AETNA LIFE & CASUALTY (BERMUDA) LTD.
(Incorporated in Bermuda)

Financial Statements

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

AETNA LIFE & CASUALTY (BERMUDA) LTD.
(Incorporated in Bermuda)

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KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

Independent Auditors' Report

The Board of Directors
Aetna Life & Casualty (Bermuda) Ltd.:

We have audited the accompanying financial statements of Aetna Life & Casualty (Bermuda) Ltd. (the Company), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income, comprehensive income, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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.

Other Matters

U.S. generally accepted accounting principles require that the incurred and paid claims development information, and the historical claims duration information on pages 25 to 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Aetna Life & Casualty (Bermuda) Ltd. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

April 17, 2019

AETNA LIFE & CASUALTY (BERMUDA) LTD.
(Incorporated in Bermuda)

Balance Sheets

December 31, 2018 and 2017

(Expressed in United States dollars)

Assets		**2018**	**2017**
Cash and cash equivalents	$	85,398,530	56,256,889
Debt securities available for sale at fair value (amortized cost $153,420,663 and $275,271,828) (notes 3 and 7)		152,630,118	282,942,524
Accrued investment income		1,165,786	1,823,644
Premiums due and other receivables, net		78,709,363	58,112,090
Investment receivables		6,850	35,084
Reinsurance recoverables and receivables (note 9)		3,233,144	2,206,799
Current federal income taxes due from parent		4,551,376	4,975,658
Prepaid expenses (note 4)		11,354,127	11,917,901
Net deferred income tax (note 15)		—	831,469
Total assets	$	337,049,294	419,102,058
Liabilities			
Policyholders' funds (note 10)	$	—	50,080,867
Unpaid claims (note 11)		80,853,066	73,005,814
Experience rated liability		2,429,246	855,854
Unearned premiums		63,189,927	64,093,595
Total insurance reserve liabilities		146,472,239	188,036,130
Due to reinsurers		3,056,393	1,822,409
Net deferred income tax (note 15)		134,000	—
Due to affiliates (note 14)		26,606,902	31,130,286
Commissions due		13,336,931	8,440,938
Other liabilities		4,994,444	4,917,919
Total liabilities		194,600,909	234,347,682
Commitments and contingent liabilities (notes 6, 16 and 18)			
Shareholder's Equity			
Common stock ($1 par value, 370,000 shares authorized, issued and outstanding)		370,000	370,000
Additional paid-in capital		90,840,461	90,840,461
Retained earnings		40,326,861	87,936,487
Accumulated other comprehensive income		10,911,063	5,607,428
Total shareholder's equity		142,448,385	184,754,376
Total liabilities and shareholder's equity	$	337,049,294	419,102,058

See accompanying notes to financial statements.

AETNA LIFE & CASUALTY (BERMUDA) LTD.
(Incorporated in Bermuda)

Statements of Income

Years ended December 31, 2018 and 2017

(Expressed in United States dollars)

		2018	**2017**
Revenue:			
Net earned premiums (note 13)	$	296,522,525	302,963,205
Net investment income (note 8)		8,053,147	10,055,253
Net realized capital losses (note 3)		(12,232,405)	(5,337,522)
Fees and other income		403,669	223,830
Total revenue		292,746,936	307,904,766
Benefits and expenses:			
Current and future benefits (note 12)		180,778,683	156,925,028
Interest on policyholder's funds		2,543,716	1,367,148
Operating expenses (note 14)		113,824,496	116,781,524
Total benefits and expenses		297,146,895	275,073,700
(Loss) income before income taxes		(4,399,959)	32,831,066
(Benefit) provision for income taxes (note 15)		(1,000,670)	12,136,077
Net (loss) income	$	(3,399,289)	20,694,989

See accompanying notes to financial statements.

AETNA LIFE & CASUALTY (BERMUDA) LTD.
(Incorporated in Bermuda)

Statements of Comprehensive Income

Years ended December 31, 2018 and 2017

(Expressed in United States dollars)

		2018	2017
Net (loss) income	$	(3,399,289)	20,694,989
Other comprehensive income, net of tax:			
Net unrealized (losses) gains (note 5)		(3,801,668)	998,757
Net foreign currency gains		9,105,303	4,424,344
Other comprehensive income, net of tax		5,303,635	5,423,101
Comprehensive income	$	1,904,346	26,118,090

See accompanying notes to financial statements.

AETNA LIFE & CASUALTY (BERMUDA) LTD.
(Incorporated in Bermuda)

Statements of Changes in Shareholder's Equity

Years ended December 31, 2018 and 2017

(Expressed in United States dollars)

	Number of common shares outstanding	Common stock and additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholder's equity
Balance at December 31, 2016	370,000	$ 91,210,461	117,241,498	184,327	208,636,286
Net income	—	—	20,694,989	—	20,694,989
Other comprehensive income	—	—	—	5,423,101	5,423,101
Dividend declared	—	—	(50,000,000)	—	(50,000,000)
Balance at December 31, 2017	370,000	91,210,461	87,936,487	5,607,428	184,754,376
Net loss	—	—	(3,399,289)	—	(3,399,289)
Other comprehensive income	—	—	—	5,303,635	5,303,635
Adoption of New Accounting Standards (Note 2)	—	—	(1,210,337)	—	(1,210,337)
Dividend declared	—	—	(43,000,000)	—	(43,000,000)
Balance at December 31, 2018	370,000	$ 91,210,461	40,326,861	10,911,063	142,448,385

See accompanying notes to financial statements.

AETNA LIFE & CASUALTY (BERMUDA) LTD.
(Incorporated in Bermuda)

Statements of Cash Flows

Years ended December 31, 2018 and 2017

(Expressed in United States dollars)

		2018	2017
Cash flows from operating activities:			
Net (loss) income	$	(3,399,289)	20,694,989
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of net investment premium		204,235	1,575,708
Net realized capital losses		12,232,405	5,337,522
Decrease in accrued investment income		657,858	386,813
Increase in premiums due and other receivables		(19,998,268)	(16,306,438)
Decrease (increase) in investment receivables		28,234	(32,144)
Increase in reinsurance recoverable and receivable		(1,026,345)	(1,540,709)
Increase in experience rated asset		—	104,858
Net change in income taxes		188,228	(3,644,714)
Decrease in prepaid expenses		563,774	11,138,355
(Decrease) Increase in policyholders' funds		(31,955)	4,562,282
Increase (decrease) in unpaid claims and claim expenses		7,847,252	(21,273,584)
Increase in experience rated liability		1,573,392	855,854
Decrease in unearned premiums		(903,668)	(1,701,597)
Increase in amount due to reinsurers		1,233,984	1,540,441
(Decrease) increase in due to affiliates		(4,523,384)	14,983,764
Increase in commissions due		4,895,993	2,866,579
Increase (decrease) in other liabilities		76,525	(8,639,474)
Net cash (used) provided by operating activities		(381,029)	10,908,505
Cash flows from investing activities:			
Proceeds from debt securities matured and sold		123,130,129	90,343,632
Cost of debt securities purchased		(3,409,616)	(32,413,095)
Net cash used for investing activities		119,720,513	57,930,537
Cash flows from financing activities:			
Issuance of annuity contracts		3,532,831	5,809,915
Redemption of annuity contracts		(50,944,766)	(22,879,457)
Dividend paid to shareholder		(43,000,000)	(50,000,000)
Net cash (used) for financing activities		(90,411,935)	(67,069,542)
Effect of exchange rate changes on cash and cash equivalents		214,092	(2,798,076)
Net increase (decrease) in cash and cash equivalents		29,141,641	(1,028,576)
Cash and cash equivalents, beginning of year		56,256,889	57,285,465
Cash and cash equivalents, end of year	$	85,398,530	56,256,889
Supplemental cash flow information:			
Federal income taxes (received) paid	$	(1,189,588)	15,743,019
Interest paid		2,693,386	1,426,382

See accompanying notes to financial statements.

(1) General

Aetna Life & Casualty (Bermuda) Ltd. (the Company) is incorporated under the laws of Bermuda. The Company is a wholly owned subsidiary of Aetna International Inc., which is a wholly owned subsidiary of Aetna Inc. (Aetna), a Pennsylvania Corporation. On November 28, 2018, the shareholders of the Company's ultimate parent, Aetna Inc., a company incorporated and domiciled in Pennsylvania, completed a share sale agreement with CVS Pharmacy, Inc. for the sale of Aetna Inc. As such, the Company's ultimate parent is now CVS Health Corporation, a company incorporated in Delaware.

The Company primarily writes group accident and health, accidental death and dismemberment, term life and group disability business for expatriates worldwide. The Company also formerly managed a variety of retirement products (including pension and annuity products) primarily for tax qualified pension plans. As of December 31, 2018, the Company liquidated the assets related to these products based on directives from the policy holders. The Company is operated and managed as one business segment.

Aetna International Inc. acquired Aetna Global Benefits (Bermuda) Limited (AGB), formerly known as Goodhealth Worldwide (Bermuda) Limited. AGB and its affiliates are a leading managing general underwriter (or underwriting agent) for international private medical insurance that offers expatriate benefits to individuals, small and medium-sized enterprises, and large multinational clients around the world. As described in note 14, the Company is an underwriter for this business and reimburses AGB and its affiliates for claims paid and recovers from AGB and its affiliates premium collected. The financial statements include only those transactions related to business the Company underwrites.

Aetna International Inc. purchased Aetna Insurance (Hong Kong) Limited, formerly known as Canadian Insurance Company Ltd. on March 1, 2018. Aetna Insurance (Hong Kong) Limited is licensed to underwrite health insurance in Hong Kong. The Hong Kong business previously underwritten by the Company began migrating to the new Hong Kong company in September 2018. The Company expects to complete the migration of its Hong Kong business to Aetna Insurance (Hong Kong) Limited by September 2019.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The following are the significant accounting policies adopted by the Company.

(b) Revenue Recognition

Premiums associated with the Company's health care plans are recognized as earned premium revenue in the month in which the enrollee is entitled to receive health care services. Health care premiums are reported net of an allowance for estimated terminations (retroactivity adjustments) and uncollectible amounts. Other premiums for term life and disability products are recognized as revenue, net of allowances for termination and uncollectible amounts, over the term of the coverage. Premiums received for unexpired contractual coverage periods are reported as unearned premiums on the balance sheets.

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The Company establishes an allowance for estimated terminations and uncollectible amounts to reduce its receivables to their net realizable value. The balance of the allowance for estimated terminations and uncollectible amounts on premiums receivable was $3,300,465 and $4,522,836 at December 31, 2018 and 2017, respectively, and is reflected as a reduction of premiums due and other receivables on the balance sheets.

Fees and other income consist primarily of charges assessed against policyholders' funds for contract fees, participant fees and asset charges related to pension and annuity products. Other amounts received on pension and annuity investment type contracts are reflected as deposits and are not recorded as revenue.

Some of the Company's contracts include guarantees with respect to certain functions, such as customer service response time. With these guarantees, the Company is financially at risk if the conditions of the arrangements are not met, although the maximum amount at risk is typically limited to a percentage of the premium otherwise payable to us by the customer involved. The Company accrues for any such exposure when it becomes probable that an obligation has arisen under the terms of a guarantee.

(c) Investments

(i) Debt Securities

Debt securities consist primarily of U.S. Treasury and agency securities, corporate and foreign bonds and other debt securities. The Company has classified its debt securities as available for sale and carries them at fair value. Refer to note 7 for additional information on how the Company estimates the fair value of its debt securities.

The cost for mortgage-backed and other asset-backed securities is adjusted for unamortized premiums and discounts, which are amortized using the interest method over the estimated remaining term of the securities, adjusted for anticipated prepayments.

The Company regularly reviews its debt securities to determine whether a decline in fair value below the carrying value is other-than-temporary. When a debt security is in an unrealized loss position, the Company monitors the duration and severity of the loss to determine if sufficient market recovery can occur within a reasonable period of time. The Company does not accrue interest on debt securities when management believes the collection of interest is unlikely.

(ii) Net Investment Income and Realized Capital Gains and Losses

Net investment income and realized capital gains and losses on investments are reflected in the Company's Statements of Income. Realized capital gains and losses are determined on a specific identification basis. Unrealized capital gains and losses are reflected in shareholder's equity, net of tax, as a component of accumulated other comprehensive income. The Company reflects purchases and sales of debt securities on the trade date.

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(iii) Recognition and Presentation of Other-Than-Temporary Impairments

The Company regularly reviews its debt securities to determine whether a decline in fair value below the carrying value is other-than-temporary. If a decline in fair value is considered other-than-temporary, the cost basis or carrying amount of the debt security is written down. The write-down is then bifurcated into its credit and noncredit related components. The credit related component is included in operating results. The noncredit related component is included in other comprehensive income if the Company does not intend to sell the debt security and is included in our operating results if the Company intends to sell the debt security.

(d) Commissions

Generally, commissions are deferred in prepaid expenses and amortized into the Statements of Income over one year. Commissions represent payments to brokers on new policies and renewal business sold by the Company.

(e) Policyholders' Funds and Related Experience Rated Balances

Reserves for group annuity contracts are equal to the cumulative deposits less charges plus interest credited thereon plus or (minus) appreciation (depreciation) of debt security investments associated with the group annuity contracts. The estimated liabilities for experience rated refunds are established in anticipation of the payment of premium refunds. The refunds are determined by a pre-established formula, which limits the percentage of premiums retained by the Company after claim disbursements. An experience rated asset is recorded if sufficient stabilization reserves are available to offset unfavorable experience.

(f) Unpaid Claims

Unpaid claims include estimates of accident and health and short-duration group disability claims incurred but not yet reported to the Company as of the balance sheet date. Accident and health estimates are developed using actuarial principles and assumptions which consider, among other things, contractual requirements, historical utilization trends, persistency of membership and payment patterns, medical inflation, product mix, seasonality, membership and other relevant factors. Changes in estimates are recorded in current and future benefits within the Statements of Income in the period they are determined. Reserves associated with short-duration group disability contracts are based upon the present value of future benefits, which is based on assumed investment yields and assumptions regarding mortality, morbidity and recoveries from government programs. Unpaid claims also include estimates for life claims incurred but not reported to the Company as of the balance sheet date. In general, the claim reserves for term life policies have been established based upon an expected loss ratio for each class of business. Expected loss ratios represent the Company's best estimate of ultimate losses, based on the recommendations of the Company's actuary.

The Company discounts certain claim liabilities related to group long-term disability and life premium waiver contracts. The discounted amount of these liabilities was $3,866,785 and $167,284 in 2018 and $4,224,852 and $176,756 in 2017, respectively. The undiscounted amount of these liabilities was $4,716,115 and $208,407 in 2018 and $5,275,692 and $221,932 in 2017, respectively. For 2018 and 2017, the discount rates were set based on indices mandated by the Standard Valuation Law and vary based on the disability date of the insured. The current discount rates associated with the Company's

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claim liabilities related to group long−term disability are 5.50% and 5.75%. The current discount rates associated with the Company's claim liabilities related to life premium waiver range from 4.00% to 6.00%.

Unpaid claims and future policy benefit liabilities are reviewed periodically, with any necessary adjustments reflected during the current period in results of operations. Reserves are believed to be adequate to cover the ultimate net cost of losses incurred to date and experience refunds, but the reserves are estimates and may be settled for a greater or lesser amount.

(g) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and liquid investments with an original maturity of less than three months.

(h) Foreign Currencies

Foreign currency debt securities are translated at exchange rates in effect at the balance sheet date. Resulting unrealized exchange adjustments are shown as a separate component of accumulated other comprehensive income. The resulting translation adjustment is reflected in shareholder’s equity, net of tax, as a component of accumulated other comprehensive income in the amount of an accumulated gain of $11,450,615 and $4,721,798 for 2018 and 2017, respectively. Transactions in foreign currencies are settled at the rate of exchange in effect at the end of the day in which the transaction took place. The resulting transaction adjustment is reflected in the income statement in net realized capital losses in the amount of $9,800,091 and $6,772,459 for 2018 and 2017, respectively.

(i) Reinsurance

In the normal course of business, the Company enters into agreements with other insurance companies to assume reinsurance, primarily related to its health, group life and disability products (refer to note 9). Ceded reinsurance agreements permit the Company to recover a portion of its losses from reinsurers, although they do not discharge the Company’s primary liability as the direct insurer of the risks reinsured. Failure of reinsurers to indemnify the Company could result in losses; however, the Company does not expect charges for unrecoverable reinsurance to have a material effect on its consolidated results of operations or financial condition. The Company evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurers’ insolvencies. Only those reinsurance recoverables deemed probable of recovery are reflected as assets.

The Company has fronting agreements with China Life Insurance Co., Ltd., Starr Property & Casualty Insurance (China) Co. Ltd., and Huatai Insurance Co., Ltd. Gross premium receivable and offsetting payable balances for the years ended December 31 are as follows:

		2018			
		China Life Insurance Co., Ltd.	Starr Property & Casualty Insurance (China) Co. Ltd.	Huatai Insurance Co., Ltd.	Total
Gross premium receivable	$	9,836,154	3,000,912	24,238,126	37,075,192
Fronting fees, claim fees, broker commissions payable		(4,486,936)	(3,563,142)	(17,431,860)	(25,481,938)
Unearned premium liability		(3,035,085)	—	(4,851,554)	(7,886,639)
Total net receivable (payable)	$	2,314,133	(562,230)	1,954,712	3,706,615

		2017			
		China Life Insurance Co., Ltd.	Starr Property & Casualty Insurance (China) Co. Ltd.	Huatai Insurance Co., Ltd.	Total
Gross Premium Receivable	$	4,288,260	3,115,878	14,603,004	22,007,142
Fronting fees, claim fees, broker commissions payable		(1,202,015)	(3,269,381)	(10,159,796)	(14,631,192)
Unearned premium liability		(2,343,128)	(239,436)	(4,117,184)	(6,699,748)
Total net receivable (payable)	$	743,117	(392,939)	326,024	676,202

(j) Taxation

The Company made an irrevocable election under Section 953(d) of the Internal Revenue Code to be treated as a domestic insurance company for U.S. Federal income tax purposes. As a result of the election, the Company is subject to U.S. taxation on its worldwide income as if it were a U.S. corporation. The Company records its liability and expense for income taxes under the requirements of Accounting Standard Codification (ASC) 740. Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax purposes, measured by applying currently enacted tax laws. Valuation allowances are provided when it is considered more likely than not that deferred tax assets will not be realized. The Company was included in the consolidated federal income tax return of its parent company, Aetna and Aetna’s other wholly-owned subsidiaries through November 27, 2018 pursuant to the terms of a tax sharing agreement. For the tax period ending December 31, 2018, Aetna and its wholly-owned subsidiaries are included in the consolidated federal income tax return of its parent company, CVS Health, pursuant to the terms of a tax sharing agreement (and a Supplemental Tax Sharing Agreement where applicable) between CVS Health and the Company. The Company receives cash settlements for its tax benefits utilized within the consolidated return when the Company is in a tax loss position. When the Company is in a taxable position, it pays U.S. tax on that income to Aetna. The Company accrues taxes as if it were filing on an individual company basis.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “TCJA”) was enacted. Among other things, the TCJA reduced the federal corporate income tax rate to 21 percent effective January 1, 2018. Accordingly, we re-measured our deferred income taxes for the year ended December 31, 2017 and recognized incremental tax expense of $554,316 related to the change in our net deferred tax asset.

(k) New Application of Accounting Standards

(i) Revenue from Contracts with Customers

Effective January 1, 2018, we adopted new accounting guidance related to revenue recognition from contracts with customers. While industry-specific guidance related to contracts with customers within the scope of Accounting Standards Codification (ASC) 944, *Financial Services – Insurance*, remains unchanged, most other industry-specific revenue recognition requirements have been removed. The new guidance requires that an entity recognize revenue for the transfer of goods or services to a customer at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The new guidance also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. There was no impact to our statements of income.

(ii) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASU permits entities to reclassify tax effects stranded in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act (“TCJA”) to retained earnings. The guidance states that because the adjustment of deferred income taxes due to the reduction of the historical corporate income tax rate to the newly enacted corporate income tax rate was required to be included in income from continuing operations, the tax effects of items within accumulated other comprehensive income (“stranded tax effects”) are not reflected at the appropriate tax rate. The Company elected to early adopt this new standard and reclassified the stranded tax effects of approximately $1.2 million during the fourth quarter, from accumulated other comprehensive income to retained earnings in the Balance Sheet.

(iii) Recognition and Measurement of Financial Assets and Financial Liabilities

Effective January 1, 2018, we adopted new accounting guidance related to the recognition and measurement of financial assets and financial liabilities. Under the new guidance, all equity investments in unconsolidated entities will be measured at fair value with changes in fair value recognized in net income. We may elect to report equity investments without a readily determinable fair value at cost less impairment, plus or minus subsequent adjustments for observable price changes. The new guidance also revises certain disclosures regarding financial assets and liabilities. The adoption of this new guidance did not have a material impact on our financial position or operating results.

(l) Future Application of Accounting Standards

(i) Accounting for Interest Associated with the Purchase of Callable Debt Securities

Effective January 1, 2019, we will adopt new accounting guidance related to the amortization of purchased callable debt securities held at a premium. Under the new guidance, premiums on callable debt securities are amortized to the earliest call date rather than to the contractual maturity date. Callable debt securities held at a discount will continue to be amortized to the contractual maturity date. The adoption of this new guidance on January 1, 2019 did not have a material impact on the Company's financial position and operating results.

(ii) Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). This ASU requires the use of a forward-looking expected loss impairment model for trade and other receivables, held-to-maturity debt securities, loans and other instruments. The ASU also requires impairments and recoveries for available-for-sale debt securities to be recorded through an allowance account and revises certain disclosure requirements. The standard is effective for private companies for fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact of implementation of this standard.

(m) Use of Estimates

The preparation of the accompanying financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the amounts reported in the accompanying financial statements and notes. The Company considers health care costs payable estimates critical in the preparation of the accompanying financial statements. The Company uses information available to it at the time estimates are made; however, these estimates could change materially if different information or assumptions were used. Additionally, these estimates may not ultimately reflect the actual amounts of the final transactions that occur.

(3) Investments

Debt securities available for sale as of December 31, 2018 and 2017 were as follows:

	2018			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government securities	$ 10,009,749	270,250	—	10,279,999
States, municipalities and political subdivisions	3,105,285	264,189	41,528	3,327,946
U.S. corporate securities	102,358,393	604,047	1,572,474	101,389,966
Foreign securities	21,474,932	326,447	214,915	21,586,464
Residential mortgage-backed securities	4,532,143	—	192,267	4,339,876
Commerical mortgage-backed securities	6,082,902	—	123,650	5,959,252
Other asset-backed securities	5,857,259	—	110,644	5,746,615
Total Securities	$ 153,420,663	1,464,933	2,255,478	152,630,118

	2017			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government securities	$ 18,991,776	470,321	338	19,461,759
States, municipalities and political subdivisions	3,116,226	386,370	—	3,502,596
U.S. corporate securities	140,596,359	3,656,461	130,532	144,122,288
Foreign securities	83,982,541	3,510,862	112,594	87,380,809
Residential mortgage-backed securities	9,636,199	21,393	115,840	9,541,752
Commerical mortgage-backed securities	10,225,171	58,837	22,222	10,261,786
Other asset-backed securities	8,723,556	4,227	56,249	8,671,534
Total Securities	$ 275,271,828	8,108,471	437,775	282,942,524

The amortized cost and fair value of debt securities at December 31, 2018 is shown below by contractual maturity. Actual maturities may differ from contractual maturities because securities may be restructured, called or prepaid, or we intend to sell a security prior to maturity.

	Amortized Cost	Fair Value
Less than one year	$ 14,011,152	14,016,431
One year through five years	76,519,935	76,340,182
After five years through ten years	22,478,222	22,119,682
Greater than ten years	23,939,050	24,108,080
Residential mortgage-backed securities	4,532,143	4,339,876
Commercial mortgage-backed securities	6,082,902	5,959,252
Other asset-backed securities	5,857,259	5,746,615
Total	$ 153,420,663	152,630,118

(a) Mortgage-Backed and Other Asset-Backed Securities

All of the Company's residential mortgage-backed securities at December 31, 2018 were agency (e.g., Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation) issued and carry agency guarantees and explicit or implicit guarantees by the U.S. Government. At December 31, 2018, residential mortgage-backed securities had an average quality rating of AAA and a weighted average duration of 5.14 years.

The Company's commercial mortgage-backed securities have underlying loans that are dispersed throughout the United States. Significant market observable inputs used to value these securities include probability of default and loss severity. At December 31, 2018, these securities had an average quality rating of AAA and a weighted average duration of 4.69 years.

The Company's other asset-backed securities have a variety of underlying collateral (e.g., automobile loans, credit card receivables, home equity loans, etc.). Significant market observable inputs used to value these securities include the unemployment rate, loss severity and probability of default. At December 31, 2018, these securities had an average quality rating of AAA and a weighted average duration of 2.17 years.

(b) Unrealized Capital Losses and Net Realized Capital Gains (Losses)

When a debt security is in an unrealized capital loss position, we monitor the duration and severity of the loss to determine if sufficient market recovery can occur within a reasonable period of time. We recognize an other-than-temporary impairment (OTTI) when we intend to sell a debt security that is in an unrealized capital loss position or if we determine a credit-related loss on a debt security has occurred.

Summarized below are the Company's debt securities held at December 31, 2018 and 2017, that were in an unrealized capital loss position, aggregated by the length of time the investments have been in that position:

	December 31, 2018								
	Less than 12 months			More than 12 months			Total (1)		
	Number of Securities	Fair Value	Unrealized losses	Number of Securities	Fair Value	Unrealized losses	Number of Securities	Fair Value	Unrealized losses
States, municipalities and political subdivisions	—	—	—	1	1,497,634	41,528	1	1,497,634	41,528
U.S. corporate securities	28	29,241,816	558,168	27	42,054,179	1,014,306	55	71,295,995	1,572,474
Foreign securities	6	3,155,550	103,294	4	7,884,374	111,621	10	11,039,924	214,915
Residential mortgage-backed securities	—	—	—	2	4,339,876	192,267	2	4,339,876	192,267
Commercial mortgage-backed securities	1	2,031,834	32,677	2	3,927,418	90,973	3	5,959,252	123,650
Other asset-backed securities	—	—	—	4	5,746,615	110,644	4	5,746,615	110,644
Total (1)	35	$ 34,429,200	$ 694,139	40	$ 65,450,096	$ 1,561,339	75	$ 99,879,296	$ 2,255,478

	December 31, 2017								
	Less than 12 months			More than 12 months			Total (1)		
	Number of Securities	Fair Value	Unrealized losses	Number of Securities	Fair Value	Unrealized losses	Number of Securities	Fair Value	Unrealized losses
U.S. government securities	3	$ 8,948,732	$ 338	—	$ —	$ —	3	$ 8,948,732	$ 338
U.S. corporate securities	22	32,983,427	103,708	2	3,498,697	$ 26,824	24	32,983,427	130,532
Foreign securities	5	13,093,224	112,594	—	—	—	5	13,093,224	112,594
Residential mortgage-backed securities	1	947,883	1,144	3	7,121,428	114,696	4	8,069,311	115,840
Commercial mortgage-backed securities	2	4,016,607	22,222	—	—	—	2	4,016,607	22,222
Other asset-backed securities	3	5,409,854	38,973	2	1,007,614	17,276	5	6,417,468	56,249
Total (1)	36	$ 65,399,727	$ 278,979	7	$ 11,627,739	$ 158,796	43	$ 73,528,769	$ 437,775

(1) Debt securities related to policyholders' funds in an unrealized loss position totaled $0 and $68,783 at December 31, 2018 and 2017, respectively. Changes in net unrealized capital gains (losses) on these securities are not reflected in accumulated other comprehensive income.

The Company reviewed the securities in the tables above and concluded that these are performing assets generating investment income to support the needs of the business. In performing this review, the Company considered factors such as the quality of the investment security based on research performed by our internal credit analysts and external rating agencies and the prospects of realizing the carrying value of the security based on the investment's current prospects for recovery. At December 31, 2018, we did not intend to sell these securities and we did not believe it was more likely than not that we would be required to sell these securities prior to anticipated recovery of their amortized cost basis.

The maturity dates for debt securities in an unrealized capital loss position at December 31, 2018 were as follows:

	Fair Value	Unrealized losses
Due to mature:		
Less than one year	$ 8,975,720	(28,041)
One year through five years	47,987,311	(705,061)
After five years through ten years	17,468,610	(459,056)
Greater than ten years	9,401,912	(636,759)
Residential mortgage-backed securities	4,339,876	(192,267)
Commercial mortgage-backed securities	5,959,252	(123,650)
Other asset-backed securities	5,746,615	(110,644)
Total	$ 99,879,296	(2,255,478)

The Company did not incur any OTTI credit impairments in 2018 and 2017.

Net realized capital losses for the years ended December 31, 2018 and 2017 were as follows:

	2018	2017
OTTI losses on debt securities recognized in earnings	$ (90,502)	(25,468)
Other net realized capital (losses) gains	(12,141,903)	(5,312,054)
Net realized capital (losses)	$ (12,232,405)	(5,337,522)

Proceeds from the sale of debt securities and the related gross realized capital gains and losses for 2018 and 2017 were as follows:

	2018	2017
Proceeds on sales	$ 74,920,629	36,776,912
Gross realized capital gains	1,237,329	1,509,799
Gross realized capital losses	813,321	49,092

(4) Prepaid Expenses

Prepaid expenses primarily relate to deferred acquisition costs for deferred commissions and broker fees payable and deferred fronting fees. The deferred acquisition costs totaled $10,069,795 and $10,540,303 at December 31, 2018 and 2017, respectively. During 2017, the Company adopted a group wide transfer pricing policy to better align the costs of services provided to the Company, which resulted in a reduction to related party deferred acquisition costs in prepaid expenses. See note 14 for the overall impact of the transfer pricing policy.

(5) Net Unrealized Capital (Losses) Gains

Net unrealized capital (losses) gains excluding those related to investment securities associated with the group annuity contracts (see note 10) included in accumulated other comprehensive income were as follows:

		2018	2017
Debt securities	$	(790,545)	7,670,695
Less amount related to policyholders' funds		—	2,636,977
Total before tax		(790,545)	5,033,718
Income taxes		250,992	(1,772,463)
Net after taxes	$	(539,553)	3,261,255

Reclassification Adjustment

Changes in accumulated other comprehensive income related to net unrealized losses on securities (excluding those related to group annuity contract-holders) were as follows (net of tax):

		2018		
		Before Tax Amount	Tax (expense) or Benefit	After Tax Amount
Net unrealized holding losses arising during period	$	(18,056,669)	4,591,401	(13,465,268)
Less: Reclassification adjustment for realized losses included in net income (pretax)		12,232,405	(2,568,805)	9,663,600
Net Unrealized losses	$	(5,824,264)	2,022,596	(3,801,668)

		2017		
		Before Tax Amount	Tax (expense) or Benefit	After Tax Amount
Net unrealized holding losses arising during period	$	(3,802,293)	1,331,661	(2,470,632)
Less: Reclassification adjustment for realized losses included in net income (pretax)		5,337,522	(1,868,133)	3,469,389
Net Unrealized gains	$	1,535,229	(536,472)	998,757

(Continued)

(6) Letters of Credit

(a) Cayman Island Monetary Authority

The Company has deposit funds at the Bank of Butterfield Cayman in the amount of Cayman Islands Dollar (KYD) 6,483,290 and 6,384,518 at December 31, 2018 and 2017 (Cayman Island dollars, corresponding to United States dollars of $7,906,451 and $7,785,997 at December 31, 2018 and 2017, respectively).

The funds were placed on deposit at the Bank of Butterfield Cayman to meet the requirements mandated by the Cayman Island Monetary Authority insurance regulations, requiring all insurance companies writing insurance policies in the Cayman Islands to deposit funds, investments or other acceptable financial instruments up to an amount sufficient to cover the insurance reserves, calculated annually at May 1, for policies issued and in force in the Cayman Islands.

At December 31, 2018 and 2017, the estimated insurance reserves pertaining to the policies issued and in force in the Cayman Islands were KYD 4,520,469 (US $3,706,785) and KYD 4,722,818 (US $3,872,710), respectively.

The Cayman Island Monetary Authority and the Financial Services Commission have recourse to funds, in the event that the Company defaults in meeting its insurance obligations on policies issued in the jurisdiction and should fail to correct any such defaults within sixty (60) and thirty (30) days, respectively, of notification of such defaults. As of December 31, 2018, the Company is not aware of any default in meeting its insurance obligations.

(b) Royal & Sunalliance Insurance (Middle East) LLC (EC)

The Company and its affiliate, Aetna Insurance Company Limited (AICL), each have an outstanding letter of credit in favor of Royal & Sunalliance Insurance (Middle East) LLC (EC), (RSA) totaling US $10,000,000 at December 31, 2018. The Company and its affiliate, AICL, each had an outstanding letter of credit in favor of Royal & Sunalliance Insurance (Middle East) LLC (EC), (RSA) totaling US $10,000,000 at December 31, 2017. These letters of credit have been issued by the Citibank, N.A. UAE Branch and expire on November 30, 2019.

The letters of credit were issued at the request of RSA in order to provide funding for outstanding claim liabilities for policies issued by the administrator, Aetna Global Benefits (Middle East) LLC, in the event of financial default by the Company. AICL reinsures business underwritten by RSA who is licensed to underwrite health insurance in the UAE. RSA has recourse to these letters of credit, in the event that the Company and/or AICL defaults in meeting its insurance obligations on policies issued in the jurisdiction. As of December 31, 2018, the Company is not aware of any default in meeting its insurance obligations. The letter of credit is unsecured.

(c) Starr International Insurance (Asia) Limited

The Company has an outstanding letter of credit in favor of Starr International Insurance (Asia) Limited in the amount of HKD 60,000,000 at December 31, 2018 and 2017. (Hong Kong Dollars correspond to United States dollars of $7,660,800 and $7,677,000 at December 31, 2018 and 2017, respectively.)

(Continued)

The letter of credit has been issued by the Standard Chartered Bank (Hong Kong) Limited and expires September 15, 2019.

The letter of credit was issued in support of a quota share reinsurance agreement entered into on August 14, 2013 between the Company, Starr International Insurance (Asia) Limited and Aetna Global Benefits (Asia Pacific) Limited (the Designated Agent).

Starr International Insurance (Asia) Limited has recourse to this letter of credit pursuant to a sight draft drawn on Standard Chartered Bank (Hong Kong) Limited if the company fails to fulfill its obligations under the said contract.

(d) Supreme Council of Health

The Company has an outstanding letter of credit in favor of Supreme Council of Health in the amount of QAR 150,000 and QAR 150,000 (Qatari Riyals One Hundred Fifty Thousand only) at December 31, 2018 and 2017. (Qatari Riyals correspond to United States dollars of $40,835 and $41,138 at December 31, 2018 and 2017, respectively.) The letter of credit has been issued by Citibank N.A. QFC Branch and expires September 25, 2028.

The letter of credit was issued in support of a response to a tender issued to supply Disease Management Governance and Framework services to the Supreme Council of Health.

(e) Supreme Council of Health

The Company has an outstanding letter of credit in favor of Supreme Council of Health in the amount of QAR 150,000 (Qatari Riyals One Hundred Fifty Thousand only) at December 31, 2018 and December 31, 2017. (Qatari Riyals correspond to United States dollars of $40,835 and $41,138 at December 31, 2018 and 2017, respectively.) The letter of credit has been issued by Citibank N.A. QFC Branch and expires February 23, 2028.

The letter of credit was issued on behalf of Aetna Global Benefits Limited in support of a response to a tender issued to provide Consultancy Services for Chronic Disease Management services to the Supreme Council of Health.

(f) Al Khaleej Takaful Group

The Company had an outstanding bank guarantee in favor of Al Khaleej Group in the amount of QAR 10,000,000 (Qatari Riyals Ten million only) at December 31, 2017. (Qatari Riyals correspond to United States dollars of $2,742,500 at December 31, 2017.) The bank guarantee was issued by Citibank, N.A QFC Branch and was returned to the bank and cancelled on April 25, 2018.

This guarantee was issued in respect of the bank guarantee that Al Khaleej Group has given to the Supreme Council of Health of Qatar as part of the letter of Award for Contract No. SCH/GTC/HFI/29/2012 dated February 24, 2013 for Appointment of a Third Party Administrator to support Qatar’s National Health Insurance Company, as a performance guarantee for only those services and/or obligations of Aetna as it relates to the letter of Award.

(g) HEREF Farnborough Limited

The Company was issued two letters of guarantee in favor of HEREF Farnborough Limited in the amount of GBP 1,723,737 and GBP 1,723,737 at December 31, 2017. (British Pounds correspond to United States dollars of $2,325,528 each at December 31, 2017.) These letters of guarantee were issued by Citibank International Ltd. for the account of Citibank Europe PLC and expired on September 20, 2018.

The Company had a third outstanding letter of guarantee in the amount of GBP 1,351,560 at December 31, 2017. (British Pounds correspond to United States dollars of $1,823,417 at December 31, 2017.) This letter of guarantee was issued by Citibank International Ltd. for the account of Citibank Europe PLC and expired on September 20, 2018.

The letters of guarantee were issued at the request of the Company on behalf of Aetna Global Benefits (UK) Limited (the Tenant) in favor of HEREF Farnborough Limited (the Landlord) covering obligations of the Tenant towards the Landlord in relation to the lease of property situated at Second and Third Floor (East Wing and West Wing) 25 Templer Avenue, Farnborough Business Park, Farnborough (the Property).

(h) HEREF Farnborough Limited

The Company was issued three letters of guarantee in favor of Farnborough Business Park Limited in the amount of GBP 1,273,700, GBP 1,273,700 and GBP 1,272,188. These British Pounds corresponded to United States dollars of $1,621,968, $1,621,968 and $1,620,042 at December 31, 2018. These letters of guarantee were issued by Citibank International Ltd. for the account of Citibank Europe PLC and will expire on September 20, 2019.

The letters of guarantee were issued at the request of the Company on behalf of Aetna Global Benefits (UK) Limited (the Tenant) in favor of Farnborough Business Park Limited (the Landlord) covering obligations of the Tenant towards the Landlord in relation to the lease of the Second Floor East Wing, Second Floor West Wing and Third Floor East Wing on the property situated at 25 Templer Avenue, Farnborough Business Park, Farnborough (the Property).

The Landlord may draw on this letter of guarantee if the Tenant fails to fulfill certain obligations under the lease between the Landlord and the Tenant dated August 20, 2015 (the Lease) regarding the Property.

(7) Financial Instruments Measured at Fair Value in the Company's Balance Sheets

Certain of the Company's financial instruments are measured at fair value in the Company's balance sheets. The fair value of these instruments are based on valuations that include inputs that can be classified within one of three levels of a hierarchy established by GAAP. The following are the levels of the hierarchy and a brief description of the type of valuation information (inputs) that qualifies a financial asset or liability for each level:

- **Level 1** – Unadjusted quoted prices for identical assets in active markets.

- **Level 2** – Inputs other than Level 1 that are based on observable market data. These include: quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets, inputs that are observable that are not prices (such as interest rates and credit risks) and inputs that are derived from or corroborated by observable markets.
- **Level 3** – Developed from unobservable data, reflecting the Company's own assumptions.

Financial assets and liabilities are classified based upon the lowest level of input that is significant to the valuation. When quoted prices in active markets for identical assets and liabilities are available, the Company uses these quoted market prices to determine the fair value of financial assets and liabilities and classify these assets and liabilities in Level 1. In other cases where a quoted market price for identical assets and liabilities in an active market is either not available or not observable, the Company estimates fair value using valuation methodologies based on available and observable market information or by using a matrix pricing model. These financial assets and liabilities would then be classified in Level 2. If quoted market prices are not available, the Company determines fair value using broker quotes or an internal analysis of each investment's financial performance and cash flow projections. Thus, financial assets and liabilities may be classified in Level 3 even though there may be some significant inputs that may be observable.

The following is a description of the valuation methodologies used for the Company's financial assets measured at fair value, including the general classification of such assets pursuant to the valuation hierarchy.

Debt Securities – Where quoted prices are available in an active market, the Company's debt securities are classified in Level 1 of the fair value hierarchy. Level 1 debt securities are comprised primarily of U.S. Treasury securities.

The fair values of the Company's Level 2 debt securities are obtained using models such as matrix pricing, which use quoted market prices of debt securities with similar characteristics, or discounted cash flows to estimate fair value. The Company reviews these prices to ensure they are based on observable market inputs that include, but are not limited to, quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets and inputs that are observable but not prices (for example, interest rates and credit risks). The Company also reviews the methodologies and the assumptions used to calculate prices from these observable inputs. On a quarterly basis, the Company selects a sample of its Level 2 debt securities' prices and compares them to prices provided by a secondary source. Variances over a specified threshold are identified and reviewed to confirm the price provided by the primary source represents an appropriate estimate of fair value. In addition, the Company's internal investment team consistently compares the prices obtained for select Level 2 debt securities to the team's own independent estimates of fair value for those securities. The Company obtained one price for each of its Level 2 debt securities and did not adjust any of these prices at December 31, 2018 or 2017.

The Company also values certain debt securities using Level 3 inputs. For Level 3 debt securities, fair values are determined by outside brokers or, in the case of certain private placement securities, are priced internally. Outside brokers determine the value of these debt securities through a combination of their knowledge of the current pricing environment and market flows.

There were no liabilities measured at fair value at December 31, 2018 and 2017. The financial assets with changes in fair value that are measured on a recurring basis at December 31, 2018 and 2017 were as follows:

	December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Debt securities:				
U.S. government securities	$ 10,279,999	—	—	10,279,999
State, municipalities and political subdivisions	—	3,327,946	—	3,327,946
U.S. corporate securities	—	101,389,966	—	101,389,966
Foreign securities	—	21,586,464	—	21,586,464
Residential mortgage-backed securities	—	4,339,876	—	4,339,876
Commercial mortgage-backed securities	—	5,959,252	—	5,959,252
Other asset-backed securities	—	5,746,615	—	5,746,615
Total	$ 10,279,999	142,350,119	—	152,630,118

	December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Debt securities:				
U.S. government securities	$ 19,461,759	—	—	19,461,759
State, municipalities and political subdivisions	—	3,502,596	—	3,502,596
U.S. corporate securities	—	144,122,288	—	144,122,288
Foreign securities	—	87,380,809	—	87,380,809
Residential mortgage-backed securities	—	9,541,752	—	9,541,752
Commercial mortgage-backed securities	—	10,261,786	—	10,261,786
Other asset-backed securities	—	8,671,534	—	8,671,534
Total	$ 19,461,759	263,480,765	—	282,942,524

There were no transfers between Levels 1 and 2 during the years ended December 31, 2018 and 2017.

There were no Level 3 financial assets for the years ended December 31, 2018 and 2017.

(8) Net Investment Income

The components of net investment income for the years ended December 31 are as follows:

		2018	2017
Debt securities	$	8,127,042	10,111,492
Cash equivalents		243,715	282,098
Gross investment income		8,370,757	10,393,590
Less investment expenses		317,610	338,337
Net investment income	$	8,053,147	10,055,253

(9) Reinsurance Recoverables and Receivables

Reinsurance recoverables and receivables at December 31 are comprised as follows:

		2018	2017
Unpaid claims and future policy benefits:			
Group recoverables	$	276,158	326,456
Group receivables		2,956,986	1,880,343
Total reinsurance recoverables and receivables	$	3,233,144	2,206,799

(10) Policyholders’ Funds

Policyholders’ funds at December 31 are comprised as follows:

		2018	2017
Group annuity funds	$	—	49,796,109
Policyholder deposit funds		—	284,758
Total policyholders' funds	$	—	50,080,867

Included in policyholders’ funds at December 31, 2018 and 2017 are net unrealized gains from debt securities of $0 and $2,636,977, respectively, allocable to policyholders.

(11) Unpaid Claims and Claim Adjustment Expenses

The following is information about incurred and cumulative paid Health Care claims development as of December 31, 2018, net of reinsurance, and the total IBNR liabilities plus expected development on reported claims included within the net incurred claims amounts. Refer to Note 2 for information on how we estimate our IBNR reserve and health care unpaid claims as well as changes to those methodologies, if any. Our estimate of IBNR liabilities is primarily based on trend and completion factors. Claim frequency is not used in the calculation of our liability. In addition, it is impracticable to disclose claim frequency information for health care claims due to our inability to gather consistent claim frequency information across our multiple claims processing systems. Any claim frequency count disclosure would not be comparable across our different claim processing systems and would not be consistent from period to period based on the volume of claims processed through each system. As a result, we have not included health care claim count frequency in the disclosures included below.

		Unpaid Health Care Claims, Net of Reinsurance For the Years Ended December 31,		
Date of Service		**2017**		**2018**
		(Unaudited)		
Prior Years	$	1,826,754,023		1,063,171,448
2017		173,225,230		172,386,939
2018		91,314,353		183,227,977
Total			$	1,418,786,364

		Cumulative Paid Health Care Claims, Net of Reinsurance For the Years Ended December 31,		
Date of Service		**2017**		**2018**
		(Unaudited)		
Prior Years	$	1,820,082,516		1,061,984,177
2017		147,082,397		157,437,380
2018		56,772,936		132,764,301
Total			$	1,352,185,858
Total outstanding liabilities for claims payable, net of reinsurance			$	66,600,506

At December 31, 2018, total Health Care liabilities for IBNR plus expected development on reported claims totaled approximately $67 million.

The reconciliation of the December 31, 2018 Health Care net incurred and paid claims development tables to the health care unpaid claim liability in our Balance Sheet is as follows:

		December 31, 2018
Short-duration health care unpaid claims, net of reinsurance	$	66,600,506
Reinsurance recoverables		27,598
Insurance lines other than short duration		138,061
Total health care unpaid claims	$	66,766,165

The following table shows the components of the change in health care reserves for the years ended December 31:

		2018	2017
Unpaid claims, beginning of the period	$	67,522,705	87,337,725
Less: Reinsurance recoverables		45,585	—
Unpaid claims, beginning of the period, net		67,477,120	87,337,725
Add: Components of incurred claims			
Current year		184,114,498	183,304,968
Prior years		(17,643,926)	(28,793,195)
Total incurred claims		166,470,572	154,511,773
Less: Claims paid			
Current year		131,342,635	131,498,421
Prior years		35,866,490	42,873,957
Total claims paid		167,209,125	174,372,378
Unpaid claims, end of the period, net		66,738,567	67,477,120
Add: Reinsurance recoverables		27,598	45,585
Unpaid claims, end of the period	$	66,766,165	67,522,705

Excluded from the above are reserves of $631,408, $4,378,255, and $9,077,238 at December 31, 2018 related to life products, group disability products and provider claim liabilities and $689,923 and $4,793,186 at December 31, 2017, related to life products and group disability products. Our estimates of prior years' health care unpaid claims decreased by $17,958,473 and $28,793,195 in 2018 and 2017, respectively, because claims were settled for amounts less than originally estimated (i.e., the amount of claims incurred was lower than we originally estimated), primarily due to lower health care cost trends.

(Continued)

(12) Current and Future Benefits

Components of current and future benefits for the years ended December 31 are:

	2018	2017
Benefits paid:		
Group accident and health	$ 167,209,125	174,372,378
Long-term disability	698,547	855,776
Group life	339,275	288,008
Change in claim reserves:		
Group accident and health	(738,553)	(19,860,607)
Long-term disability	(381,009)	(1,246,670)
Group life	(58,515)	(165,166)
Change in experience rating refunds reserves:		
Group accident and health	1,484,848	1,226,723
Current and future benefits	$ 168,553,718	155,470,442

Excluded from above for the years ended December 31, 2018 and 2017 are items totaling $12,224,965 and $1,454,586, respectively, primarily related to provider liabilities and a certain reinsurance agreement with Aetna Insurance Company Limited (AICL). (See note 14.)

(13) Premiums and Reinsurance

Gross premiums written, ceded, and earned for the years ended December 31 are as follows:

	2018	2017
Gross premiums written:		
Direct	$ 216,850,956	222,063,707
Assumed	78,328,946	78,193,333
Total premiums written	295,179,902	300,257,040
Change in unearned premiums:		
Direct	(2,445,461)	982,181
Assumed	3,047,143	1,067,901
Total change in unearned premiums	601,682	2,050,082
Gross premiums earned	295,781,584	302,307,122
Ceded reinsurance premiums	(488,537)	(317,792)
Change in prepaid reinsurance premiums	(1,606)	(37,216)
Premiums ceded	(490,143)	(355,008)
Change in allowance for estimated terminations and uncollectible amounts	1,231,084	1,011,091
Net Premiums Earned	$ 296,522,525	302,963,205

Net earned premiums of approximately $63 million (21%) and $58 million (19%) were associated with five customers for the years ended December 31, 2018 and 2017, respectively.

(14) Related-Party Transactions

Aetna and its affiliates provided various administrative and support functions to the Company in 2018 and 2017. The financial statements reflect the actual charges incurred by Aetna and allocated to the Company based on services used. The charges by Aetna amounted to $28,973,469 and $34,337,654 in 2018 and 2017, respectively.

Aetna Life Insurance Company (ALIC) pays certain claims each month on behalf of the Company. The Company completes a settlement to ALIC for the prior month's paid claims.

The Company paid dividends in the amount of $43,000,000 and $50,000,000 in 2018 and 2017.

During 2016, the Company entered into a reinsurance agreement with AICL. Under the terms of the agreement, the company assumes liability arising under policies of insurance issued by AICL to the Corporation of the President of The Church of Jesus Christ of Latter-Day Saints to cover its missionaries assigned to the European Union. The reserves for this arrangement are included in unpaid claims on the balance sheet and were $812,834 and $688,086 at December 31, 2018 and 2017, respectively.

During 2014, the Company entered into an Excess of Loss Reinsurance agreement with AICL, formerly known as InterGlobal Insurance Company Limited (IGICL). Under the terms of the agreement, the Company will reimburse AICL for claims paid in excess of $250,000 in respect of business written in AICL's Private Medical Insurance and Personal Accident accounts. In return, the Company receives premium as stated under the terms of the agreement. For the year ended December 31, 2018, the premiums earned were $1,170,408 and claims incurred under this agreement were $1,165,599 and for the year ended December 31, 2017, the premiums earned were 1,170,408 and claims incurred under this agreement were $880,142.

Effective January 1, 2017, the Company entered into an Employee Services Agreement with Aetna Resources, LLC to provide employee services and staffing resources for the operation and management of the Company. Expenses incurred under this arrangement for the years ended December 31, 2018 and December 31, 2017 amounted to $14,236,209 and $19,342,753, respectively.

AGB and its various affiliates, are managing general underwriting agents for international private medical insurance. The Company is an underwriter for this business and reimburses AGB and its various affiliates for claims paid and recovers from AGB and its affiliates premium collected. In addition, the Company pays a fee to AGB and its various affiliates for administration and support functions provided. During 2017, the Company adopted a group wide transfer pricing policy. The transfer pricing policy better aligns the costs of services provided to the Company. The transfer pricing policy includes a markup and was in effect starting January 1, 2017. Fees paid to AGB and its affiliates for the years ended December 31, 2018 and December 31, 2017 were $39,563,278 and $45,271,480, respectively.

Significant balances (payable) at year end for transactions carried out with related parties during the year were as follows:

	2018	2017
Aetna Life Insurance Company	$ (41,948,922)	(26,285,473)
Aetna Shanghai Enterprise Services	(2,564,350)	(1,933,817)
Aetna Inc.	(1,362,123)	(1,044,593)
Aetna Resources, LLC	(1,159,572)	(9,563,264)
Goodhealth Worldwide Global Limited (Bermuda)	(74,445)	(676,499)
Aetna Global Benefits (UK) Limited	(28,569)	(2,805,486)
Aetna Health Management LLC	(9,372)	(55,421)
Aetna Health Insurance Company of Europe Ltd	—	2,265
	$ (47,147,353)	(42,362,288)

Significant balances receivable at year end for transactions carried out with related parties during the year were as follows:

	2018	2017
Aetna Global Benefits Limited (DIFC)	18,230	312,965
Aetna International Inc.	40,028	(176,513)
Goodhealth Worldwide (Asia) Limited	544,494	745,844
Aetna Insurance Company Limited	3,417,775	(2,155,476)
Aetna Global Benefits (Asia Pacific) Limited	7,454,922	5,724,834
Aetna Global Benefits (Middle East) LLC	9,056,768	6,789,591
Other	8,234	(9,243)
	$ 20,540,451	11,232,002

(15) Income Taxes

Bermuda

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received notification from the Minister of Finance in Bermuda that in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2035.

United States

Income tax (benefit) expense for the year ended December 31 is comprised of:

	2018	2017
Current expense	$ (765,063)	11,729,371
Deferred expense	(235,607)	406,706
(Benefit) provision for income taxes	$ (1,000,670)	12,136,077

The difference between the effective tax rate of the Company and the U.S. federal statutory tax rate is as follows:

	2018		2017	
Tax at statutory rate	$ (923,991)	21.00%	11,490,873	35.00%
Other permanent differences	17,325	(0.39%)	15,834	0.05%
Impact on Deferred Tax for Enacted Rate Change	—	—	554,316	1.69%
Prior year true-up and other	(94,004)	2.14%	75,054	0.23%
	$ (1,000,670)	22.74%	12,136,077	36.97%

The tax effects of temporary differences that give rise to deferred tax assets and liabilities at December 31 were as follows:

		2018	2017
Deferred tax assets:			
Unpaid claims and claim adjustment expense	$	142,130	110,707
Unearned premium		2,734,820	2,691,931
Deferred acquisition costs		45,623	50,214
Net unrealized loss on debt securities		182,423	—
Software		1,362	28,079
FIN48 (Uncertain Tax Position)		64,412	69,277
Other		6,817	—
Gross deferred tax assets		3,177,587	2,950,208
Deferred tax liabilities:			
Investments, net		95,057	293,459
Net unrealized gain on debt securities		-	1,046,065
Net unrealized gain of foreign currency		3,199,010	769,441
Other		17,520	9,774
Gross deferred tax liabilities		3,311,587	2,118,739
Net deferred tax (liability) asset	$	(134,000)	831,469

As of December 31, 2018 and 2017, the Company has no capital loss carryforward and no net operating loss carryforward for tax purposes.

In assessing the realizability of the deferred tax asset, management considers whether it is more likely than not that some portion or all of each deferred tax asset will not be realized. The ultimate realization of a deferred tax asset is dependent upon generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the entire benefits of the deferred tax asset. Accordingly, no valuation allowance has been provided for at December 31, 2018 or 2017.

At December 31, 2018 and 2017, the Company did not have material uncertain tax positions reflected in the Balance Sheets.

The Company participates in the Compliance Assurance Process (“CAP”) with the Internal Revenue Service (“IRS”). Under the CAP, the IRS undertakes audit procedures during the tax year and as the return is being prepared for filing. The IRS has concluded its CAP audit of the Company's tax returns for 2016 and prior years. The CAP audits for the 2017 and 2018 tax years are in process.

On December 22, 2017, the TCJA was enacted. Refer to Note 2 for additional information related to the TCJA.

(16) Commitments and Contingencies

Litigation and Regulatory Proceedings

The following description of litigation and regulatory proceedings covers CVS Health and certain of its subsidiaries, including the Company. Certain of the proceedings described below may not impact the Company directly but may have an indirect impact on the Company as the Company is a member of the CVS Health holding company group (the “CVS Health Group”).

The Company is a party to numerous legal proceedings, investigations, audits and claims arising, for the most part, in the ordinary course of its businesses, including the matters described below. The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable, the Company does not establish an accrued liability.

The CVS Health Group is also a party to other legal proceedings and is subject to government investigations, inquiries and audits and has received and is cooperating with the government in response to CIDs, subpoenas or similar process from various governmental agencies requesting information, all arising in the ordinary course of its businesses. These other legal proceedings include claims of or relating to bad faith, medical malpractice, non-compliance with state and federal regulatory regimes, marketing misconduct, failure to timely or appropriately pay or administer claims and benefits, provider network structure (including the use of performance-based networks and termination of provider contracts), rescission of insurance coverage, improper disclosure or use of personal information, anticompetitive practices, general contractual matters, product liability, intellectual property litigation and employment litigation. Some of these other legal proceedings are or are purported to be class actions or derivative claims. The CVS Health Group is defending itself against the claims brought in these matters.

Except as otherwise noted, the Company cannot predict with certainty the timing or outcome of the legal matters described above, and the Company is unable to reasonably estimate a possible loss or range of possible loss in excess of amounts already accrued for these matters. It is reasonably possible that the outcome of such legal matters could be material to the Company.

(17) Statutory Requirements

Under the Bermuda Insurance Act, 1978 and related regulations, the Company is subject to enhanced capital requirements in addition to minimum levels of solvency. The enhanced capital requirement (ECR) is determined by reference to a standardized statutory risk-based capital model used to measure the risk associated with the Company's assets, liabilities and premiums. If a company fails to maintain or meet the ECR, various degrees of regulatory action may be taken. Actual statutory capital and surplus is $136.2 million at December 31, 2018. The Company is allowed to pay cumulative dividends up to 25% of this total statutory capital and surplus in the financial year without prior notice to the Bermuda Monetary Authority. The principal difference between statutory capital and surplus and shareholders' equity presented in accordance with U.S. GAAP are unrelated party letters of credit and guarantees which are considered liabilities of the Company for statutory purposes. As of December 31, 2018, the Company met the ECR.

(18) Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through April 17, 2019.