First Supplemental Disclosure Statement to Second Amended Plan of Rehabilitation For PENN TREATY NETWORK AMERICA INSURANCE COMPANY And AMERICAN NETWORK INSURANCE COMPANY

This first supplemental disclosure statement (the "Supplement") to the Second Amended Plan of Rehabilitation and Disclosure Statement (the "Plan") for Penn Treaty Network America Insurance Company ("PTNA") and American Network Insurance Company ("ANIC", and with PTNA the "Companies") is intended to address certain preliminary matters in advance of the commencement of the hearing for approval of the Plan, currently scheduled to begin on July 13, 2015. Among these preliminary matters are seven inquiries made by one of the formal commenters. The Court noted that these were important questions and the Rehabilitator has therefore prepared this Supplement as a means of addressing them in a manner that makes the explanations helpful in the context of the Plan for the policyholders as well as the Parties. The Rehabilitator has therefore published this Supplement on the Company's website.

It is not the purpose or intent of this Supplement to effect any changes in the Plan. Rather, this document is intended to clarify or further describe elements of the Plan including those to which the seven inquiries relate.

This Supplement contains references to communications with insurance regulators and guaranty association representatives, and is based in part on legal analyses performed by counsel at the Rehabilitator's request, that are privileged and/or confidential. The Rehabilitator does not intend to waive any such protection, but provides information she believes is sufficient to establish the reasonableness of her efforts in developing, and her support for, the provisions of the Second Amended Plan. To the extent that the scope of discovery as determined by the Court would include such communications, the information provided will be included in privilege logs that form part of her responses to various discovery requests, at the appropriate time.

The matters addressed in this Supplement include:

1. Licensing Issues,
2. Guaranty Association Coverage Issues,
3. Certain Tax Matters,
4. Policyholder Elections, and
5. Policy Transfers.

1. <u>LICENSING ISSUES</u>

Applicable state laws generally require that an insurer be licensed in a specific jurisdiction in order to issue insurance policies in that jurisdiction. It is probable that because of this requirement PTNA will be legally required to be licensed in a particular state when it assumes a policy issued by ANIC that is held by a current resident of that state and *vice versa* pursuant to the transfers contemplated in the Plan. In addition, while the Rehabilitator is not providing advice concerning the meaning and interpretation of state guaranty association laws, if the assuming insurer in these transfers is not licensed in a state in which reside holders of policies subject to the transfer, there is the further concern that the guaranty association in that state might take the position that the assuming insurer is not a "member insurer" (only the policies issued by a member insurer would be covered by the guaranty association) and therefore guaranty association benefits would not be triggered if the assuming insurer were placed in liquidation. To avoid any uncertainty on these issues, the SDR has begun to address them with officials in each affected jurisdiction as described below.

a. Pre-rehabilitation Licenses

Prior to commencement of rehabilitation proceedings in January 2009, PTNA was licensed in the District of Columbia and all states other than Kansas, Maine, Massachusetts, New Jersey, New York, and West Virginia. The license in Connecticut was limited to reinsurance and PTNA had no business in force in that state as of December 31, 2014. Of these 45 licenses, 12 remain active, 22 have been suspended and 11 have expired or been revoked.

Prior to commencement of rehabilitation proceedings in January 2009, ANIC was licensed in the District of Columbia and all states other than Alaska, Iowa, Michigan, New York and Wisconsin. Of these 46 licenses, 17 remain active, 22 have been suspended and 7 have expired or been revoked.

Apart from the process required for the restoration of licenses that have expired, been revoked or been suspended, in the 19 states in which at least one of the licenses has not been suspended, there may be fines and assessments that have to be paid in order for the insurer to return to good standing. Moreover, prior to any resumption of new business sales in those states in which it has active licenses, ANIC must notify the chief insurance regulators and submit evidence of its improved financial condition.

b. Restoration of Licenses

The Plan contemplates restoration of ANIC's licenses to the extent necessary in all the states to enable it to assume self-sustaining policies. The Plan contemplates that, in due course, ANIC will seek the full restoration of all of its licenses and that PTNA will not. It is not necessary that the ANIC licenses immediately permit the sale of new business. Authorization for the issuance of new policies will not be needed unless and until the company is sold, at which point that matter will be addressed in separate regulatory proceedings. It is also probably not necessary that PTNA's licenses be restored in order for it to retain or assume non-self-sustaining policies in those states in which it had previously been licensed, and state regulators have been advised of this aspect of the Plan.

c. New ANIC Licenses

In Alaska, Iowa, Michigan and Wisconsin ANIC would need to be licensed to be legally permitted to assume from PTNA self-sustaining policies held by policyholders currently residing in those states. If it does not receive such licenses, self-sustaining PTNA policyholders in those states may not have the option of having their policies placed in ANIC for rehabilitation. In that case these policies would remain in PTNA and receive GA coverage and such Uncovered Benefits Coverage as may be available under the Plan.

The Special Deputy Rehabilitator ("SDR") has discussed this matter with officials in Alaska's Division of Insurance, Iowa's Insurance Division, Michigan's Department of Insurance and Financial Services, and the Wisconsin Office of the Insurance Commissioner. Generally, these regulators have been receptive but have made it clear that their ability to grant such licenses will depend on the financial condition of ANIC at the time they are sought. The Plan proposes that ANIC be capitalized sufficiently to safely manage the assumed liabilities but there can be no guaranty that future rate increases would not be necessary and the SDR has so advised these regulators. In fact, certain formal commenters have recommended to the Court that the Plan be modified to capitalize ANIC much more thinly.

d. New PTNA Licenses

In Kansas, Maine, Massachusetts, New Jersey and West Virginia it may be necessary that PTNA be granted a special license to enable it to assume from ANIC non-self-sustaining policies held by policyholders currently residing in those states. If such licenses are granted, the Rehabilitator believes that guaranty associations in those states would then provide coverage to the policyholders residing in those states that are transferred from ANIC to PTNA. The resulting liability for these guaranty associations would be no greater than if the non-self-sustaining policies were left in ANIC and it were liquidated instead. But leaving the policies in ANIC would likely make ANIC's rehabilitation as contemplated in the Plan more difficult because ANIC would have non-self-sustaining policies for which it would not have enough assets allocated to fully discharge the expected liabilities.

If such licenses are not granted, the Rehabilitator could seek a "permissive" trigger of the guaranty association for the ANIC non-self-sustaining policies before they are transferred to PTNA. Those policies could then be transferred to PTNA with the guaranty association coverage in place. However, discussions with regulators and guaranty associations have led the Rehabilitator to understand that doing so would be more complicated and less desirable from the guaranty associations' perspective. Alternatively, enough assets could be transferred to ANIC to manage the liability for these non-self-sustaining policies.

While formal requests or application for such new PTNA licenses would be premature before the Plan is approved, the SDR has had discussions with regulators in each jurisdiction. In general, regulators in these states were supportive of the Plan and expressed a willingness to be cooperative. These regulators understand that the guaranty association in each of these states would also have to treat PTNA as a member insurer for purposes of providing coverage for the non-self-sustaining policies assumed by PTNA from ANIC.

i. Kansas

In Kansas there were approximately 874 ANIC policies in force as of December 31, 2013. This number had declined to 821 by December 31, 2014. The Companies have not yet projected how many will be self-sustaining policies if the Plan is approved and implemented as filed. The SDR has discussed the Plan with officials of the Kansas Insurance Department. While they would not make any commitments before there is an approved plan, they were supportive of granting PTNA a special license for this purpose.

ii. Maine

In Maine there were approximately 115 ANIC policies in force as of December 31, 2013. This number dropped to 104 by December 31, 2014. The Companies have not yet projected how many will be self-sustaining policies if the Plan is approved and implemented as filed. The SDR has had discussions with officials of the Bureau of Insurance and they also would not make any commitments before the Plan is approved but were supportive of granting PTNA a special license for this purpose. They will also engage in direct discussions with the Maine Life & Health Insurance Guaranty Association to assure that they are prepared to support the Plan.

iii. Massachusetts

In Massachusetts there were approximately 248 ANIC policies in force as of December 31, 2013, and 229 as of December 31, 2014. The Companies have not yet projected how many will be self-sustaining policies if the Plan is approved and implemented as filed. The SDR has had discussions with officials of the Massachusetts Division of Insurance who similarly would not make any commitments before the Plan is approved but were receptive to the notion of granting PTNA a special license for this purpose.

iv. New Jersey

In New Jersey there were approximately 2,724 ANIC policies in force as of December 31, 2013. This number had declined to 2,569 by December 31, 2014. The Companies have not yet projected how many will be self-sustaining policies if the Plan is approved and implemented as filed. The SDR has had many discussions with officials of the New Jersey Department of Banking and Insurance and they also would not make any commitments before the Plan is approved but were very supportive of granting PTNA a special license for this purpose. The SDR has also had such discussions with representatives of the New Jersey Life & Health Insurance Guaranty Association and they are also supportive of this approach.

v. West Virginia

In West Virginia there were approximately 349 ANIC policies in force as of December 31, 2013, down to 323 by December 31, 2014. The Companies have not yet projected how many will be self-sustaining policies if the Plan is approved and implemented as filed. The SDR has had discussions with officials at the West Virginia Insurance Commission and they also would not make any commitments before the Plan is approved but were supportive of granting PTNA a special license for this purpose. The SDR has also had such discussions with representatives of the West Virginia Life & Health Insurance Guaranty Association who were also supportive of this approach.

e. Timing and Effect

The SDR intends to commence the formal process of seeking restoration of suspended or revoked licenses necessary for the Plan to operate (principally ANIC licenses) and to obtain the special licenses described above for PTNA once the Plan is approved and final, subject to any modifications that may be made before the Plan is finalized. The discussions between the SDR and regulators to date indicate that such license applications will be addressed expeditiously. However, before the Plan is finalized the SDR is unable to provide each of these regulatory authorities the financial and specific policy information it will require before it can provide a timetable and indications of likely outcome for such applications.

If any of Kansas, Maine, Massachusetts, New Jersey and West Virginia fail to issue PTNA such special licenses, the SDR will explore the possibility of "triggering" guaranty association benefits for the non-self-sustaining ANIC policies before they are transferred to PTNA. It is also possible that if coverage is not made available by the guaranty associations of those states, such coverage will be provided by Pennsylvania Life and Health Insurance Guaranty Association ("PLHIGA") because PTNA and ANIC are domiciled in Pennsylvania. If these options are unavailable, it would also be possible to transfer enough additional assets to ANIC to manage the liability for these non-self-sustaining policies. However, indications received by the SDR thus far suggest that PTNA is likely to receive the necessary special licenses.

If any of Alaska, Iowa, Michigan and Wisconsin decline to issue ANIC the licenses necessary for it to assume self-sustaining PTNA policies in those states, the holders of self-sustaining policies in those jurisdictions will not have the option of having them placed in ANIC for rehabilitation and they will instead have to be liquidated in PTNA.

2. **GUARANTY ASSOCIATION COVERAGE ISSUES**

As mentioned above, in Kansas, Maine, Massachusetts, New Jersey and West Virginia it will be necessary that PTNA be granted a special license and treated as a member insurer to enable it to assume non-self-sustaining policies from ANIC and assure guaranty association coverage. The resulting liability for these guaranty associations would be no greater than if the non-self-sustaining policies were left in ANIC and it were liquidated instead, but in all likelihood that would make more difficult ANIC's rehabilitation as proposed by the Plan. Rehabilitating

ANIC with these non-self-sustaining policies remaining in ANIC would require a greater amount of assets to be placed in ANIC to support the payment of the associated liabilities and leave PTNA and its creditors, including the guaranty associations with fewer assets.

The SDR has discussed with NOLHGA representatives the approach of procuring a special license for PTNA in these states to enable it to assume ANIC's non-self-sustaining policies and of having the life & health insurance guaranty associations in these states confirm that they would afford coverage to the holders of non-self-sustaining policies assumed by PTNA from ANIC, and they are generally supportive of this structure. The SDR has also discussed this with representatives of the New Jersey and West Virginia guaranty associations and they are supportive as well. However, these discussions are ongoing and are also enmeshed in discussions about the provisions in the Plan for policyholder liabilities in excess of applicable guaranty association limits. The SDR intends to continue the discussions with representatives of all the affected guaranty associations.

The SDR will seek to have agreements in place with all of the affected guaranty associations before the Plan Effective Date. However, formal agreements cannot be made before the Plan is approved and its final terms are known.

There are also a number of policyholders who reside in New York. There is no guaranty association coverage available in that state for these policyholders. NOLHGA and the Rehabilitator have explored with PLHIGA whether it will cover these policyholders and it appears that PLHIGA will do so.

3. <u>CERTAIN TAX MATTERS</u>

a. **Policy Restructuring**

For purposes of implementing the Plan, the Rehabilitator will request that the Court deem the Companies' Non-Self-Sustaining Policies to have been restructured as of the Effective Date and before giving effect to policyholder elections or voluntary modifications. However, this initial restructuring will not affect the elections available to or made by policyholders. This restructuring will be for the purpose of separating the liabilities arising under those policies that the Companies have sufficient assets to fund from those that they cannot fund, *i.e.*, the Unfunded Benefit Liability (UBL), which will be discharged as part of the Amended Plan. The Rehabilitator will request that the Court's Order approving the Plan discharge each Company's UBL, as to ANIC on the Effective Date and as to PTNA upon conclusion of its liquidation.

b. **Private Letter Ruling**

As noted in the Plan, issues may arise as to two tax related matters: specifically, whether (1) any modification of long term care insurance ("LTC") policies under the Amended Plan will create adverse tax consequences for policyholders, and (2) as to whether their inability to fund fully policy obligations will create adverse tax consequences for the Companies. The Rehabilitator has commenced the process of seeking from the IRS a private letter ruling ("PLR") regarding the tax consequences of the Plan. Specifically, the Rehabilitator will seek the rulings described below (undefined terms being used as defined in the Plan and, unless specified otherwise, statutory references being to the Internal Revenue Code and regulations promulgated thereunder).

i. Rulings Requested

(1) Tax consequences for policyholders: We have requested a private letter ruling from the IRS confirming that :

(a) Any Court-approved restructuring or other modification of the provisions of any LTC or accident and health ("A&H") policy to preserve as much as possible of the owner's pre-existing contractual arrangement (including benefits, costs and other terms), for no additional cost to the owner (or for a Court-approved premium rate increase alternative accepted by the owner), does not affect the policy's issue date for purposes of § 7702B, result in a taxable disposition of any interest in such policy by its owner under § 1001, nor result in any amount includible in gross income by its owner pursuant to §§ 104(a)(3) and 451.

Such restructuring or other modifications include any Court-approved: (a) restructuring of any non-self-sustaining policy ("NSS") LTC or A&H policy to reduce its Policy Value to its Initial Funded Restructured Policy Value ("IFRPV") in return for an amount of indebtedness of the restructuring insurer to the policy's owner; (b) reduction in any NSS/LTC policy's maximum benefit amount that is consented to by the owner, to preserve as much of the remainder of the owner's pre-existing contractual arrangement on an ongoing basis as possible, at no extra premium cost to the owner; (c) alternative modification of any NSS/LTC policy that is consented to by the owner to increase its premium rate by a Court-approved amount to prevent any reduction in its maximum benefit amounts, to preserve as much of the remainder of the owner's pre-existing contractual arrangement on an ongoing basis as possible; (d) alternative modification of any NSS/LTC policy, relating to any Court-approved combination of a premium rate increase and a reduction in maximum benefit amount, that is consented to by the owner to preserve as much of the remainder of the owner's pre-existing contractual arrangement on an ongoing basis as possible; (e) assumption reinsurance or Court-approved equivalent transaction in which any LTC or A&H policy of ANIC or PTNA is assumed by the other insurer; (f) assumption, continuation or reinsurance of any PTNA Covered Benefits liability under any LTC or A&H policy by a guaranty association ("GA") or its designated agent resulting from the Court's finding that PTNA is insolvent and should be liquidated; and (g) assumption or reinsurance of any PTNA Uncovered Benefits liability under any LTC or A&H policy by another insurer ("Insurer U"), which could be ANIC, resulting from the Court's finding that PTNA is insolvent and should be liquidated.

(b) The owner's tax basis in any LTC or A&H Policy remains the same amount immediately after any Court-approved restructuring, modification, assumption or reinsurance of any of the policy's provisions or benefit liabilities described in ruling paragraph 1 as such tax basis was immediately before such transaction.

(c) Any Court-approved restructuring, modification, assumption or reinsurance of a Tax-Qualified LTC policy's coverage that is described in ruling paragraph 1 and that is accepted in writing by the insured owner does not result in any loss of the policy's tax-qualified status (including any grandfathered tax status) under § 7702B.

(2) Tax consequences for the Companies: We have requested a private letter ruling from the IRS confirming that:

(a) When any LTC or A&H policy insured by ANIC or PTNA is restructured to minimize the policy's unfunded liabilities pursuant to the Court-approved Plan (prior to any assumption, continuation or reinsurance of such a restructured policy's coverage by another insurer or a GA in whole or in part), for purposes of Subchapter L of Chapter 1 of the Code as of this restructuring's Effective Date

(i) The restructuring insurer will include in income under § 803(a)(2) the total amount of the existing tax reserves under § 807(d) attributable to the Unmodified Policy Value ("UPV") of the policy;

(ii) The restructuring insurer will be able to deduct under § 805(a)(1) accrued benefits equal to the UPV of the policy;

(iii) The restructuring insurer will include in premium income under § 803(a) the IFRPV of the policy as of the restructuring's Effective Date; and

(iv) The restructuring insurer will deduct under § 805(a)(2) the increase in tax reserves under § 807(d) attributable to the IFRPV of the restructured policy.

(b) Under § 108(a), neither ANIC nor PTNA will recognize income as a result of the discharge by the Court of certain obligations to policy owners or the GAs resulting from the restructurings or modifications of the policies pursuant to the Plan, to the extent that the insurer is insolvent at the time of such discharge.

ii. Timing

On March 11, 2015, counsel for the Rehabilitator sent to the IRS a summary of the Plan and the anticipated private letter ruling request and requested a pre-submission conference. That conference occurred on March 18, 2015. The next significant step in this process is the actual filing of the ruling request. The Rehabilitator intends to file the formal private letter ruling request after the Plan is approved (or modified and approved) and before implementation of the Plan. If the PLR is issued by the IRS to PTNA and ANIC, the IRS will be bound by the rulings contained in the PLR. PLRs generally take the IRS Office of Chief Counsel four to six months to complete, but since some of the issues presented in this matter are novel and have not previously been ruled on by the IRS, the issuance of the PLR may take a longer period of time.

iii. Effect of Not Obtaining the Private Letter Ruling

The consequences for the Plan of the inability to obtain the rulings sought would depend on which ruling(s) the IRS did not provide and the rationale articulated by the IRS for not providing the ruling(s). Under some circumstances adjustments to the Plan might suffice to avoid material adverse tax consequences. If the IRS communicates material reservations about the key elements of the Plan or the more important rulings sought, more substantial changes to the Plan may become necessary. The communications that the Rehabilitator has had thus far with the IRS do not suggest that the latter is likely. It is not reasonably possible to gauge the probability of either of these outcomes, of success in obtaining the rulings exactly as sought, or of some other result, until the Plan is finalized and approved so that its terms can be evaluated in light of applicable tax law and guidance.

4. POLICYHOLDER ELECTIONS

The Plan may affect policies in several ways. For holders of non-LTC policies, the principal impact of the Plan as proposed will be that their policies will be placed in PTNA for liquidation and they will receive guaranty association benefits. Those policyholders will not be required or able to make any elections and their contractual benefits will remain the same subject to applicable guaranty association limits. While it is possible that these policyholders may receive some payments for claims that exceed guaranty association limits, whether and to what extent that will be possible remains uncertain. With that exception, the impact of the Plan on non-LTC policyholders can be determined now. Benefits will remain the same but limited to the guaranty association limits described in Exhibit D to the Plan (the Guaranty Association Table) and such additional Uncovered Benefits as the Plan may provide.

If implemented as proposed, the Plan may have material impact on the Companies' LTC policies which cannot yet be fully quantified. Once the Plan is approved, a determination will be made as to whether each LTC policy is projected to be self-sustaining and, if not, what modifications can be made voluntarily to make it self-sustaining. The Plan contemplates that every LTC policyholder will have the ability to have his or her policy placed or held in ANIC for rehabilitation or in PTNA for liquidation with guaranty association benefits and such additional Uncovered Benefits as the Plan may provide. However, holders of non-self-sustaining LTC policies who choose to have them placed or held in ANIC will be required to select voluntary modifications (consisting of rate increases, benefit reductions, or both) sufficient to make them self-sustaining. Under the Plan, policyholders on claim may only modify their policies by reducing the Maximum Benefit Amount. Thus, all LTC policyholders will have the option of making at least one election and some LTC policyholders will be able to make two or more elections. However, policyholders will not be required to make elections. If a holder of a self-sustaining LTC policy does not make a contrary election, by default he or she will be deemed to have consented to that policy being held or placed in ANIC. Similarly, if a holder of a non-self-sustaining LTC policy does not make a contrary election, by default he or she will be deemed to have consented to that policy being held or placed in PTNA and be afforded guaranty association benefits and such additional Uncovered Benefits as the Plan may provide. The impact of the Plan on an individual's policy will be determined by these elections or default provisions.

a. The Plan will have no material effect on an LTC policy projected to be self-sustaining as to which the policyholder does not elect contrary to the default provision placing it in ANIC. The benefits and premiums on that policy will not be changed by the Plan. Although the Plan does not propose changes in the premium rates for these policies, it is possible that ANIC may seek rate increases in the future.

b. For policies projected to be non-self-sustaining but expected to be fully covered (those for which expected benefits would not exceed applicable guaranty association limits determined by the applicable state guaranty association statute) and the holders of which do not elect contrary to the default provision placing them in PTNA, the impact of the Plan will be limited. The principal impact will be to make a guaranty association rather than PTNA or ANIC responsible for the policy benefits, and for policies which could, but are not expected, to have benefits triggered in excess of guaranty association limits, there could be limits on the payment of those excess benefits. The Plan does not propose changes in the premium rates for these policies although it is possible that the applicable guaranty association may seek rate increases in the future.

c. For policies projected to be non-self-sustaining and <u>not</u> expected to be fully covered, and the holders of which do not elect contrary to the default provision placing them in PTNA, the principal impact of the Plan will be to have benefits limited to the applicable guaranty association limits plus what excess benefits the Plan may provide. Under the Plan, a guaranty association rather than PTNA or ANIC will be responsible for the policy benefits up to the applicable guaranty association limits. The Plan does not propose changes in the premium rates for these policies although it is possible that the applicable guaranty association may seek rate increases in the future.

d. For policies projected to be self-sustaining but as to which the holders elect contrary to the default provision (thereby electing to have them placed or held in PTNA), the principal impact of the Plan will be to have benefits limited to the applicable guaranty association limits (which may or may not exceed the possible or expected benefits under the policy depending on the limits of the state guaranty association in which the policyholder resides) plus what excess benefits the Plan may provide. If the policy is fully covered, this limitation should not be material. Again, as to these policies, guaranty associations rather than PTNA or ANIC will be responsible for the policy benefits up to the applicable guaranty association limits. The Plan does not propose changes in the premium rates for these policies although it is possible that the applicable guaranty association may seek rate increases in the future.

e. The Plan will have the most visible impact on non-self-sustaining policies the holders of which elect contrary to the default provision. Policyholders in this group will have elected to have their policies placed in ANIC and for that purpose will have to select voluntary modifications sufficient to make the policies self-sustaining. The modification available to policyholders on claim will be limited to a reduction of Maximum Benefit Amount. Policyholders not on claim may also elect voluntary premium rate increases (but not more than 100%) or a combination of rate increases and reduction in Maximum Benefit Amount.

The Rehabilitator anticipates that shortly after the Plan is approved as proposed, each LTC policyholder will be sent an election package advising as to whether his or her policy is projected to be self-sustaining. The form of this package will be presented to the Court for approval as part of the Plan approval process. Policyholders who are advised that their policies are projected to be non-self-sustaining will also be told what modifications, or combinations of modifications, they can make voluntarily to make their policies self-sustaining. They will then have at least 45 days to make the elections described above. The result of these elections will determine the impact of the Plan on each policyholder.

If the Plan is approved, policyholders can anticipate the probable impact of the Plan depending on their election as described generally above. However, policyholders will not have specific information as to the potential impact of the Plan on individual policies until they receive their election packages. The actual impact of the Plan on each LTC policy will only be known after its holder makes the relevant election(s). The Companies' staff will be available to discuss these determinations with policyholders individually. If policyholders are dissatisfied with the staff's response the SDR and his advisors will evaluate the issue and determine whether a different response is necessary. If the SDR deems it appropriate, the views of the Pennsylvania Insurance Department may also be solicited. However, challenges to the proposed Plan structure and methodology (as distinguished from individual policy determinations) are expected to be resolved through the hearing commencing on July 13, 2015.

5. POLICY TRANSFERS

The Plan contemplates that the transfer of policies between PTNA and ANIC to give effect to policyholders elections or default plan provisions will be made under the rehabilitation authority vested in the Rehabilitator and the Court by Article V. If the Court determines that Article V does not authorize these transfers it may still be possible to implement a business division plan using assumption reinsurance agreements, but that would be far more complicated and likely to take more time. Such agreements may require approval in each affected jurisdiction and, in some cases, may also require policyholder consent. Obtaining such approvals and consent would add time and expense to implementation of the Plan. Moreover, the requirements for such approval and policyholder consent may vary materially among relevant jurisdictions and it may be difficult to obtain them at all at approximately the same time.

CONCLUSION

This Supplement clarifies or expands upon specific provisions in the Plan. In the event of conflict between the descriptions in this Supplement and the provisions of the Plan, the terms in the Plan will control and supersede this Supplement. The Rehabilitator may prepare additional supplements as other issues arise under the Plan for which clarification in this manner may be deemed beneficial.