

MEMO

DATE: October 23, 2015

TO: Charles Gullickson (Penn Treaty/ANIC Task Force Chair), Richard Klipstein (NOLHGA)

FROM: Vincent L. Bodnar

RE: Penn Treaty Network American Insurance Company and American Network Insurance Company
Estimate of Potential Guaranty Association Covered Net Liabilities

COMMENTS:

The attached exhibit summarizes the current estimates developed by Long Term Care Group, Inc (“LTCG”) of the Guaranty Association (“GA”) covered net liabilities of Penn Treaty Network America Insurance Company (“PTNA”) and American Network Insurance Company (“ANIC”) in a post-liquidation scenario as of December 31, 2014 for their long-term care insurance (“LTC”) policies.

The data and information provided herein is subject to the Common Interest and Confidentiality Agreement, as amended, between LTCG, the Pennsylvania Insurance Commissioner as Rehabilitator of PTNA and ANIC (the “Rehabilitator”) and the National Organization of Life and Health Insurance Guaranty Associations (“NOLHGA”), and should be maintained as confidential by NOLHGA and the GAs, except to the extent the parties to the Common Interest and Confidentiality Agreement agree to its broader release.

The values shown in the attached exhibit reflect estimates of potential GA covered net liabilities if the companies were to be placed into liquidation, and do not consider any potential application of the Moody’s interest rate adjustment. The covered gross liabilities are based on LTCG’s estimate of the future collected premium, paid benefits, and expenses, prior to the estimated asset transfer from the estate. The estate assets are based on the year-end 2014 market value of the assets held by PTNA and ANIC, and provided to LTCG for use in our analysis. The assets are assumed to be allocated in proportion to the covered gross liabilities of each policyholder using his or her pro-rata share of the gross liabilities as of December 31, 2014. These assets are assumed to be subrogated to each policyholder’s respective GA. The covered net liabilities are the covered gross liabilities less the allocated estate assets. Only LTC liabilities have been included in this estimate of GA covered net liabilities.

The LTCG liability estimates are based on the assumptions and methods discussed in the July 22, 2015 presentation to the PTNA/ANIC Task Force. A complete, technical description of these assumptions is available to FBD and NOLHGA upon request. Vincent L. Bodnar, ASA, MAAA and Paul F. Colasanto, ASA, MAAA are the actuaries responsible for the actuarial opinions contained in this communication and are qualified to render them. This document was prepared under the terms of the May 1, 2015 engagement letter between LTCG, FBD and NOLHGA. Distribution of this document beyond FBD, NOLHGA and its member GAs and advisors is not permitted without prior written consent.

LTCG represents and is responsible only to NOLHGA with respect to all matters relating to this exhibit. Any other user of this information will place no reliance on the data contained in the attached exhibit, or related thereto, that would result in the creation of any duty or liability by LTCG to the user.

Penn Treaty Network America Insurance Company and American Network Insurance Company

Summary of Guaranty Association Coverage Estimates¹ by State as of December 31, 2014 (\$Millions)

| GA State | PTNA | | | | ANIC | | | | Total | | | |
|--------------|---------------|----------------|---------------------|----------------|--------------|--------------|---------------------|--------------|---------------|----------------|---------------------|----------------|
| | Policy Count | Gross Liab. | Assets ² | Net Liab. | Policy Count | Gross Liab. | Assets ² | Net Liab. | Policy Count | Gross Liab. | Assets ² | Net Liab. |
| AL | 333 | \$6 | \$1 | \$5 | 7 | \$0 | \$0 | \$0 | 340 | \$6 | \$1 | \$5 |
| AK | 35 | \$1 | \$0 | \$1 | - | \$0 | \$0 | \$0 | 35 | \$1 | \$0 | \$1 |
| AZ | 3,393 | \$127 | \$21 | \$106 | 59 | \$2 | \$0 | \$1 | 3,452 | \$129 | \$21 | \$108 |
| AR | 267 | \$5 | \$1 | \$4 | 2 | \$0 | \$0 | \$0 | 269 | \$5 | \$1 | \$4 |
| CA | 9,566 | \$428 | \$71 | \$357 | 35 | \$3 | \$1 | \$2 | 9,601 | \$431 | \$71 | \$360 |
| CO | 1,712 | \$41 | \$7 | \$34 | 1,027 | \$20 | \$5 | \$14 | 2,739 | \$61 | \$12 | \$49 |
| CT | 67 | \$3 | \$1 | \$3 | 631 | \$35 | \$9 | \$26 | 698 | \$38 | \$10 | \$29 |
| DC | 29 | \$1 | \$0 | \$1 | 2 | \$0 | \$0 | \$0 | 31 | \$1 | \$0 | \$1 |
| DE | 96 | \$3 | \$1 | \$3 | 11 | \$1 | \$0 | \$0 | 107 | \$4 | \$1 | \$3 |
| FL | 10,442 | \$393 | \$65 | \$328 | 314 | \$15 | \$4 | \$11 | 10,756 | \$408 | \$69 | \$339 |
| GA | 1,906 | \$65 | \$11 | \$54 | 28 | \$1 | \$0 | \$1 | 1,934 | \$67 | \$11 | \$56 |
| HI | 277 | \$9 | \$1 | \$7 | 2 | \$0 | \$0 | \$0 | 279 | \$9 | \$1 | \$7 |
| ID | 323 | \$8 | \$1 | \$7 | 5 | \$0 | \$0 | \$0 | 328 | \$8 | \$1 | \$7 |
| IL | 4,196 | \$86 | \$14 | \$72 | 9 | \$0 | \$0 | \$0 | 4,205 | \$87 | \$14 | \$72 |
| IN | 1,005 | \$26 | \$4 | \$22 | 4 | \$0 | \$0 | \$0 | 1,009 | \$26 | \$4 | \$22 |
| IA | 2,425 | \$89 | \$15 | \$74 | - | \$0 | \$0 | \$0 | 2,425 | \$89 | \$15 | \$74 |
| KS | - | \$0 | \$0 | \$0 | 749 | \$14 | \$4 | \$11 | 749 | \$14 | \$4 | \$11 |
| KY | 1,047 | \$29 | \$5 | \$24 | 4 | \$0 | \$0 | \$0 | 1,051 | \$29 | \$5 | \$24 |
| LA | 463 | \$11 | \$2 | \$9 | 2 | \$0 | \$0 | \$0 | 465 | \$11 | \$2 | \$10 |
| ME | - | \$0 | \$0 | \$0 | 60 | \$1 | \$0 | \$1 | 60 | \$1 | \$0 | \$1 |
| MD | 867 | \$31 | \$5 | \$26 | 43 | \$2 | \$1 | \$2 | 910 | \$33 | \$6 | \$27 |
| MA | - | \$0 | \$0 | \$0 | 65 | \$2 | \$1 | \$2 | 65 | \$2 | \$1 | \$2 |
| MI | 1,459 | \$34 | \$6 | \$28 | - | \$0 | \$0 | \$0 | 1,459 | \$34 | \$6 | \$28 |
| MN | 157 | \$4 | \$1 | \$3 | 4 | \$0 | \$0 | \$0 | 161 | \$4 | \$1 | \$3 |
| MS | 515 | \$15 | \$2 | \$12 | 5 | \$0 | \$0 | \$0 | 520 | \$15 | \$2 | \$13 |
| MO | 919 | \$13 | \$2 | \$11 | 36 | \$0 | \$0 | \$0 | 955 | \$13 | \$2 | \$11 |
| MT | 195 | \$3 | \$1 | \$3 | 1 | \$0 | \$0 | \$0 | 196 | \$3 | \$1 | \$3 |
| NE | 892 | \$27 | \$5 | \$23 | 11 | \$0 | \$0 | \$0 | 903 | \$27 | \$5 | \$23 |
| NV | 384 | \$13 | \$2 | \$11 | 7 | \$0 | \$0 | \$0 | 391 | \$13 | \$2 | \$11 |
| NH | 181 | \$7 | \$1 | \$6 | 21 | \$0 | \$0 | \$0 | 202 | \$8 | \$1 | \$6 |
| NJ | - | \$0 | \$0 | \$0 | 2,202 | \$212 | \$56 | \$156 | 2,202 | \$212 | \$56 | \$156 |
| NM | 240 | \$8 | \$1 | \$6 | 11 | \$0 | \$0 | \$0 | 251 | \$8 | \$1 | \$7 |
| NC | 2,692 | \$109 | \$18 | \$91 | 86 | \$4 | \$1 | \$3 | 2,778 | \$113 | \$19 | \$94 |
| ND | 203 | \$2 | \$0 | \$2 | - | \$0 | \$0 | \$0 | 203 | \$2 | \$0 | \$2 |
| OH | 2,353 | \$31 | \$5 | \$26 | 22 | \$0 | \$0 | \$0 | 2,375 | \$32 | \$5 | \$26 |
| OK | 484 | \$13 | \$2 | \$10 | 9 | \$0 | \$0 | \$0 | 493 | \$13 | \$2 | \$11 |
| OR | 743 | \$11 | \$2 | \$9 | 10 | \$0 | \$0 | \$0 | 753 | \$11 | \$2 | \$10 |
| PA | 10,362 | \$307 | \$51 | \$256 | 352 | \$12 | \$3 | \$9 | 10,714 | \$319 | \$54 | \$265 |
| RI | 58 | \$2 | \$0 | \$2 | 11 | \$0 | \$0 | \$0 | 69 | \$2 | \$0 | \$2 |
| SC | 614 | \$16 | \$3 | \$14 | 75 | \$2 | \$1 | \$2 | 689 | \$19 | \$3 | \$15 |
| SD | 1,263 | \$42 | \$7 | \$35 | - | \$0 | \$0 | \$0 | 1,263 | \$42 | \$7 | \$35 |
| TN | 1,552 | \$47 | \$8 | \$39 | 43 | \$2 | \$0 | \$1 | 1,595 | \$48 | \$8 | \$40 |
| TX | 4,540 | \$131 | \$22 | \$109 | 25 | \$1 | \$0 | \$0 | 4,565 | \$131 | \$22 | \$110 |
| UT | 425 | \$13 | \$2 | \$11 | 2 | \$0 | \$0 | \$0 | 427 | \$13 | \$2 | \$11 |
| VT | 205 | \$11 | \$2 | \$9 | 12 | \$0 | \$0 | \$0 | 217 | \$12 | \$2 | \$10 |
| VA | 4,353 | \$156 | \$26 | \$130 | 1,547 | \$68 | \$18 | \$50 | 5,900 | \$224 | \$44 | \$180 |
| WA | 3,401 | \$130 | \$21 | \$109 | 3 | \$0 | \$0 | \$0 | 3,404 | \$130 | \$22 | \$109 |
| WV | - | \$0 | \$0 | \$0 | 235 | \$5 | \$1 | \$3 | 235 | \$5 | \$1 | \$3 |
| WI | 628 | \$18 | \$3 | \$15 | - | \$0 | \$0 | \$0 | 628 | \$18 | \$3 | \$15 |
| WY | 142 | \$3 | \$1 | \$3 | - | \$0 | \$0 | \$0 | 142 | \$3 | \$1 | \$3 |
| Undeter. | 3 | \$0 | \$0 | \$0 | 1 | \$0 | \$0 | \$0 | 4 | \$0 | \$0 | \$0 |
| Total | 77,410 | \$2,528 | \$417 | \$2,111 | 7,790 | \$406 | \$108 | \$299 | 85,200 | \$2,934 | \$524 | \$2,410 |

¹Based on LTCG estimates.

²Based on 2014 assets, which are distributed in proportion to gross liabilities for this exhibit. Actual allocation by state would be different if allocation was based on re-priced premium or NAPM.