HEALTH REPUBLIC INSURANCE OF NEW YORK, CORP. IN LIQUIDATION

MODIFIED CASH BASIS FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016 AND FOR THE PERIOD FROM MAY 11, 2016 (DATE OF LIQUIDATION) THROUGH DECEMBER 31, 2016

HEALTH REPUBLIC INSURANCE OF NEW YORK, CORP. IN LIQUIDATION

Contents

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INDEPENDENT AUDITORS' REPORT

Superintendent of the New York State Department of Financial Services as Receiver and the Management of the Health Republic Insurance of New York, Corp.

Report on the Financial Statements

We have audited the accompanying financial statements of the Health Republic Insurance of New York, Corp. in Liquidation (the "Company"), managed by the New York Liquidation Bureau, which comprise the statement of assets, liabilities, and deficit of assets over liabilities – modified cash basis as of December 31, 2016, and the related statement of cash receipts and disbursements and changes in cash, cash equivalents and invested assets (unrestricted) – modified cash basis for the period from May 11, 2016 (Date of liquidation) through December 31, 2016, and the related notes to the financial statements – modified cash basis.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets and liabilities arising from cash transactions of Health Republic Insurance of New York, Corp. in Liquidation as of December 31, 2016, and its operations and its receipts and disbursements for the period from May 11, 2016 (Date of liquidation) through December 31, 2016, in accordance with the modified cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in the statutory basis statement of admitted assets, liabilities and deficit as of December 31, 2016, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Emphasis of Matters

As discussed in Note 2 of the accompanying financial statements, these financial statements were prepared on the modified cash basis of accounting. Given the nature of the liquidation process, until creditor claims are allowed, they are non-allowed and as such are preliminary estimates based on management's best estimate at the time. As a result of management's estimate, these liabilities may change materially during the course of the liquidation at the point at which they become allowed. These financial statements also do not reflect any provision for incurred but not reported claim reserves.

As discussed in Note 2 to the financial statements, in the Order of Liquidation dated May 11, 2016, the Supreme Court of the State of New York in paragraph 19 of the Order stated that:

> With respect to all claims other than the Policy Claims referenced in paragraph 18, the deadline set forth in Section 7432(b) of the NYIL for all persons who have claims against HRINY to present such claims to the Liquidator shall be deferred until further order of the Court. The Liquidator is authorized in her discretion to refrain from adjudicating claims other than Administrative Expenses and Policy Claims."

In compliance with the Order of Liquidation paragraph 19, the New York Liquidation Bureau deferred the deadline to present and has not adjudicated any creditor claims below Class Two (see Note 2 Distribution of Assets) but has included in the financial statements liabilities that were present on the HRINY balance sheets at the date of liquidation and has reported them in their respective creditor classes in the financial statements. The New York Liquidation Bureau is not able to estimate what the amount of claims would total that were deferred by the Order of Liquidation.

Restriction on Use

This report is intended solely for the information of and use of the Superintendent of the New York State Department of Financial Services as Receiver who has jurisdiction over the Company, and management of the Company, and is not intended to be, and should not be, used by anyone other than these specified parties.

EisnerAmper LLP

Iselin, New Jersey
July 24, 2017

HEALTH REPUBLIC INSURANCE OF NEW YORK, CORP. IN LIQUIDATION

Statement of Assets, Liabilities and Deficit of Liabilities over Assets – Modified Cash Basis
As of December 31, 2016

Assets:		
Cash and Cash Equivalents		$ 2,331,714
Bonds, at fair market value	`	38,609,208
Total Cash, Cash Equivalents and Investments		40,940,922
Other Assets:		
Amounts Recoverable from Federal Reinsurance (Note 6)	$ 51,736,709	
Less: Reserve for Recoverable from Federal Reinsurance (Note 6)	51,736,709	
Net Amount Recoverable from Federal Reinsurance		-
Accrued Retrospective Premiums Receivable – Risk Corridors (Note 6)	445,134,282	
Less: Reserve for Retrospective Premiums Receivable (Note 6)	445,134,282	
Net Accrued Retrospective Premiums Receivable		-
Health Care Receivable		667,431
Prepaid Expenses		565,187
Other Receivables		673,710
Accrued Interest Income Receivable		156,426
Total Assets		$ 43,003,676
Liabilities:		
Unsecured Claims:		
Class I – Administrative Claims		$ 4,907,461
Class II – Claims and Related Costs:		
Allowed		-
Non Allowed		200,716,597
Class III – Federal Government Claims		197,571,069
Class IV – Employee Claims		-
Class V – State and Local Government Claims		19,152,523
Class VI – General Creditors' Claims		15,385,997
Class VII – Late Filed Claims		-
Class VIII – Section 1307 Loans (Note 5)		264,966,400
Class IX – Shareholder Claims		-
Total Liabilities		702,700,047
Deficit of Liabilities over Assets		(659,696,371)
Total Liabilities and Deficit of Liabilities over Assets		$ 43,003,676

See accompanying notes to the Financial Statements – Modified Cash (as defined herein). The Financial Statements and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein).

HEALTH REPUBLIC INSURANCE OF NEW YORK, CORP.

Statement of Cash Receipts and Disbursements and Changes in Cash and Cash Equivalents and Invested Assets (Unrestricted) – Modified Cash Basis
For the Period From May 11, 2016 (Date of liquidation) through December 31, 2016

Receipts:		
Pharmacy receivables	$	**4,955,626**
Reinsurance recovered		**1,862,139**
Miscellaneous		**571,932**
Claim refunds		**327,439**
Net investment income		**108,106**
Salvage and subrogation		**995**
Total Receipts		**7,826,237**
Disbursements:		
Professional fees		**4,331,779**
Salaries		**730,631**
Employee relations & welfare		**453,012**
Miscellaneous		**177,774**
Interest paid on purchase of bond		**125,479**
Rent and related expenses		**113,849**
General & administrative expenses		**90,515**
Return premiums		**47,300**
Total Disbursements		**6,070,339**
Net increase of receipts over disbursements		**1,755,898**
Opening Cash, Cash Equivalents and Invested Assets		**39,355,219**
Unrealized Gain/(loss)		**(170,195)**
Cash, Cash Equivalents and Invested Assets at December 31, 2016	**$**	**40,940,922**

See accompanying notes to the Financial Statements – Modified Cash (as defined herein). The Financial Statements and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein).

NOTE 1 - NATURE OF THE OPERATIONS

Background:
Health Republic Insurance of New York, Corp. ("HRINY") is incorporated as a nonprofit corporation under the laws of the State of New York and is subject to regulation by the State of New York, Department of Financial Services ("NYSDFS"), as an Article 43 non-profit health insurer. Effective October 2014, the Consumer Operated and Oriented Plan officially changed its name to Health Republic Insurance of New York, Corp. HRINY was incorporated on October 4, 2011 in order to apply for funding as a Consumer Operated and Oriented Plan under Section 1322 of the Affordable Care Act ("ACA"). Under the ACA, each state was afforded the option to establish its own Health Insurance Marketplace (the "Exchange") as a clearinghouse for residents to purchase individual coverage on a guaranteed issue basis. The Exchange operates as a regulated entity offering individuals and small groups insurance plans with standardized values on a guaranteed issue basis and regulated premium rates. New York elected to establish and operate its own Exchange, known as New York State of Health.

HRINY was awarded a contract from the Centers for Medicare and Medicaid Services ("CMS") for funding as a Consumer Operated and Oriented Plan on February 17, 2012 but had no prior operations or financial transactions before the award. The terms of the award required that the HRINY (a) offer health insurance to eligible New York residents through the state exchange, New York State of Health, effective on January 1, 2014; and (b) when fully operational, a majority of the Board of Directors must be covered members, elected by all individuals covered by the plan. The award includes funding of (a) a start-up loan up to $23,767,000 to fund all required development activities of the organization; and (b) a solvency loan of up to $150,678,000 to provide statutory capital required to operate an insurance company in New York. On September 26, 2014, CMS approved an additional $90,688,000 to the total available solvency funding. With the additional $90,688,000 of solvency funding, the total solvency funding amount is $241,366,000.

The NYSDFS ordered HRINY to cease writing new health insurance policies on September 25, 2015 due to the financial condition of the company and announced that HRINY, in the best interest of consumers, will terminate all HRINY policies, both individual and small groups, on November 30, 2015. The New York Supreme Court ("Receivership Court") placed HRINY into liquidation and the Superintendent of Financial Services of the State of New York was appointed as liquidator. The order of liquidation was entered with the New York County Clerk on May 11, 2016.

The New York Liquidation Bureau ("NYLB" or the "Bureau") is the staff that carries out the duties of the Superintendent of the Department of Financial Services of the State of New York ("Superintendent") in her capacity as receiver ("Receiver") of impaired or insolvent insurance companies ("Estates") under New York Insurance Law ("Insurance Law") Article 74. The NYLB reports to the Superintendent in her capacity as Receiver rather than in her capacity as regulator and head of the Department of Financial Services ("DFS"). The NYLB operates separately from DFS. The Superintendent as Receiver has the authority under Insurance Law Section 7422 to make such appointments, including the Special Deputy Superintendent ("Special Deputy") and other agents (collectively, with the Special Deputy, "Agents") as are necessary to carry out her functions as Receiver. The Agents, along with division directors and senior managers of the NYLB, are collectively referred to herein as "Management." Management carries out, through the NYLB, the responsibilities of the Receiver with regard to HRINY. The NYLB manages the daily operations of HRINY. References to the liquidator throughout this document refers to the Superintendent as Receiver.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Statement of Assets, Liabilities, and Deficit of Assets Over Liabilities – Modified Cash Basis and Statement of Cash Receipts and Disbursements and Changes in Cash, Cash Equivalents and Invested Assets – Modified Cash Basis (collectively, "Financial Statements") reflect the financial position and cash receipts and disbursements of HRINY. The Financial Statements have been prepared on the modified cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America ("US GAAP"). This modified cash basis presentation differs from US GAAP in that the unrealized gains or losses on invested assets are reported on the statements of cash receipts and disbursements, revenues are recognized when received, rather than when earned and certain expenses are recognized when paid, rather than when the obligation is incurred. This modified cash basis presentation is cash basis accounting that incorporates the following accruals: (i) investment income earned but not yet received; (ii) post-retirement medical benefits; and (iii) unrealized gains and losses on investments: (iv) unpaid claims and related expenses; (v) reinsurance; and (vi) other administrative expenses defined as Class One – Administrative Expenses and presented on a US GAAP equity basis

In the Order of Liquidation dated May 11, 2016, the Supreme Court of the State of New York in paragraph 19 of the Order stated that:

> "With respect to all claims other than the Policy Claims referenced in paragraph 18, the deadline set forth in Section 7432(b) of the NYIL for all persons who have claims against HRINY to present such claims to the Liquidator shall be deferred until further order of the Court. The Liquidator is authorized in her discretion to refrain from adjudicating claims other than Administrative Expenses and Policy Claims."

In compliance with the Order of Liquidation paragraph 19, the NYLB deferred the deadline and has not adjudicated any creditor claims below Class Two (see Note 2 Distribution of Assets) but has included in the financial statements liabilities that were present on the HRINY balance sheets at the date of liquidation and has reported them in their respective Creditor Classes in the financial statements. The NYLB is not able to estimate what the amount of claims would total that were deferred by the Order of Liquidation.

In the beginning of a liquidation proceeding, the liabilities are typically preliminary estimates that may change materially during the course of the liquidation, depending on the types of business that were written by the insurance company and the complexity of the insurance company's activities and organization.

Preparation of the financial statements requires Management to make estimates and assumptions that may affect the amounts reported herein and related accompanying notes. When these amounts are ultimately determined (i.e., no longer require the use of estimates and assumptions to be calculated), the determined amounts may differ significantly from the amounts reported herein.

Cash and Cash Equivalents

Cash and cash equivalents are presented at cost, which approximates fair market value, and include cash and investments held at financial institutions. These investments include money market funds and other highly liquid investments with remaining maturities of one year or less.

The NYLB maintains the cash balances of HRINY in investments and at a financial institution that is insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank of New York Mellon currently has short term ratings of P-1 (Moody's), A-1+ (S&P) and F1+ (Fitch) for Bank of New York Mellon. As of December 31, 2016, the FDIC insured accounts up to $250,000 at the above named institution. Management monitors balances of cash in excess of insured limits and believes that such balances do not represent a material credit risk to HRINY. HRINY's cash balances in excess of FDIC insured limits were $1,890,734 as of December 31, 2016.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bonds

Bonds include short-term and long-term U.S. treasury, agency securities, corporate bonds and asset backed securities. They are all generally held until maturity, some of which may be subject to demand features. These investments are recorded at estimated fair market value based on quoted market prices. The unrealized gains or losses on these securities are recorded in the Cash Receipts and Disbursements and Changes in Cash, Cash Equivalents and Invested Assets – Modified Cash Basis. Long term investments also include CD's with maturities in excess of one year from the date of acquisition. These are also generally held to maturity. Realized gains and losses on investments sold are computed using the specific identification method, wherein gains and losses are recognized as of the settlement date and included in proceeds from investments and presented in net investment income received.

For each reporting period (annual and interim periods), Management reviews investments with unrealized losses on a security-by-security basis and assesses whether such declines are other-than-temporary. In assessing whether a decline is other-than-temporary, Management considers various factors including, but not limited to: (i) the rating of the security available from external sources; (ii) the issuer's record of default, if any, on scheduled interest and/or principal payments; (iii) an analysis of the security's market value (e.g., amount, duration and significance of the decline); (iv) Management's intent and ability to hold the investment until recovery; (v) the market conditions during which the decline has occurred; (vi) an economic analysis of the issuer's industry; and (vii) the financial strength and liquidity of the issuer. Once a determination has been made that a specific other-than-temporary impairment exists, an increase in deficit is incurred and an allowance is recorded in a valuation account against the cost basis of the impaired asset and adjusted to its fair market value. The cost basis is not adjusted directly but rather through this valuation account.

Federal Reinsurance

HRINY participates in the federal reinsurance program. Under this program, claims greater than $45,000 and up to a $250,000 maximum are eligible for 80% coinsurance reimbursement from the federal government program. In preparing the modified cash basis financial statements, management makes estimates of amounts recoverable from the federal reinsurance program. Federal reinsurance is discussed more in Note 6.

Accrued Retrospective Premiums Receivable – Risk Corridor

The risk corridors program was established to mitigate the pricing risk that insurers faced because of limited data to estimate who would enroll in plans operating under the ACA rules and what the health spending would be. Premium adjustments pursuant to the risk corridors program are accounted for as premium adjustments for retrospectively rated contracts. Management has established a reserve for the accrued retrospective premiums receivable which represents its best estimate of recovery. Management believes its estimates are reasonable and adequate and reviews and adjusts them as necessary. Accrued retrospective premiums receivable – Risk Corridor is discussed further in Note 6.

Healthcare receivables

HRINY receives pharmaceutical rebates under an agreement with a Pharmacy Benefit Manager ("PBM"). Estimates of rebate receivables are based on historical collections. HRINY records pharmaceutical rebates as a reduction of benefits incurred during the period that the rebates are earned. Pharmaceutical rebates are recognized for rebates earned, but not yet received. Health care receivables are discussed further in Note 7.

Prepaid expenses

Represent retainer fees with third party administrator and consultant.

Other receivables

Balances due from third party administrator for the overpayment of claims.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued investment income receivable
Accrued investment income includes revenue from the investment portfolio that is earned but not yet received and is reported as accrued investment income.

Investment income received includes interest income received from cash deposits, interest on bonds and short-term investments, dividends, realized gains or losses on sale of investments, and the amortization of bond premium and discount.

Secured claims
Secured claims, if present, relate to any claim secured by LOCs or other collateral securities, but does not include special deposit claims or claims against general assets. Secured claims also include claims which have become liens upon specific assets by reason of judicial process more than four months prior to the commencement of delinquency proceedings.

Unsecured Liabilities
Unsecured claims are comprised of one or more of the following:

a) **Allowed Claims**
Allowed claims are the amounts that have been approved by the New York Supreme Court for incurred covered losses and/or LAE.

b) **Non-Allowed Claims**
Non-allowed claim liabilities consist of the following:

Claims unpaid and claim adjustment expenses unpaid:
Claims unpaid and claims adjustment expenses unpaid include claims submitted by members under policies, health care professionals, and providers and facilities that provided health care services to members under policies, and are based on an amount determined from individual case estimates and loss reports. Such liabilities are necessarily based on assumptions and estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability is reviewed and any adjustments are reflected in the period determined.

Distribution of Assets
The Receiver recommends and seeks court approval regarding distributions from any Domestic Estate in Liquidation. Distributions are made in a manner that assures the proper recognition of priorities and a reasonable balance between the expeditious completion of the liquidation and the protection of non-adjudicated claims. The priority of distribution of assets is in accordance with Insurance Law Section 7434 as set forth below. Every claim in each class is paid in full or adequate funds are retained for such payment before the members of the next class receive any payment. No sub-classes are established within any class. No equitable remedy may be used to avoid the order of the classification of claims as set forth in Insurance Law Section 7434.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Distribution of Assets (CONTINUED)

The list of creditor classes in order of priority as set forth by Insurance Law Section 7434 is as follows:

i) Class One – Administrative Claims

Claims with respect to the actual and necessary costs and expenses of administration incurred by the liquidator or rehabilitator.

(ii) Class Two – Claim and Related Costs
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.

(iii) Class Three – Federal Government Claims
Claims of the federal government, except those stated above in Class two.

(iv) Class Four – Employee Claims
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.

(v) Class Five – State and Local Government Claims
Claims of state and local governments, except those stated above in Class two.

(vi) Class Six – General Creditor Claims
Claims of general creditors, including, but not limited to, claims arising under reinsurance contracts.

(vii) Class Seven – Late Filed Claims
Claims filed late or any other claims other than claims stated in Class eight or Class nine below.

(viii) Class Eight – Section 1307 Loans
Claims for advanced or borrowed funds made pursuant to Insurance Law Section 1307.

(ix) Class Nine – Shareholder Claims
Claims of shareholders or other owners in their capacity as shareholders.

Provided below is a detailed description of the creditor classes.

Class One – Administrative Claims
Claims with respect to the actual and necessary expenses of administration incurred by the Receiver. Included in administrative claims are accruals for vacation benefits and post-retirement medical benefits that have been allocated among the Domestic Estates in Liquidation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Distribution of Assets (CONTINUED)

Class Two – Claims and Related Costs
All claims under policies including such 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 Funds, but excluding claims under reinsurance contracts.

Class Three through Class Nine – Subordinate Class of Creditor Claims
Should there be sufficient assets after paying Class two claims, these subordinate classes of creditor claims will be thoroughly investigated and recommended for allowance prior to dividend distribution. The NYLB's policy is not to incur additional costs on claims not expected to be paid. Therefore, these subordinate classes of creditor claims will not be adjudicated until such time as assets are available to pay such claims.

Allocation of Expenses
The NYLB allocates general and administrative expenses, such as salaries, payroll taxes, rent and related expenses, office expenses and employee relations and welfare (*e.g.*, contributions to employee health insurance, pension plans and other fringe benefits), among the Domestic Estates in Liquidation, Security Funds, ancillary estates, conservations and fraternal associations. Reimbursement of such expenses is generally based on the amount of time NYLB employees devote to the respective Domestic Estates in Liquidation, Security Funds, ancillary estates, conservations and fraternal associations.

NOTE 3 - INVESTMENTS

The components of net investment income received for the years ended December 31, 2016 is as follows:

	2016
Interest on Bonds	$ 154,261
Interest on Short-Term Investments and Cash Equivalents	12,373
Total Gross Investment Income	166,634
Net Amortization of Bond Premium and Discount	(58,528)
Net Investment Income Received	$ 108,106

NOTE 3 - INVESTMENTS (CONTINUED)

As of December 31, 2016, the cost or amortized cost, fair market value, gross unrealized gains and losses on investments in bonds, are as follows:

Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
$ 38,779,403	$ 174	$ (170,369)	$ 38,609,208

Bonds in a continuous unrealized loss position are as follows:

	December 31, 2016					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
U.S. Treasury and Agency Securities held to Maturity	$ 30,081,209	$ (170,369)	$ -	$ -	$ 30,081,209	$ (170,369)
Total Fixed Income	30,081,209	(170,369)	-	-	30,081,209	(170,369)
Total	$ 30,081,209	$ (170,369)	$ -	$ -	$ 30,081,209	$ (170,369)

HRINY's portfolio of bonds is sensitive to interest rate fluctuations which affect the fair market value of individual securities. Management has the intent and ability to hold the securities until recovery and/or maturity. Management does not consider the unrealized losses on HRINY's portfolio of short-term investments and bonds as other-than-temporary impairments as of December 31, 2016.

The amortized cost and fair market value of bonds held to maturity at December 31, 2016 are shown below by the date of contractual maturity. Actual maturity dates may differ from contractual maturity dates because borrowers may have the right to call or prepay obligations.

	2016	
	Fair Market Value	Amortized Cost
Due within one year	$ 3,806,626	$ 3,816,849
Due after one year and before five years	34,802,582	34,962,554
Total	$ 38,609,208	$ 38,779,403

NOTE 3 - INVESTMENTS (CONTINUED)

The proceeds received and gains on called or sold bonds at December 31, 2016 are as follows:

Proceeds Received	Net gains on Called or Sold Bonds
2016	2016
$ 6,341,154	$ 187

Mortgage-Backed Securities
In 2016, management identified three mortgage-backed securities, with amortized costs of $955,361 and are carried at a fair market value of $954,405.

After reviewing these securities, Management has determined that, based on the information currently available to it, at December 31, 2016, there were no mortgage-backed securities with indirect subprime exposure.

NOTE 4 - FAIR VALUE MEASUREMENT

Included in various investment related line items are certain financial instruments carried at fair market value. The fair market value of an asset is the amount at which that instrument could be bought or sold in a current transaction between willing parties other than in a forced or liquidation sale.

When available, HRINY uses quoted market prices to determine the fair market values of aforementioned instruments. When quoted market prices are not readily available or representative of fair market value, pricing determinations are made based on the results of valuation models using observable market data such as recently reported trades, bid and offer information and benchmark securities. Unobservable inputs reflect Management's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurement ("Topic 820"), establishes a three-level fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. The three-level hierarchy for fair value measurement is as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect Management's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

In certain cases, the inputs used to measure fair market value may fall into different levels of fair value hierarchy.

In such cases, an investment's level within the fair value hierarchy is based on the lowest level that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

Topic 820 also requires disclosures of any significant transfers in and out of Level 1 and Level 2 fair value measurements and a description of the reasons for the transfers; a reconciliation for fair value measurements using significant unobservable inputs (Level 3) with separate disclosure of purchases, sales, issuances, and settlements; and disclosure of the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements.

NOTE 4 - FAIR VALUE MEASUREMENT (CONTINUED)

The following table summarizes the invested assets carried at fair value or where fair value is disclosed using the fair value level hierarchy above as of December 31, 2016:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
As of December 31, 2016:				
Unrestricted Assets:				
U.S. Government	$ -	$ 10,735,256	$ -	$ 10,735,256
U.S. Government Agencies	-	9,893,177	-	9,893,177
Mortgage Backed Securities	-	954,405	-	954,405
Corporate Bonds	-	17,026,370	-	17,026,370
Total	$ -	$ 38,609,208	$ -	$ 38,609,208

Management used the following methods and assumptions in estimating the fair market value of financial instruments in the Financial Statements and notes thereto:

Fixed maturities: Fair values for investment securities are based on market prices quoted by third parties, if available. When market quotes are unavailable, Management's best estimate of fair market value is based on quoted market prices of financial instruments with similar characteristics, or on industry recognized valuation techniques. The investment securities are primarily valued using market inputs, including benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. In addition, market indicators, industry and economic events are monitored and further market data is acquired if certain triggers are met. For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants.

There are no securities classified as Level 1.

Securities classified as Level 2 include primarily short term investments, bonds, are quoted market prices for similar investments in an active market using matrix pricing. Quoted prices for these securities are provided to the HRINY by independent pricing services.

There are no securities classified as Level 3.

NOTE 5 - START-UP AND SOLVENCY LOANS

On February 17, 2012, the HRINY entered into a loan agreement with CMS for up to approximately $23.8 million in funding to enable the HRINY to develop a health insurance company that will operate in New York. Under the terms of the agreement, funding is disbursed in quarterly installments throughout 2012 and continuing until 2015 based on completion of certain milestones agreed to among the parties. The start-up loan carries an interest rate of -0-% and balloon repayments are due five (5) years from the date of disbursement. As of December 31, 2016, the HRINY received $23,600,400 in disbursement on this start-up loan.

NOTE 5 - START-UP AND SOLVENCY LOANS (CONTINUED)

The start-up loan at December 31, 2016, matures as follows:

Year ending December 31,	Amount
2017	$ 10,338,700
2018	12,591,900
2019	183,200
2020	486,600
Total	$ 23,600,400

On February 17, 2012, the HRINY entered into a loan agreement with CMS to provide a solvency loan of up to $150,678,000 to provide statutory capital required to operate an insurance company in New York. On September 26, 2014, CMS approved an additional $90,688,000 to the total available solvency funding. With the additional $90,688,000, the total solvency funding amount is $241,366,000, to be drawn as required to meet the net worth requirements of a New York health insurance company.

As of December 31, 2016, the HRINY has received $241,366,000 in disbursements on this solvency loan. The solvency loan has an interest rate of 0.37% and the following key provisions: Prior to 2019, principal and interest is deferred. During 2019 through 2020, interest only payments are due. During 2021 through 2033, principal and interest payments are due.

The start-up and solvency loans provide the lender with a security interest in the cash flow and reserves of the HRINY that is subordinate to (a) claim payments, (b) basic operating expenses, and (c) maintenance of required reserve funds while the HRINY is operating under state insurance laws. The start-up and solvency loans are included as creditors within Class Eight-Section 1307 Loans.

NOTE 6 - RISK SHARING PROVISIONS OF THE AFFORDABLE CARE ACT

Effective January 1, 2014, the ACA imposed fees and premium stabilization provisions on health insurance issuers offering commercial health insurance. The three premium stabilization programs are commonly referred to as the 3Rs - reinsurance, risk corridors, and risk adjustment.

Amounts Recoverable from Federal Reinsurance (Reinsurance) -The federal reinsurance program supplements the risk adjustment program and compensates plans when they have enrollees with especially high claims. The program was designed to protect issuers from an expected increase in large claims due to the elimination of the preexisting condition limitation. The federal reinsurance program is effective for the plan years 2014 through 2016 and applies to all issuers of major medical commercial products and third-party administrators. The federal reinsurance program was designed to reduce the incentives for plans to avoid high-cost individuals and to stabilize premiums during the initial years.

As of December 31, 2016, HRINY had amounts recoverable from federal reinsurance for the 2015 benefit year of $51,736,709 ("2015 Reinsurance Recoverable"). CMS has purported to setoff the 2015 Reinsurance against HRINY's risk adjustment liability. Management is challenging the setoff and is continuing its efforts to recover the 2015 Reinsurance Recoverable, but has established a non-collectability reserve in the amount of $51,736,709. The reserve is reviewed and adjusted as reasonable and appropriate.

HRINY also had a recoverable from federal reinsurance for the 2014 benefit year of $58,217,807 ("2014 Reinsurance Recoverable"). CMS has similarly purported to setoff the 2014 Reinsurance Recoverable against HRINY's risk adjustment liability. Because of the purported CMS setoff, HRINY's pre-liquidation management did not record the 2014 Reinsurance Recoverable as an asset on its financial statements. Current management is challenging the setoff and is continuing its efforts to recover the 2014 Reinsurance Recoverable. However, for purposes of this financial statement, we have continued management's prior practice of not stating the 2014 Reinsurance Recoverable as an asset.

NOTE 6 - RISK SHARING PROVISIONS OF THE AFFORDABLE CARE ACT (CONTINUED)

Accrued Retrospective Premiums Receivable (Risk Corridors) -The risk corridors program have been established to mitigate the pricing risk that insurers faced because of limited data to estimate who would enroll in plans operating under the ACA rules and what the health spending would be. These temporary risk corridors limit the gains and losses insurers receive. Insurers receive a payment from HHS if their losses exceed a certain threshold. An objective of risk corridors is to encourage health insurance competition by limiting the risk for insurers entering the exchange market during the early years of implementation. This provision applies to qualified health plans in the individual and small group markets. Premium adjustments pursuant to the risk corridors program are accounted for as premium adjustments for retrospectively rated contracts and totaled $445,134,282 as of December 31, 2016. The $445,134,282 is comprised of the balance not paid on the 2014 year of $131,093,843 and the 2015 year of $314,040,439. In preparing the modified cash basis financial statements, management makes estimates of amounts recoverable under the Accrued Retrospective Premiums Receivable program. Although management is continuing its efforts to maximize collections of the retrospective premiums receivable, a reserve has been established in the amount of $445,134,282. The reserve is reviewed and adjusted as necessary and appropriate.

Risk Adjustment Payable -The risk adjustment program was designed to reduce the incentives for health insurance plans to avoid enrolling people with higher than average costs by shifting premiums among insurers based on the risk of the people they enrolled. Insurers with higher shares of low cost enrollees would contribute to a fund that made payments to insurers with larger shares of high cost enrollees. All non-grandfathered plans in the individual and small group market participated in the risk adjustment program, whether they were inside or outside of the exchange. Premium adjustments pursuant to the risk adjustment program are accounted for as premium subject to redetermination and user fees are accounted for as assessments. HRINY's risk adjustment payable balance of $191,338,780 is unchanged from prior year. See Note 13.

The following table presents the current year impact of risk-sharing provisions of the ACA on assets, liabilities and revenue:

a. Permanent ACA Risk Adjustment Program Assets:

1. Premium adjustments receivable due to ACA risk adjustment		
Liabilities	$	-
2. Risk adjustment user fees payable for ACA risk adjustment		
Liabilities		-
3. Premium adjustments payable due to ACA risk adjustment		
Operations (revenue and expense)	$	191,338,780
4. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA risk adjustment	$	-
5. Reported in expenses as ACA risk adjustment user fees (incurred/paid)		-

b. Transitional ACA Reinsurance Program Assets:

1. Amounts recoverable for claims paid due to ACA reinsurance	$	51,736,709
2. Amounts recoverable for claims unpaid due to ACA insurance (contra liability)		-
3. Amounts receivable relating to uninsured plans for contributions for ACA reinsurance	$	-
Liabilities		
4. Liabilities for contributions payable due to ACA reinsurance – not reported as ceded premium	$	-
5. Ceded reinsurance premiums payable due to ACA reinsurance	$	-
6. Liability for amounts held under uninsured plan contributions for ACA reinsurance		-
Operations (revenue and expense)		

NOTE 6 - RISK SHARING PROVISIONS OF THE AFFORDABLE CARE ACT (CONTINUED)

7. Ceded reinsurance premiums due to ACA reinsurance	$	-
8. Reinsurance recoveries (income statement) due to ACA reinsurance payments or expected payments		-
9. ACA reinsurance contributions – not reported as ceded premium	$	-

c. Temporary ACA Risk Corridors Program Assets:

1. Accrued retrospective premium due to ACA risk corridors		
Liabilities	$	445,134,282
2. Reserve for the credits or policy experience rating refunds due to ACA risk corridors		-
Operations (revenue and expense)		
3. Effect of ACA risk corridors on net premium income (paid/received)	$	-
4. Effect of ACA risk corridors on change in reserves for rate credits		-

The ACA risk-sharing programs became effective January 1, 2014.

NOTE 7 - HEALTH CARE RECEIVABLE

Pharmacy rebates receivable are recorded when reasonably estimated or billed by the affiliated PBM in accordance with pharmacy rebate contract provisions. Information used to support rebates billed to the manufacturer is based on utilization information gathered by the PBM and adjusted for significant changes in the pharmacy contract.

The HRINY evaluates admissibility of all pharmacy rebates receivable based on the administration of each underlying pharmaceutical benefit management agreement. The HRINY has non-admitted all pharmacy rebates receivable that do not meet the admissibility criteria from the statutory basis statement of admitted assets, liabilities and deficit.

Quarter	Estimated Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Billed or Otherwise Confirmed	Actual Rebates Received Within 90 Days of Billing	Actual Rebates Received Within 91 to 180 Days of Billing	Actual Rebates Received More Than 180 Days After Billing
12/31/2016	$ 667,431	$ 667,431	$ -	$ -	$ -

NOTE 8 - CLAIMS UNPAID AND CLAIMS ADJUSTMENT EXPENSES UNPAID

The following table discloses the change in claims unpaid, net of reinsurance, for the period ended December 31, 2016:

Claims unpaid, May 11, 2016, date of liquidation	$	200,716,597
Incurred claims – current period		-
Paid claims – current period		-
Claims unpaid, as of December 31, 2016	$	200,716,597

NOTE 8 - CLAIMS UNPAID AND CLAIMS ADJUSTMENT EXPENSES UNPAID (CONTINUED)

The following table discloses the change in claims adjustment expenses unpaid, net of reinsurance, for the period ended December 31, 2016:

Claims adjustment expenses unpaid, May 11, 2016 date of liquidation	$	3,774,504
Incurred claims adjustment expenses – current period		-
Paid claims adjustment expenses – current period		-
Claims adjustment expenses unpaid, at December 31, 2016	$	3,774,504

NOTE 9 - TAXES

The ACA established Section 501(c) 29 of the IRC as a new tax-exempt category specifically for qualified nonprofit health insurance issuers ("QNHIIs") that have received a loan or grant under the CMS Consumer Operated and Oriented Plan for periods that meet both the requirements of Section 1322 of the ACA and of any loan agreement with CMS. HRINY received its determination letter from the Internal Revenue Service ("IRS") dated March 15, 2013. The 2016 tax return has been placed on extension and will be filed upon the completion of the 2016 audit.

NOTE 10 - RELATED-PARTY TRANSACTIONS

For the year ended December 31, 2016, NYLB personnel performed certain administrative and investment functions, such as accounting, data processing, human resources and treasury management, for HRINY.

HRINY paid or accrued expenses for such functions pursuant to the NYLB's policy of charging the intercompany accounts of each respective Estate for expenses paid by the NYLB on behalf of such estate.

As of December 31, 2016, the amounts remaining due to the NYLB were $498,089 and are included in Class One – Administrative Claims.

For the year ended December 31, 2016, HRINY paid the following administrative and investment functions expense:

		2016
Salaries	$	730,631
Employee Relations & Welfare		453,012
Miscellaneous		177,774
Rent and Related Expenses		113,849
General and Administrative		90,515
	$	1,565,781

NOTE 11 - EXPENSE REIMBURSEMENT

The NYLB manages the CDA which is a pooled cash account funded solely by cash advances from the Estates and/or Security Funds. Any excess funds in the CDA may be invested in overnight investment options. The NYLB uses the money in the CDA to pay administrative expenses such as employee relations and welfare, payroll, rent and related expenses, and office expenses. Such administrative expenses are allocated on a monthly basis among the Domestic Estates in Liquidation, Security Funds, ancillary estates, conservations and fraternal associations and rehabilitation estates.

NOTE 12 - LEGAL MATTERS, COMMITMENTS AND CONTINGENCIES

Based on the information currently available to it, the NYLB is unaware of any pending or threatened litigation or unasserted non-policy related claim that Management reasonably believes will have a material adverse effect on the financial condition or the results of operations of HRINY.

NOTE 13 - CENTER FOR MEDICARE AND MEDICAID SERVICE ("CMS") CORRESPONDENCE

In March 2016, CMS issued a letter to HRINY stating that, at the request of the United States Department of Justice, CMS has implemented an administrative hold on all payables due to HRINY including those authorized under the ACA, its implementing regulations and any other amounts owed to the issuers under any law or program.

In August 2016, CMS issued a letter to HRINY stating that the federal reinsurance receivable due HRI in the amount of $46,258,274 will be offset from the 2015 Benefit Year Risk Adjustment Charge of $191,338,780.

In December 2016, CMS issued a letter to HRINY stating that the amount due HRINY for the Accrued Retrospective Premium Receivable for the 2015 Benefit Year Risk Corridor is $314,040,439.

NOTE 14 - SUBSEQUENT EVENTS

Management, as defined below, has performed subsequent event procedures through July 24, 2017, which is the date the modified cash basis financial statements were available to be issued.

In February 2017, CMS issued a letter to HRINY stating that for the February 2017 payment cycle, CMS has offset $6,606,895 from 2015 benefit year risk adjustment charge.

In March 2017, CMS issued a letter to HRINY stating that for the March 2017 payment cycle, CMS has offset $3,311,756 from 2015 benefit year risk adjustment charge.

On May 4, 2017, CMS informed the Liquidator of HRI that it is invoking its right in the event of termination by lender, under Section 15.3 of the Agreement, to call the entire CO-OP loan debt due as a present debt, rather than debt payable per the repayment schedules attached to the promissory notes.

Supplementary Schedule

Statutory Basis Statement of Admitted Assets, Liabilities, and Deficit as of December 31, 2016

HEALTH REPUBLIC INSURANCE OF NEW YORK, CORP. IN LIQUIDATION

Supplementary Information
Statutory Basis Statement of Admitted Assets, Liabilities and Deficit
As of December 31, 2016

ADMITTED ASSETS		
Cash and short-term investments		$ 40,940,922
Other assets:		
Health care receivable		667,431
Amounts recoverable from federal reinsurance	$ 51,736,709	
Less: Allowance for uncollectible recoverable from federal reinsurance	51,736,709	
Net recoverable from federal reinsurance		-
Accrued retrospective premiums receivable – Risk Corridors	$ 445,134,282	
Less: Allowance for uncollectible retrospective premiums receivable	445,134,282	
Net accrued retrospective premiums receivable		-
Amounts receivable from cost sharing refund		565,187
Other receivables		673,710
Accrued interest income receivable		156,426
Total admitted assets		$ 43,003,676
LIABILITIES AND DEFICIT		
Liabilities:		
Claims unpaid		$ 209,364,878
Claims adjustment expenses unpaid		3,774,504
Risk adjustment payable		191,338,780
Accounts payable and accrued expenses		31,726,970
Start-up loan		23,600,400
Premiums received in advance		1,528,515
Total liabilities		461,334,047
Surplus (deficit):		
Section 9010 ACA assessment		8,739,293
Solvency loan		241,366,000
Net deficit – unreserved and undesignated		(668,435,664)
Total deficit		(418,330,371)
Total liabilities and policyholders' deficit		$ 43,003,676

HEALTH REPUBLIC INSURANCE OF NEW YORK, CORP. IN LIQUIDATION

Notes to Supplementary Schedule
As of December 31, 2016

(1) HRINY was a regulated insurance entity and filed statutory basis financial statements, which is an other comprehensive basis of accounting which differs from the modified cash basis of accounting. The statutory basis Statement of Admitted Assets, Liabilities and Deficit has been prepared in conformity with accounting practices prescribed or permitted by the DFS. The DFS recognizes only statutory accounting practices prescribed or permitted by the DFS for determining and reporting the financial condition and results of operations of an insurance company in order to determine its solvency under the New York State Insurance Law. The National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the DFS. For purposes of preparing the statutory basis financial statements of HRINY, no differences exist between the accounting practices prescribed by the DFS and the NAIC.

The statutory accounting practices vary in some respects from modified cash basis financial statements. The principal difference is as follows:

- Solvency loans are included in surplus unreserved and undesignated rather than reported as a liability as required under modified cash.

(2) As of December 31, 2016 the Modified Cash Basis Deficit per the accompanying modified cash basis financial statements was $(659,696,371) as compared to Statutory Basis Deficit of $(418,330,371). The difference is due to the Solvency Loan which for Modified Cash Basis is a Class VIII liability. Under statutory accounting this is considered part of equity as the solvency loan is structured as a "Surplus Note" under Statutory Accounting definitions and can only be repaid with the expressed written approval from the DFS.

Modified Cash Basis Deficit	$ (659,696,371)
Solvency Loan	241,366,000
Statutory Basis Deficit	$ (418,330,371)