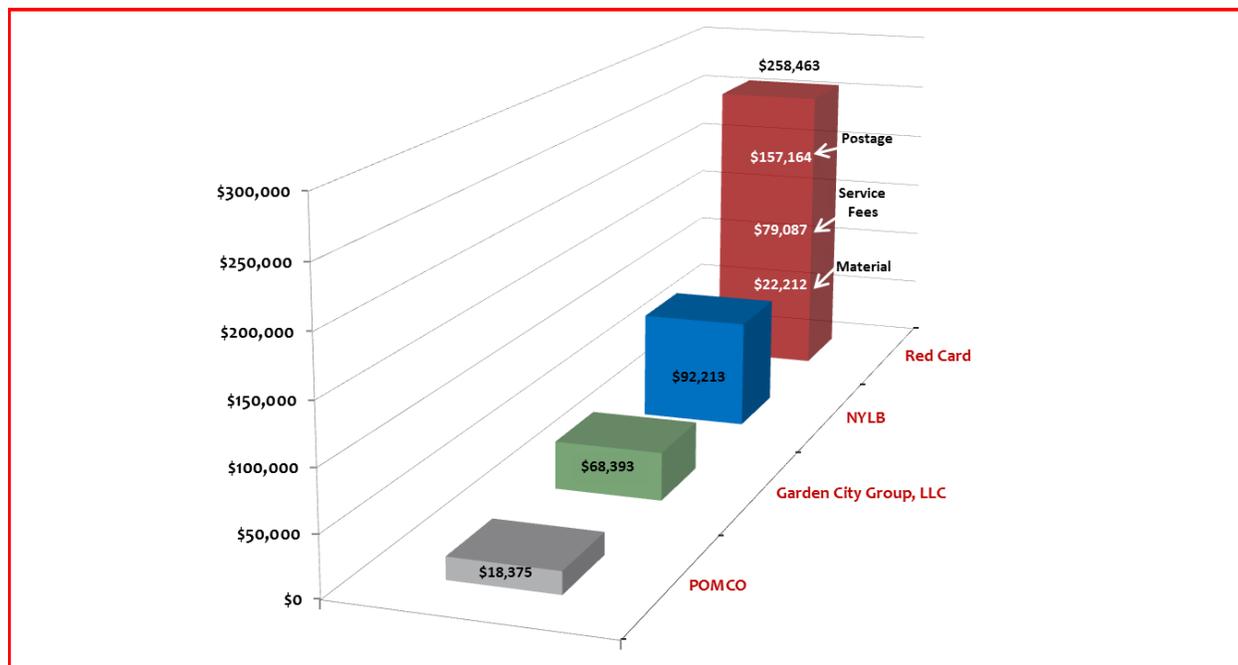


On August 7, 2017, the Liquidator began issuing EOBs to Class Two claimants. The mailing of EOBs requires a number of administrative steps that have caused expenses to increase for the months of August and September 2017. Table 2 reflects the increased expenses associated with issuance of the EOBs. These additional expenses include the material costs for envelopes, paper and postage, printing and processing fees. In addition, the Liquidator’s staff and call-in center have received an increased number of inquiries concerning the EOBs, resulting in additional time and expense. Lastly, issuance of the EOBs has required additional efforts from the Liquidator’s IT and administrative staff for functions such as processing and storing the EOB files and

objections, processing return mail and following up on appeals and inquiries. The cost of processing EOBs for August and September 2017 was \$437,444. Of this amount, postage was \$157,164 or 36% of the total EOB expenses.

Table 2

**Total Incurred EOB Expenses
August 2017 – September 2017
\$437,444**

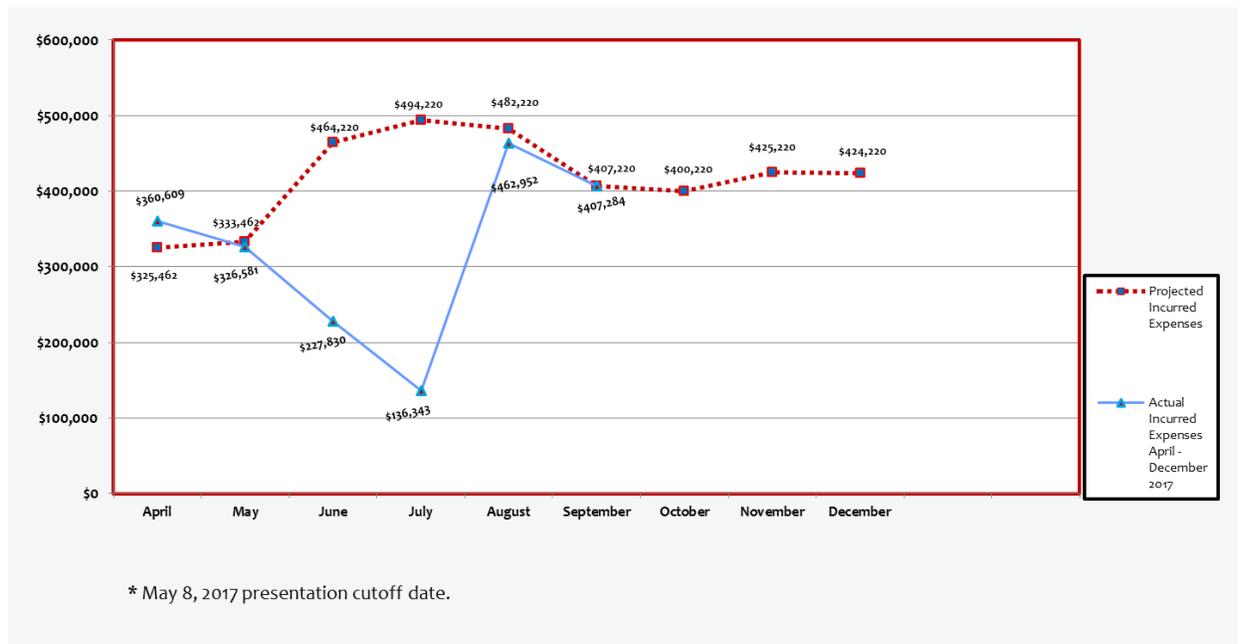


On May 8, 2017, the Liquidator made an in-court presentation (“Presentation”) to the Court on administrative expenses to date. Senior members of the Liquidator’s staff presented a detailed analysis of expenses and the Court and the public were provided an opportunity to ask questions. As part of the Presentation, the Liquidator prepared a table of Actual versus Projected Incurred Expenses that projected Health Republic’s expenses from April 2017 through

December 2017. Table 3 presents a comparison of the Liquidator’s actual incurred expenses for April 2017 through September 2017 versus projections. As shown, in April 2017, the Liquidator’s expenses were approximately \$35,000 above budget. For the months May through September 2017, the Liquidator’s expenses were either on or below budget. For the months May through September 2017, the Liquidator’s expenses were either on or below budget.

Table 3

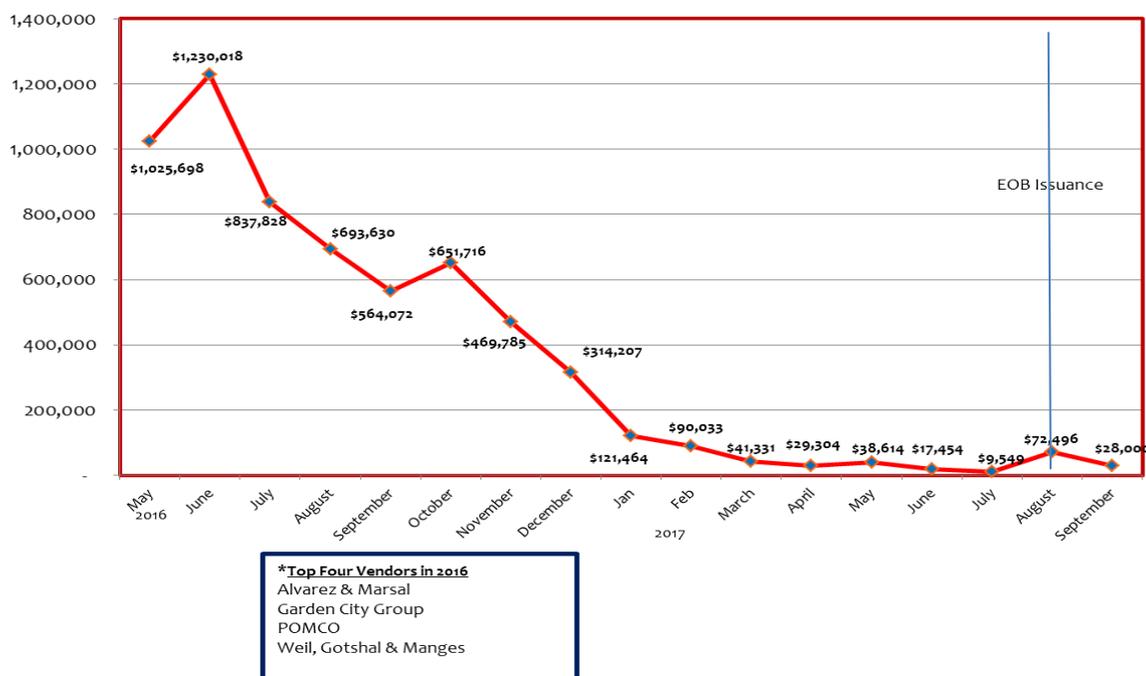
**Actual vs. Projected Incurred Expenses*
May 2017 – December 2017**



The Presentation also included information on the administrative expenses of the top five vendors in 2016, including (1) Alvarez & Marsal, (2) Garden City Group, (3) POMCO, (4) Weil, Gotshal & Manges, and (5) the Liquidator’s staff through the New York Liquidation Bureau.

Table 4 shows the progression of the expenses for these top vendors³ through September 2017. The data show that the Liquidator has aggressively controlled the expenses associated with outside vendors by internalizing expenses or seeking less expensive alternatives.

Table 4 Total Incurred Expenses Top Four Vendors in 2016
 May 2016 to September 2017
 \$6,235,199

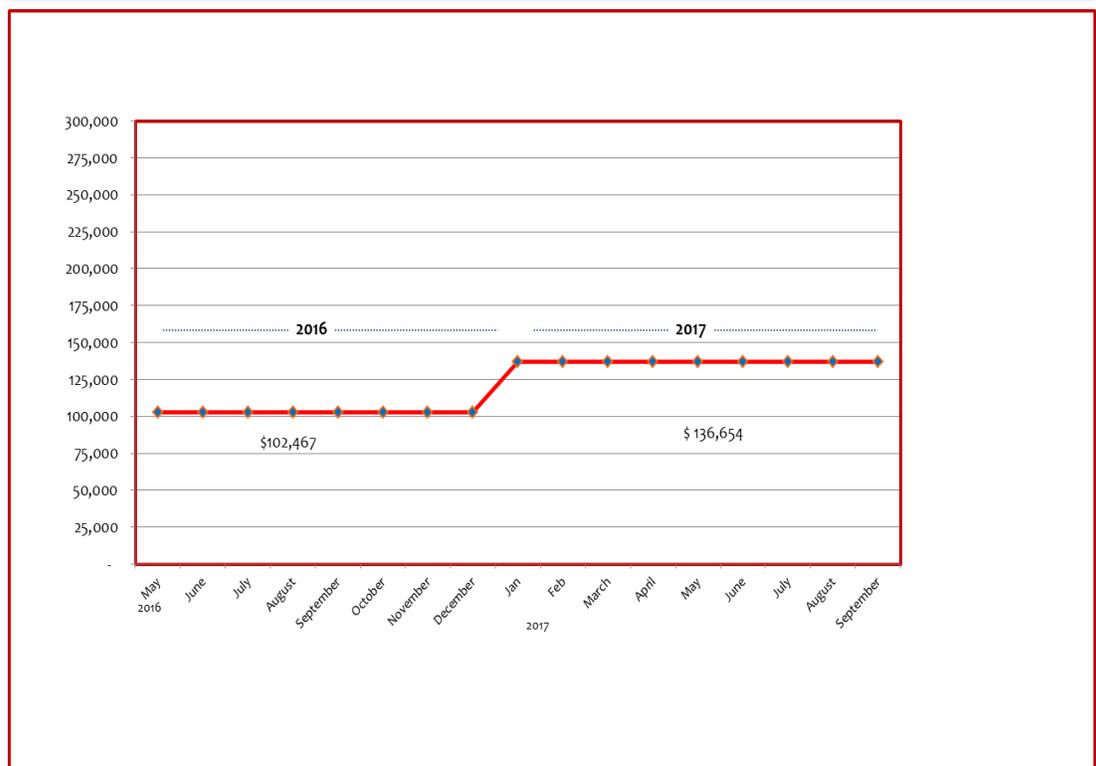


The Liquidator’s expenses through the NYLB are set forth in Table 5. The expenses total \$2,049,625 for the period May 2016 through September 2017. The expenses have stayed within a range of approximately \$50,000 to \$200,000 per month. The average monthly expense is

³ The New York Liquidation Bureau has been removed from Table 3 and is addressed separately in Table 5.

approximately \$102,000 in 2016 and \$137,000 in 2017, which translated to approximately 578 staff hours per month.

Table 5 NYLB Monthly Average Incurred Expenses For 2016 and 2017

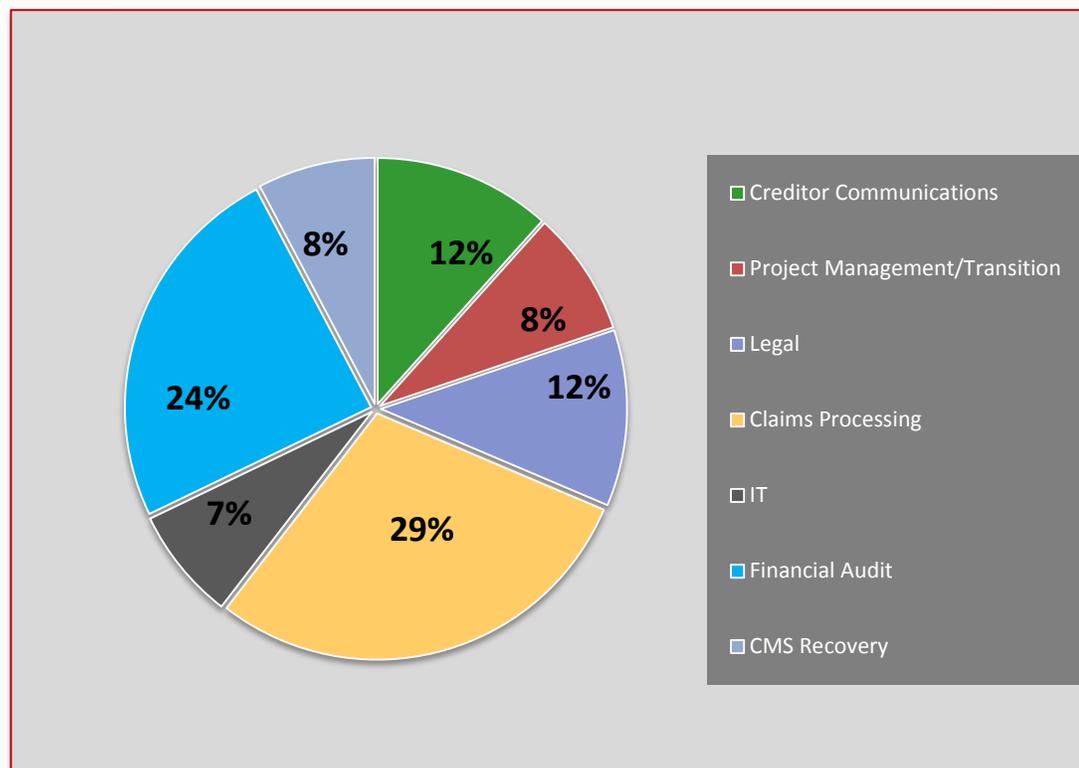


The Liquidator’s allocation of time among her staff is approximated in Table 6. The majority of expenditures have been devoted to claims processing (29%), financial audits and review (24%), legal support (12%) and creditor communications (12%). Preparation of the CMS Complaint, IT related work, and project management constitute the remaining items.

Table 6

Expenses Incurred By Function
May 2016 to September 2017

\$10,327,156

**DISTRIBUTION OF ASSETS**

The Liquidator is requesting authorization to make an initial distribution of assets to creditors consistent with this Court's orders and the priorities set forth in Insurance Law Section 7434. The distribution would be made to those creditors of Health Republic with allowed claims, to the extent that, in the Liquidator's discretion, sufficient funds are available.

Distribution of assets, however, is contingent upon the Federal Government acknowledging any proposed distribution and stating that it has no objection under 31 U.S.C.

Section 3713 or other federal law. The Liquidator has determined that there are sufficient assets to make a partial distribution to creditors with allowed claims under policies under Class Two of Insurance Law Section 7434. The Federal Government is a Class Three creditor under Section 7434 that is subordinate to Class Two. However, 31 U.S.C. Section 3713(b) imposes personal liability on any representative of an estate who pays any part of the debt of an estate before paying a claim of the Federal Government.

This Court Report is being served upon the Federal Government to provide it with an opportunity to object to the proposed distribution. Upon receiving approval of this Court to make an initial distribution, and if the Liquidator determines that there are sufficient assets to make such distribution, the Liquidator will in addition communicate its proposed distribution to the Federal Government. No distribution, however, will be made at this time unless the Federal Government acknowledges the proposal and states that it has no objection.

RELIEF SOUGHT

Based on the facts set forth in the Affirmation and in this report, the Liquidator requests that the Court issue an order:

- (a) Approving the Report on the status of Health Republic and the financial transactions described therein;
- (b) Authorizing the continued payment of actual and necessary expenses incurred by the Liquidator in the administration of the Liquidation Proceeding;
- (c) Authorizing the Liquidator to distribute Health Republic's assets to allowed claimants to the extent that, in the Liquidator's discretion, sufficient funds are available, and as consistent with this Court's orders and the requirements of the Insurance Law; and

(d) Granting such other and further relief as the Court may deem just and proper.

Dated: New York, New York
November 28, 2017

A handwritten signature in cursive script, appearing to read "David Axinn", written in black ink on a white background.

David Axinn
Special Deputy Superintendent and Agent of
Maria T. Vullo, Superintendent of Financial
Services of the State of New York as
Liquidator of Health Republic Insurance of
New York, Corp.

EXHIBIT B

(Proposed Notice)

NOTICE**IN THE MATTER OF THE LIQUIDATION OF
HEALTH REPUBLIC INSURANCE OF NEW YORK, CORP.
Supreme Court County of New York
Index No. 450500/2016**

The Superintendent of Financial Services of the State of New York as liquidator (“Liquidator”) of Health Republic Insurance of New York, Corp. (“Health Republic”) has made an application to the Supreme Court of the State of New York, County of New York (“Court”) seeking an order:

(a) approving the Liquidator’s report on the status of Health Republic and the financial transactions described therein; (b) authorizing the continued payment of actual and necessary expenses incurred by the Liquidator in the administration of the liquidation proceeding; (c) authorizing the Liquidator to distribute Health Republic’s assets to allowed claimants to the extent that, in the Liquidator’s discretion, sufficient funds are available, and as consistent with this Court’s orders and the requirements of the Insurance Law; and (d) granting such other and further relief as the Court may deem just and proper.

The Court has set _____, 201_, at ____ o’clock .m. as the date and time for any interested parties to appear before the Court at the Courthouse, 60 Centre Street, New York, New York 10007, Room 438, and show cause why the requested relief should not be granted. If you wish to object to the Liquidator’s application, you must serve upon the Liquidator a written statement setting forth your objection and all supporting documentation by _____, 201_, at the following address:

**Superintendent of Financial Services of the State of New York
as Liquidator of Health Republic Insurance of New York, Corp.
110 William Street, 15th Floor
New York, New York 10038
Attention: General Counsel**

The application and its supporting documents are available at www.nylb.org
and at www.healthrepublicny.org.

EXHIBIT C

(Proposed Order)

At IAS Part 35 of the Supreme Court of the State of New York, County of New York, at the courthouse, 60 Centre Street, in the County, City and State of New York, on the ____ day of _____, 201_.

P R E S E N T :

HON. CAROL R. EDMOND, J.S.C.

-----X

In the Matter of

Index No. 450500/2016

the Liquidation of

ORDER

HEALTH REPUBLIC INSURANCE OF NEW YORK, CORP.

-----X

Maria T. Vullo, Superintendent of Financial Services of the State of New York as liquidator (“Liquidator”) of Health Republic Insurance of New York, Corp. (“Health Republic”), moved this Court for an order (a) approving the Liquidator’s report on the status of Health Republic and the financial transactions described therein; (b) authorizing the continued payment of actual and necessary expenses incurred by the Liquidator in the administration of the liquidation proceeding; (c) authorizing the Liquidator to distribute Health Republic’s assets to allowed claimants to the extent that, in the Liquidator’s discretion, sufficient funds are available, and as consistent with this Court’s orders and the requirements of the Insurance Law; and (d) granting such other and further relief as the Court may deem just and proper.

NOW, upon reading the affirmation of Eliot Kirshnitz, an attorney with the New York Liquidation Bureau, the organization that carries out the duties of the Liquidator, and proof of service thereof upon all interested parties having been made, after due deliberation;

NOW, upon application of the Liquidator, it is ORDERED, that

1. The Liquidator's report on the status of Health Republic and the financial transactions described therein is approved.

2. The Liquidator is authorized to continue payment of actual and necessary expenses incurred by the Liquidator in the administration of the liquidation proceeding.

3. The Liquidator is authorized to distribute Health Republic's assets to allowed claimants to the extent that, in the Liquidator's discretion, sufficient funds are available, and as consistent with this Court's orders and the requirements of the Insurance Law.

E N T E R

J. S. C.