

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

Financial Statements

December 31, 2020 and 2019

(With Report of Independent Auditors Thereon)

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

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## Report of Independent Auditors

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

We have audited the accompanying financial statements of Aetna Life & Casualty (Bermuda) Ltd., which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, 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 conformity 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 of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our 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 of material misstatement.

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aetna Life & Casualty (Bermuda) Ltd. at December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the incurred and cumulative paid claims development prior to the most recent year disclosed in Note 10 to the financial statements be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Financial Accounting Standards Board (FASB) who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

*Ernst & Young LLP*

April 26, 2021

**AETNA LIFE & CASUALTY (BERMUDA) LTD.**

(Incorporated in Bermuda)

## Balance Sheets

December 31, 2020 and 2019

(Expressed in United States dollars)

<b>Assets</b>	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 86,097,531	\$ 87,495,926
Debt securities available for sale at fair value (amortized cost \$122,793,377 and \$137,861,066) (notes 3 and 5)	134,447,917	144,277,781
Accrued investment income	962,439	1,017,852
Premiums due and other receivables, net	73,598,352	68,549,382
Investment receivables	—	3,675
Reinsurance recoverables and receivables (note 8)	3,530,318	3,121,134
Prepaid expenses (note 4)	10,799,567	10,114,548
Net deferred income tax (note 14)	501,817	1,408,837
Total assets	<u>\$ 309,937,941</u>	<u>\$ 315,989,135</u>
<b>Liabilities</b>		
Policyholders' funds (note 9)	\$ 1,464,109	\$ 1,464,109
Unpaid claims (note 10)	58,717,338	66,017,985
Experience rated liability	7,644,142	3,893,753
Unearned premiums	64,556,576	62,839,651
Total insurance reserve liabilities	132,382,165	134,215,498
Due to reinsurers	2,988,861	3,027,849
Current federal income taxes due to parent	5,192,181	6,174,223
Due to affiliates (note 13)	43,424,575	38,201,076
Commissions due	10,285,257	11,392,430
Other liabilities	2,590,935	2,308,937
Total liabilities	<u>196,863,974</u>	<u>195,320,013</u>
Commitments and contingent liabilities (notes 7 and 15)		
<b>Shareholder's Equity</b>		
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	12,797,651	24,487,303
Accumulated other comprehensive income	9,065,855	4,971,358
Total shareholder's equity	<u>113,073,967</u>	<u>120,669,122</u>
Total liabilities and shareholder's equity	<u>\$ 309,937,941</u>	<u>\$ 315,989,135</u>

See accompanying notes to financial statements.

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(Incorporated in Bermuda)

## Statements of Operations

Years ended December 31, 2020 and 2019

(Expressed in United States dollars)

	<u>2020</u>	<u>2019</u>
Revenue:		
Net earned premiums (note 12)	\$ 270,859,409	\$ 282,413,679
Net investment income (note 3)	4,766,984	6,439,027
Net realized capital gains (note 3)	187,042	15,399,493
Fees and other income	<u>158,058</u>	<u>256,720</u>
Total revenue	<u>275,971,493</u>	<u>304,508,919</u>
Benefits and expenses:		
Current and future benefits (note 11)	148,401,056	177,378,004
Operating expenses (note 13)	<u>110,893,528</u>	<u>100,990,109</u>
Total benefits and expenses	<u>259,294,584</u>	<u>278,368,113</u>
Income before income taxes	16,676,909	26,140,806
Provision for income taxes (note 14)	<u>4,366,561</u>	<u>7,980,364</u>
Net income	<u>\$ 12,310,348</u>	<u>\$ 18,160,442</u>

See accompanying notes to financial statements.

**AETNA LIFE & CASUALTY (BERMUDA) LTD.**

(Incorporated in Bermuda)

Statements of Comprehensive Income

Years ended December 31, 2020 and 2019

(Expressed in United States dollars)

	<u>2020</u>	<u>2019</u>
Net income	\$ 12,310,348	\$ 18,160,442
Other comprehensive income (loss), net of tax:		
Net unrealized gains (note 6)	4,094,497	5,510,910
Net foreign currency (losses)	<u>—</u>	<u>(11,450,615)</u>
Other comprehensive income (loss), net of tax	<u>4,094,497</u>	<u>(5,939,705)</u>
Comprehensive income	<u>\$ 16,404,845</u>	<u>\$ 12,220,737</u>

See accompanying notes to financial statements.

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Statements of Changes in Shareholder's Equity

Years ended December 31, 2020 and 2019

(Expressed in United States dollars)

	<b>Number of common shares outstanding</b>	<b>Common stock and additional paid-in capital</b>	<b>Retained earnings</b>	<b>Accumulated other comprehensive income (loss)</b>	<b>Total shareholder's equity</b>
Balance at January 1, 2019	370,000	\$ 91,210,461	\$ 40,326,861	\$ 10,911,063	\$ 142,448,385
Net income	—	—	18,160,442	—	18,160,442
Other comprehensive loss	—	—	—	(5,939,705)	(5,939,705)
Dividends paid	—	—	(34,000,000)	—	(34,000,000)
Balance at December 31, 2019	370,000	91,210,461	24,487,303	4,971,358	120,669,122
Net income	—	—	12,310,348	—	12,310,348
Other comprehensive income	—	—	—	4,094,497	4,094,497
Dividends paid	—	—	(24,000,000)	—	(24,000,000)
Balance at December 31, 2020	370,000	\$ 91,210,461	\$ 12,797,651	\$ 9,065,855	\$ 113,073,967

See accompanying notes to financial statements.

**AETNA LIFE & CASUALTY (BERMUDA) LTD.**  
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Statements of Cash Flows

Years ended December 31, 2020 and 2019

(Expressed in United States dollars)

	<b>2020</b>	<b>2019</b>
Cash flows from operating activities:		
Net income	\$ 12,310,348	\$ 18,160,442
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net investment premium (discount)	176,491	(1,064)
Net realized capital gains	(187,042)	(15,399,493)
Deferred income tax (benefit) expense	(236,310)	93,287
Decrease in accrued investment income	55,413	147,934
(Increase) decrease in premiums due and other receivables	(4,588,872)	10,335,100
Decrease in investment receivables	3,675	3,175
(Increase) decrease in reinsurance recoverables and receivables	(409,184)	112,010
(Decrease) increase in current federal income taxes due to parent	(982,042)	10,725,599
(Increase) decrease in prepaid expenses	(685,019)	1,239,579
Increase in policyholders' funds	—	1,464,109
Decrease in unpaid claims	(7,300,647)	(14,835,081)
Increase in experience rated liability	3,750,389	1,464,507
Increase (decrease) in unearned premiums	1,716,925	(350,276)
Decrease in amount due to reinsurers	(38,988)	(28,544)
Increase in due to affiliates	5,223,499	11,594,174
Decrease in commissions due	(1,107,173)	(1,944,501)
Increase (decrease) in other liabilities	281,998	(2,685,507)
Net cash provided by operating activities	7,983,461	20,095,450
Cash flows from investing activities:		
Proceeds from debt securities matured and sold	49,095,504	38,736,261
Cost of debt securities purchased	(34,477,360)	(22,734,315)
Net cash provided by investing activities	14,618,144	16,001,946
Cash flows from financing activities:		
Dividend paid to shareholder	(24,000,000)	(34,000,000)
Net cash used for financing activities	(24,000,000)	(34,000,000)
Net (decrease) increase in cash and cash equivalents	(1,398,395)	2,097,396
Cash and cash equivalents, beginning of year	87,495,926	85,398,530
Cash and cash equivalents, end of year	\$ 86,097,531	\$ 87,495,926
Supplemental cash flow information:		
Income taxes (paid) received	\$ (2,424,177)	\$ 2,955,711

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2020 and 2019

**(1) General**

Aetna Life & Casualty (Bermuda) Ltd. (a Bermuda corporation) (the “Company”) is a wholly-owned subsidiary of Aetna International LLC, whose ultimate parent is CVS Health Corporation (“CVS Health”). On November 28, 2018, CVS Health acquired Aetna Inc. (“Aetna”) and at that date became the Company’s ultimate parent.

The Company primarily writes group accident and health, accidental death and dismemberment, term life and group disability business for expatriates worldwide. The Company is operated and managed as one business segment.

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 completed the migration of its Hong Kong business to Aetna Insurance (Hong Kong) Limited in 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.

The Company establishes an allowance for estimated member terminations and uncollectible amounts to reduce its receivables to their net realizable value. The balance of the allowance for estimated member terminations and uncollectible amounts on premiums receivable was \$3,276,238 and \$2,730,964 at December 31, 2020 and 2019, respectively, and is reflected as a reduction of Premiums due and other receivables on the Balance Sheets.

Fees and other income consist primarily of Administrative Service Contract (“ASC”) fees and interest income. ASC fees are received in exchange for performing certain claim processing and member services for ASC members. ASC fee revenue is recognized over the period the service is provided.

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

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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 the Company 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 5 for additional information on how the Company estimates the fair value of its debt securities.

If a debt security is in an unrealized loss position and the Company has the intent to sell the security, or it is more likely than not that the Company will have to sell the security before recovery of its amortized cost basis, the amortized cost basis of the security is written down to its fair value and the difference is recognized in net income. If a debt security is in an unrealized loss position and the Company does not have the intent to sell and it is more likely than not that the Company will not have to sell such security before recovery of its amortized cost basis, the Company bifurcates the impairment into credit-related and noncredit related components. In evaluating whether a credit related loss exists, the Company considers a variety of factors including: the extent to which the fair value is less than the amortized cost basis; adverse conditions specifically related to the issuer of a security, an industry or geographic area; the payment structure of the security; the failure of the issuer of the security to make scheduled interest or principle payments; and any changes to the rating of the security by a rating agency. The amount of the credit-related component is recorded as an allowance for credit losses and recognized in net income, and the amount of the non-credit related component is included in other comprehensive income. Interest is not accrued on debt securities when management believes the collection of interest is unlikely.

The credit-related component is determined by comparing the present value of cash flows expected to be collected from the security, considering all reasonably available information relevant to the collectability of the security, with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis of the security, the Company records an allowance for credit losses, which is limited by the amount that the fair value is less than amortized cost basis.

For mortgage-backed and other asset-backed securities, the Company recognizes income using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The Company's investment in the security is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the security, with adjustments recognized in net income.

*(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 Operations.

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Realized capital gains and losses are included as a component of net investment income in the Statements of Operations. Realized capital gains and losses are determined on a specific identification basis. Purchases and sales of debt securities are reflected on the closing date.

Unrealized capital gains and losses are reflected in shareholders' equity, net of tax, as a component of accumulated other comprehensive income.

**(d) Commissions**

Generally, commissions are deferred in prepaid expenses and amortized within the Statements of Operations 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**

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. Premium stabilization reserves exist when, in accordance with a funding contract, contributions or premiums paid by participating employers during a contract year exceed the total claims paid, change in reserves and the administrative and risk charges made by the plan.

**(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 Operations 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.

The Company discounts certain claim liabilities related to group long-term disability and life premium waiver contracts. The discounted amount of these liabilities was \$2,997,947 and \$141,505 in 2020 and \$3,485,496 and \$92,797 in 2019, respectively. The undiscounted amount of these liabilities was \$3,485,594 and \$117,778 in 2020 and \$4,153,910 and \$125,809 in 2019, respectively. For 2020 and 2019, the discount rates were set based on indices consistent with the requirements of the U.S. Standard Valuation Law and vary based on the disability date of the insured. The discount rates associated with the Company's claim liabilities related to group long term disability were 5.50% to 5.75% in 2020 and 2019. The discount rates associated with the Company's claim liabilities related to life premium waiver range from 4.00% to 6.00% in 2020 and 4.50% to 6.00% in 2019.

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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) Premium Deficiency Reserves**

The Company evaluates its contracts to determine if it is probable that a loss will be incurred. The Company recognizes a premium deficiency loss when it is probable that expected future claims, including maintenance costs (for example, claim processing costs), will exceed existing reserves plus anticipated future revenue. Anticipated investment income is considered in the calculation of premium deficiency losses for short duration contracts. For purposes of determining premium deficiency losses, contracts are grouped in a manner consistent with the Company's method of acquiring, servicing and measuring the profitability of such contracts. The Company did not have any premium deficiency reserves at December 31, 2020 and 2019.

**(h) Cash and Cash Equivalents**

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

**(i) Foreign Currencies**

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 Statements of Operations in net capital gains in the amount of \$460,925 and \$14,955,771 for 2020 and 2019, respectively.

**(j) 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 8). 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 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., Huatai Insurance Co., Ltd. and formerly with Starr Property & Casualty Insurance (China) Co. Ltd. The Company terminated its agreement with Starr Property & Casualty Insurance (China) Co. Ltd. and final settlement took place in 2020. Gross premium receivable and offsetting payable balances for the years ended December 31 are as follows:

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	2020			
	China Life Insurance Co., Ltd.	Starr Property & Casualty Insurance (China) Co. Ltd.	Huatai Insurance Co., Ltd.	Total
Gross premium receivable	\$ 9,708,855	\$ —	\$ 12,520,075	\$ 22,228,930
Fronting fees, claim fees, broker commissions payable	(6,456,041)	—	(11,118,699)	(17,574,740)
Unearned premium liability	(5,694,222)	—	(6,051,216)	(11,745,438)
Total net payable	<u>\$ (2,441,408)</u>	<u>\$ —</u>	<u>\$ (4,649,840)</u>	<u>\$ (7,091,248)</u>
	2019			
	China Life Insurance Co., Ltd.	Starr Property & Casualty Insurance (China) Co. Ltd.	Huatai Insurance Co., Ltd.	Total
Gross premium receivable	\$ 7,543,458	\$ 2,971,383	\$ 2,903,595	\$ 13,418,436
Fronting fees, claim fees, broker commissions payable	(4,330,540)	(4,438,081)	(1,927,171)	(10,695,792)
Unearned premium liability	(4,758,572)	—	(5,434,191)	(10,192,763)
Total net payable	<u>\$ (1,545,654)</u>	<u>\$ (1,466,698)</u>	<u>\$ (4,457,767)</u>	<u>\$ (7,470,119)</u>

**(k) 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 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 purpose, measured by applying currently enacted 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 are included in the consolidated federal income tax return of its parent company, CVS Health, pursuant to the terms of the tax sharing agreement (and a Supplemental Tax Sharing Agreement where applicable) between CVS Health and the Company. The Company's losses are considered dual consolidated losses and are not eligible for utilization against income of the consolidated group return. When the Company is in a taxable income position, it pays US tax on that income to Aetna.

As of December 31, 2020 and 2019, the Company has no capital loss carryforward and no net operating loss carryforward for tax purposes.

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The Company is part of the CVS Health Corporation and Subsidiaries federal income tax return. CVS Health Corporation participated in the Compliance Assurance Process (“CAP”) with the Internal Revenue Service (“IRS”) up to and including year tax 2019. Under the CAP, the IRS undertakes its audit procedures concurrently during the tax year and in the subsequent year as the tax return is being prepared for filing. The IRS has completed its examinations of the consolidated and certain separate U.S. federal income tax returns filed for CVS Health Corporation and Aetna Inc. and Subsidiaries, of which the Company was formerly a part of, for tax years 2013 and 2018. The IRS substantially completed its examinations for tax years 2014 through 2017 and 2019. CVS Health Corporation is not participating in CAP for tax year 2020. The Company is also subject to audits by state taxing authorities for tax years from 2014 to 2019.

**(l) Adoption of Accounting Standards**

**(i) Measurement of Credit Losses on Financial Instruments**

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-13, Financial Instruments - Credit Losses (Topic 326). This standard requires the use of a forward-looking expected credit loss impairment model for trade and other receivables, held-to-maturity debt securities, loans and other instruments. This standard also requires impairments and recoveries for available-for-sale debt securities to be recorded through an allowance account and revises certain disclosure requirements. The Company adopted this new accounting standard on January 1, 2020. The Company adopted the available-for-sale debt security impairment model on a prospective basis. The adoption of this did not have a material impact on the Company's operating results, cash flows or financial condition.

**(m) Future Application of Accounting Standards**

*None expected to have a material impact.*

**(n) 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.

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Notes to Financial Statements

December 31, 2020 and 2019

**(3) Investments**

Debt securities available for sale as of December 31, 2020 and 2019 were as follows:

	<b>2020</b>			
	<b>Amortized Cost <sup>(1)</sup></b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. government securities	\$ 5,117,666	\$ 1,234,014	\$ —	\$ 6,351,680
States, municipalities and political subdivisions	3,082,054	803,538	—	3,885,592
U.S. corporate securities	74,765,722	7,069,077	78,421	81,756,378
Foreign securities	17,288,640	1,850,388	—	19,139,028
Residential mortgage-backed securities	2,312,571	85,444	—	2,398,015
Commerical mortgage-backed securities	12,705,661	649,236	—	13,354,897
Other asset-backed securities	7,521,063	41,264	—	7,562,327
<b>Total Securities</b>	<b>\$ 122,793,377</b>	<b>\$ 11,732,961</b>	<b>\$ 78,421</b>	<b>\$ 134,447,917</b>

  

	<b>2019</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. government securities	\$ 10,171,738	\$ 687,580	\$ —	\$ 10,859,318
States, municipalities and political subdivisions	3,093,900	531,502	—	3,625,402
U.S. corporate securities	89,309,147	3,976,941	336	93,285,753
Foreign securities	20,595,068	1,075,436	—	21,670,504
Residential mortgage-backed securities	3,212,764	—	8,581	3,204,183
Commerical mortgage-backed securities	5,949,692	142,541	—	6,092,233
Other asset-backed securities	5,528,757	12,510	879	5,540,388
<b>Total Securities</b>	<b>\$ 137,861,066</b>	<b>\$ 6,426,510</b>	<b>\$ 9,796</b>	<b>\$ 144,277,781</b>

<sup>(1)</sup> Effective January 1, 2020, the Company adopted the available-for-sale debt security impairment model under ASU 2016-13, *Financial Instruments - Credit Losses* (Topic 326). The new impairment model requires the write down of amortized cost through an allowance for credit losses, rather than through a reduction of the amortized cost basis of the available-for-sale debt security. There was no allowance for credit losses recorded on available-for-sale debt securities at December 31, 2020. As the Company adopted the new available-for-sale debt security impairment model on a prospective basis, there was no allowance for credit losses recorded on available-for-sale debt securities at December 31, 2019.

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The amortized cost and fair value of debt securities at December 31, 2020 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.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Less than one year	\$ 6,027,156	\$ 6,055,233
One year through five years	52,068,011	55,103,612
After five years through ten years	23,981,012	26,136,058
Greater than ten years	18,177,903	23,837,775
Residential mortgage-backed	2,312,571	2,398,015
Commercial mortgage-backed	12,705,661	13,354,897
Other asset-backed securities	7,521,063	7,562,327
Total	<u>\$ 122,793,377</u>	<u>\$ 134,447,917</u>

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

All of the Company's residential mortgage-backed securities at December 31, 2020 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, 2020, residential mortgage-backed securities had an average quality rating of AAA and a weighted average duration of 1.71 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, 2020, these securities had an average quality rating of AAA and a weighted average duration of 5.01 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, 2020, these securities had an average quality rating of AAA and a weighted average duration of 0.73 years.

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**(b) Unrealized Capital Losses**

Summarized below are the Company's debt securities held at December 31, 2020 and 2019, that were in an unrealized capital loss position, aggregated by the length of time the investments have been in that position:

	December 31, 2020								
	Less than 12 months			More than 12 months			Total		
	Number of Securities	Fair Value	Unrealized losses	Number of Securities	Fair Value	Unrealized losses	Number of Securities	Fair Value	Unrealized losses
U.S. corporate securities	1	\$ 2,195,618	\$ 78,421	—	\$ —	\$ —	1	\$ 2,195,618	\$ 78,421
Total	1	\$ 2,195,618	\$ 78,421	—	\$ —	\$ —	1	\$ 2,195,618	\$ 78,421

  

	December 31, 2019								
	Less than 12 months			More than 12 months			Total		
	Number of Securities	Fair Value	Unrealized losses	Number of Securities	Fair Value	Unrealized losses	Number of Securities	Fair Value	Unrealized losses
U.S. corporate securities	1	\$ 215,034	\$ 336	—	\$ —	\$ —	1	\$ 215,034	\$ 336
Residential mortgage-backed securities	1	1,921,992	550	1	1,282,191	8,031	2	3,204,183	8,581
Other asset-backed securities	1	512,013	879	—	—	—	1	512,013	879
Total	3	\$ 2,649,039	\$ 1,765	1	\$ 1,282,191	\$ 8,031	4	\$ 3,931,230	\$ 9,796

The Company reviewed the securities in the table above and concluded that these are performing assets generating investment income to support the needs of the Company's business. In performing this review, the Company considered factors such as the quality of the investment security based on research performed by the Company's 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, 2020, we did not intend to sell these securities and did not believe it was more likely than not that it 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, 2020 were as follows:

	Fair Value	Unrealized losses
Due to mature:		
Less than one year	\$ —	\$ —
One year through five years	—	—
After five years through ten years	2,195,618	(78,421)
Greater than ten years	—	—
Residential mortgage-backed securities	—	—
Commercial mortgage-backed securities	—	—
Other asset-backed securities	—	—
Total	\$ 2,195,618	\$ (78,421)

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The Company did not incur any credit-related impairments in 2020 for those securities held at year end.

**(c) Net Investment Income**

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

	<u>2020</u>	<u>2019</u>
Debt securities	\$ 4,448,733	\$ 5,487,390
Cash equivalents	461,695	1,113,910
Gross investment income	<u>4,910,428</u>	<u>6,601,300</u>
Less investment expenses	<u>143,444</u>	<u>162,273</u>
Net investment income	<u>\$ 4,766,984</u>	<u>\$ 6,439,027</u>

**(d) Realized Capital Gains (Losses)**

Net realized capital gains for the years ended December 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
OTTI losses on debt securities recognized in earnings	\$ (198,925)	\$ (15,210)
Other net realized capital gains	<u>385,967</u>	<u>15,414,703</u>
Net realized capital gains <sup>(1)</sup>	<u>\$ 187,042</u>	<u>\$ 15,399,493</u>

<sup>(1)</sup> Net realized capital gains are net of other-than-temporary impairment ("OTTI") yield-related impairment losses on debt securities for the years ended December 31, 2020 and December 31, 2019. There were no credit-related losses on debt securities in the year ended December 31, 2020.

Proceeds from the sale of debt securities and the related gross realized capital gains and losses for 2020 and 2019 excluding the effect of foreign currency were as follows:

	<u>2020</u>	<u>2019</u>
Proceeds on sales	\$ 3,280,030	\$ 13,842,877
Gross realized capital gains	265,558	602,559
Gross realized capital losses	339,690	146,063

**(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 \$10,350,295 and \$9,787,441 at December 31, 2020 and 2019, respectively.

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**(5) 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

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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, 2020 or 2019.

There were no liabilities measured at fair value at December 31, 2020 and 2019. The financial assets with changes in fair value that are measured on a recurring basis at December 31, 2020 and 2019 were as follows:

	<b>December 31, 2020</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 66,882,432	\$ 19,215,099	\$ —	\$ 86,097,531
Debt securities:				
U.S. government securities	6,351,680	—	—	6,351,680
State, municipalities and political subdivisions	—	3,885,592	—	3,885,592
U.S. corporate securities	—	81,756,378	—	81,756,378
Foreign securities	—	19,139,028	—	19,139,028
Residential mortgage-backed securities	—	2,398,015	—	2,398,015
Commercial mortgage-backed securities	—	13,354,897	—	13,354,897
Other asset-backed securities	—	7,562,327	—	7,562,327
Total debt securities	<u>6,351,680</u>	<u>128,096,237</u>	<u>—</u>	<u>134,447,917</u>
Total	<u>\$ 73,234,112</u>	<u>\$ 147,311,336</u>	<u>\$ —</u>	<u>\$ 220,545,448</u>
	<b>December 31, 2019</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 42,885,481	\$ 44,610,445	\$ —	\$ 87,495,926
Debt securities:				
U.S. government securities	10,859,318	—	—	10,859,318
State, municipalities and political subdivisions	—	3,625,402	—	3,625,402
U.S. corporate securities	—	93,285,753	—	93,285,753
Foreign securities	—	21,670,504	—	21,670,504
Residential mortgage-backed securities	—	3,204,183	—	3,204,183
Commercial mortgage-backed securities	—	6,092,233	—	6,092,233
Other asset-backed securities	—	5,540,388	—	5,540,388
Total debt securities	<u>10,859,318</u>	<u>133,418,463</u>	<u>—</u>	<u>144,277,781</u>
Total	<u>\$ 53,744,799</u>	<u>\$ 178,028,908</u>	<u>\$ —</u>	<u>\$ 231,773,707</u>

There were no transfers between Levels 1 and 2 during the years ended December 31, 2020 and 2019.

There were no Level 3 financial assets or transfers into or out of Level 3 for the years ended December 31, 2020 and 2019.

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**(6) Net Unrealized Capital Gains**

Net unrealized capital gains included in accumulated other comprehensive income were as follows:

	<u>2020</u>	<u>2019</u>
Debt securities	\$ 11,654,540	\$ 6,416,714
Income taxes	<u>(2,588,686)</u>	<u>(1,445,356)</u>
Net after taxes	<u>\$ 9,065,855</u>	<u>\$ 4,971,358</u>

*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):

	<u>2020</u>		
	<u>Before Tax Amount</u>	<u>Tax (expense) or Benefit</u>	<u>After Tax Amount</u>
Net unrealized holding gains arising during period	\$ 5,424,868	\$ (1,169,378)	\$ 4,255,490
Less: Reclassification adjustment for realized gains included in net income (pretax)	<u>(187,042)</u>	<u>26,049</u>	<u>(160,993)</u>
Net unrealized gains	<u>\$ 5,237,826</u>	<u>\$ (1,143,329)</u>	<u>\$ 4,094,497</u>
	<u>2019</u>		
	<u>Before Tax Amount</u>	<u>Tax (expense) or Benefit</u>	<u>After Tax Amount</u>
Net unrealized holding gains arising during period	\$ 22,606,751	\$ (6,974,255)	\$ 15,632,496
Less: Reclassification adjustment for realized gains included in net income (pretax)	<u>(15,399,493)</u>	<u>5,277,907</u>	<u>(10,121,586)</u>
Net unrealized gains	<u>\$ 7,207,258</u>	<u>\$ (1,696,348)</u>	<u>\$ 5,510,910</u>

**(7) Letters of Credit****(a) Cayman Island Monetary Authority**

The Company has deposit funds at the Bank of Butterfield Cayman in the amount of US \$9,279,701 and US \$8,046,942 at December 31, 2020 and 2019, 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.

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At December 31, 2020 and 2019, the estimated insurance reserves pertaining to the policies issued and in force in the Cayman Islands were US \$6,062,881 and US \$4,678,838, 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, 2020, the Company is not aware of any default in meeting its insurance obligations.

**(b) Royal & Sun Alliance 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 & Sun Alliance Insurance (Middle East) LLC (EC), (RSA) totaling US \$10,000,000 at December 31, 2020 and December 31, 2019. These letters of credit have been issued by the Citibank, N.A. UAE Branch and expire on November 30, 2021 and October 16, 2021, respectively.

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, 2020, the Company is not aware of any default in meeting its insurance obligations. The letter of credit is unsecured.

**(c) 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 at December 31, 2019. (Qatari Riyals correspond to United States dollars of \$40,820) The letter of credit was issued by Citibank N.A. QFC Branch and cancelled on February 26, 2020.

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.

**(d) Supreme Council of Health**

The Company had an outstanding letter of credit in favor of Supreme Council of Health in the amount of QAR 150,000 at December 31, 2019. (Qatari Riyals correspond to United States dollars of \$40,820) The letter of credit was issued by Citibank N.A. QFC Branch and cancelled on February 26, 2020.

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.

**(e) HEREF Farnborough Limited**

The Company was issued three letters of guarantee in favor of Farnborough Business Park Limited in the amount of GBP 687,170, GBP 687,170 and GBP 719,556. These British Pounds corresponded to United States dollars of \$937,918, \$937,918 and \$982,122 at December 31, 2020. These letters of

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guarantee were issued by Citibank International Ltd. for the account of Citibank Europe PLC and will expire on August 25, 2021.

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.

**(f) Consulate General of the State of Kuwait**

The Company was issued two letters of guarantee in favor of the Consulate General of the State of Kuwait. One letter of guarantee in the amount of US \$2,020,990 at December 31, 2020 and December 31, 2019 expired February 8, 2021. One letter of guarantee in the amount of US \$5,052,475 expired on December 1, 2020. These letters of guarantee were issued by Citibank N.A. for the account of Citibank Europe PLC.

The letter of guarantee was issued at the request of the Company on behalf of Aetna Insurance Company Limited in favor of the Consulate General of the State of Kuwait in Dubai for providing medical insurance coverage to the employees of the Ministry of Foreign Affairs of Kuwait and all of its missions abroad.

**(8) Reinsurance Recoverables and Receivables**

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

	<u>2020</u>	<u>2019</u>
Unpaid claims and future policy benefits:		
Group recoverables	\$ 121,701	\$ 235,287
Group receivables	<u>3,408,617</u>	<u>2,885,847</u>
Total reinsurance recoverables and receivables	<u>\$ 3,530,318</u>	<u>\$ 3,121,134</u>

**(9) Policyholders' Funds**

Policyholders' funds at December 31, 2020 and 2019 were \$1,464,109.

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**(10) Claims Payable**

The following is information about incurred and cumulative paid Health Care claims development as of December 31, 2020 and 2019, 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 the Company estimates its IBNR reserve and health care unpaid claims as well as changes to those methodologies, if any. The Company's estimate of IBNR liabilities is primarily based on trend and completion factors. Claim frequency is not used in the calculation of its liability. In addition, it is impracticable to disclose claim frequency information for health care claims due to the Company's inability to gather consistent claim frequency information across its multiple claims processing systems. Any claim frequency count disclosure would not be comparable across the Company's 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, the Company has not included health care claim count frequency in the disclosures included below.

<b>Date of Service</b>	<b>Incurred Health Care Claims, Net of Reinsurance</b>	
	<b>For the Years Ended December 31,</b>	
	<b>2019</b>	<b>2020</b>
	(Unaudited)	
Prior Years	\$ 360,008,967	\$ 349,314,828
2019	177,096,574	181,766,647
2020		154,551,431
Total		<u>\$ 685,632,906</u>

<b>Date of Service</b>	<b>Cumulative Paid Health Care Claims, Net of Reinsurance</b>	
	<b>For the Years Ended December 31,</b>	
	<b>2019</b>	<b>2020</b>
	(Unaudited)	
Prior Years	\$ 348,559,500	\$ 348,996,143
2019	136,074,852	170,042,825
2020		114,445,319
Total		<u>\$ 633,484,287</u>
Total outstanding liabilities for claims payable, net of reinsurance		<u>\$ 52,148,619</u>

At December 31, 2020 and 2019, total Health Care liabilities for IBNR plus expected development on reported claims totaled approximately \$53 million each of the two periods.

The reconciliation of the December 31, 2020 and 2019 Health Care net incurred and paid claims development tables to the health care unpaid claim liability in our Balance Sheets is as follows:

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	<u>December 31, 2020</u>
Short-duration health care unpaid claims, net of reinsurance	\$ 52,148,619
Reinsurance recoverables	—
Insurance lines other than short duration	<u>525,413</u>
Total health care unpaid claims	\$ <u>52,674,032</u>

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

	<u>2020</u>	<u>2019</u>
Unpaid claims, beginning of the period	\$ 53,031,653	\$ 66,766,165
Less: Reinsurance recoverables	<u>35,051</u>	<u>27,598</u>
Unpaid claims, beginning of the period, net	<u>52,996,602</u>	<u>66,738,567</u>
Add: Components of incurred claims		
Current year	154,551,431	178,360,067
Prior years	<u>(6,024,066)</u>	<u>(7,788,349)</u>
Total incurred claims	<u>148,527,365</u>	<u>170,571,718</u>
Less: Claims paid		
Current year	114,445,319	148,855,359
Prior years	<u>34,404,616</u>	<u>35,458,324</u>
Total claims paid	<u>148,849,935</u>	<u>184,313,683</u>
Unpaid claims, end of the period, net	<u>52,674,032</u>	<u>52,996,602</u>
Add: Reinsurance recoverables	—	35,051
Unpaid claims, end of the period	\$ <u>52,674,032</u>	\$ <u>53,031,653</u>

Excluded from the above are reserves of \$384,882, \$3,258,424, and \$2,400,000 at December 31, 2020 related to life products, group disability products and provider claim liabilities and \$564,837, \$4,016,495, and \$8,405,000 at December 31, 2019, respectively. Our estimates of prior years' health care unpaid claims decreased by \$6,024,066 and \$7,788,349 in 2020 and 2019, 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.

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**(11) Current and Future Benefits**

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

	<u>2020</u>	<u>2019</u>
Benefits paid:		
Group accident and health	\$ 149,239,359	\$ 184,313,683
Long-term disability	657,317	743,315
Group life	302,360	722,081
Change in claim reserves:		
Group accident and health	(711,994)	(13,741,965)
Long-term disability	(679,536)	(334,577)
Group life	(179,955)	(66,571)
Change in experience rating refunds reserves:		
Group accident and health	—	2,178,597
Current and future benefits	<u>\$ 148,627,551</u>	<u>\$ 173,814,563</u>

Excluded from above for the years ended December 31, 2020 and 2019 are items totaling (\$226,495) and \$3,563,441, respectively, primarily related to provider liabilities and certain reinsurance agreements with Aetna Insurance Company Limited (AICL) and Aetna International Hong Kong (AIHK). (See note 13.)

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**(12) Premiums and Reinsurance**

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

	<u>2020</u>	<u>2019</u>
Gross premiums written:		
Direct	\$ 203,836,995	\$ 223,645,750
Assumed	72,163,148	60,192,846
Total premiums written	<u>276,000,143</u>	<u>283,838,596</u>
Change in unearned premiums:		
Direct	2,186,583	(2,009,859)
Assumed	(3,001,074)	976,068
Total change in unearned premiums	<u>(814,491)</u>	<u>(1,033,791)</u>
Gross premiums earned	<u>275,185,652</u>	<u>282,804,805</u>
Ceded reinsurance premiums	(243,403)	(433,825)
Change in allowance for estimated terminations and uncollectible amounts	(476,700)	42,699
Change in experience rating refunds reserves	<u>(3,606,140)</u>	<u>—</u>
Net Premiums Earned	<u>\$ 270,859,409</u>	<u>\$ 282,413,679</u>

**(13) Related-Party Transactions**

Aetna and its affiliates provided various administrative and support functions to the Company in 2020 and 2019. 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 \$38,470,456 and \$26,492,008 in 2020 and 2019, 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 \$24,000,000 and \$34,000,000 in 2020 and 2019.

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 Sheets and were \$374,585 and \$638,462 at December 31, 2020 and 2019, 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

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stated under the terms of the agreement. For the year ended December 31, 2020, the premiums earned were \$3,936,180 and claims incurred under this agreement were \$6,316,563 and for the year ended December 31, 2019, the premiums earned were \$2,719,313 and claims incurred under this agreement were \$4,428,928.

During 2018, the Company entered into an Excess of Loss Reinsurance agreement with Aetna Insurance (Hong Kong) Limited ("AIHK"). Under the terms of this agreement, the Company will reimburse AIHK for claims paid in excess of \$250,000 in respect of business written on AIHK. In return, the Company receives premium as stated under the terms of the agreement. For the year ended December 31, 2020, the premiums earned were \$558,615 and claims incurred under this agreement were \$990,615 and for the year ended December 31, 2019, the premiums earned were \$396,968 and claims incurred under this agreement were \$0.

During 2020, the Company entered into an Excess of Loss Reinsurance agreement with Aetna Health Insurance Company of Europe ("AHICE"). Under the terms of this agreement, the Company will reimburse AHICE for claims paid in excess of \$250,000 in respect of business written on AHICE. In return, the Company receives premium as stated under the terms of the agreement. For the year ended December 31, 2020, the premiums earned were \$9,599 and claims incurred under this agreement were \$0.

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, 2020 and December 31, 2019 amounted to \$18,720,717 and \$13,148,153, 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, 2020 and December 31, 2019 were \$39,824,716 and \$41,875,610, respectively.

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

	<u>2020</u>	<u>2019</u>
Aetna Life Insurance Company	\$ (51,998,068)	\$ (50,160,634)
Aetna Insurance Company Limited	(5,521,942)	(3,196,310)
Aetna Inc.	(4,456,072)	(1,161,123)
Aetna Resources, LLC	(1,620,299)	(1,008,918)
Aetna Shanghai Enterprise Services	(1,060,101)	2,049,605
Aetna Insurance (Hong Kong) Limited	(386,375)	417,154
Aetna Global Benefits Limited (DIFC)	(152,263)	—
Goodhealth Worldwide Global Limited	—	(222,740)
Aetna International Inc.	(26,154)	(58,301)
Aetna Global Benefits (Europe) Limited	(16,474)	(51,802)
	<u>\$ (65,237,748)</u>	<u>\$ (53,393,069)</u>

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

	<u>2020</u>	<u>2019</u>
Aetna Global Benefits (Middle East) LLC	\$ 10,274,101	\$ 9,806,107
Aetna Global Benefits (Asia Pacific) Limited	9,296,472	4,796,168
Aetna Global Benefits (UK) Limited	1,561,587	—
Goodhealth Worldwide (Asia) Limited	480,826	539,230
Aetna Health Management LLC	119,025	61,465
Other	81,162	(10,977)
	<u>\$ 21,813,173</u>	<u>\$ 15,191,993</u>

**(14) Income Taxes***Bermuda*

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on 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.

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*United States*

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

	<u>2020</u>	<u>2019</u>
Current expense	\$ 4,602,871	\$ 7,887,077
Deferred (benefit) expense	<u>(236,310)</u>	<u>93,287</u>
Provision for income taxes	<u>\$ 4,366,561</u>	<u>\$ 7,980,364</u>

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

	<u>2020</u>		<u>2019</u>	
Tax at statutory rate	\$ 3,502,151	21.00%	\$ 5,489,569	21.00%
Other permanent differences	74,944	0.45%	78,149	0.30%
Tax rate differential	-	0.00%	2,082,651	7.97%
Non-US tax	651,869	3.91%	-	0.00%
Prior year true-up and other	<u>137,597</u>	<u>0.83%</u>	<u>329,995</u>	<u>1.26%</u>
	<u>\$ 4,366,561</u>	<u>26.19%</u>	<u>\$ 7,980,364</u>	<u>30.53%</u>

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

	<u>2020</u>	<u>2019</u>
Deferred tax assets:		
Unpaid claims and claim adjustment expense	\$ 86,349	\$ 68,468
Unearned premium	2,810,747	2,728,939
Deferred acquisition costs	37,044	40,817
Investments, net	31,107	-
Software	-	37,679
FIN 48 (Uncertain tax position)	<u>60,362</u>	<u>60,362</u>
Gross deferred tax assets	<u>3,025,609</u>	<u>2,936,265</u>
Deferred tax liabilities:		
Investments, net	-	146,966
Net unrealized gain on debt securities	<u>2,523,792</u>	<u>1,380,462</u>
Gross deferred tax liabilities	<u>2,523,792</u>	<u>1,527,428</u>
Net deferred tax asset	<u>\$ 501,817</u>	<u>\$ 1,408,837</u>

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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 the 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, 2020 and 2019.

At December 31, 2020 and 2019, the Company did not have material uncertain tax positions reflected in the Balance Sheets.

**(15) Commitments and Contingencies**

*COVID-19*

The Coronavirus Disease 2019 ("COVID-19") pandemic is continuing to have an impact on the global economy, with businesses experiencing reduced customer traffic and, where governments mandated, temporary suspension of traffic and some public facilities. The adverse impact for the Company was mostly realized in slower growth for 2020, which was offset by strong customer retention, lower medical claims costs and no increase to credit risk as customers continue to settle their premiums within agreed credit terms.

The COVID-19 pandemic continues to evolve. The Company believes COVID-19's impact on the Company's business, operating results, cash flows and/or financial condition primarily will be driven by the geographies impacted and the severity and duration of the pandemic; the pandemic's impact on the global economies and consumer behavior and health care utilization patterns; and the timing, scope and impact of stimulus legislation as well as other governmental responses to the pandemic. Those primary drivers are beyond the Company's knowledge and control. As a result, the impact COVID-19 will have on the Company's business, operating results, cash flows and/or financial condition is uncertain, but the impact could be adverse. COVID-19 also may result in legal and regulatory proceedings, investigations and claims against the Company.

*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 CVS Health Group has been involved or is currently involved in numerous legal proceedings, including litigation, arbitration, government investigations, audits, reviews and claims. These include routine, regular and special investigations, audits and reviews by the Centers for Medicare and Medicaid Services ("CMS"), state insurance and health and welfare departments, state attorneys general, and other governmental authorities.

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Legal proceedings, in general, and securities, class action and multi-district litigation, in particular, and governmental special investigations, audits and reviews can be expensive and disruptive. Some of the litigation matters may purport or be determined to be class actions and/or involve parties seeking large and/or indeterminate amounts, including punitive or exemplary damages, and may remain unresolved for several years. The CVS Health Group also may be named from time to time in qui tam actions initiated by private third parties that could also be separately pursued by a governmental body. The results of legal proceedings, including government investigations, are often uncertain and difficult to predict, and the costs incurred in these matters can be substantial, regardless of the outcome.

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 reasonably estimable, the Company does not establish an accrued liability.

Except as otherwise noted, the Company cannot predict with certainty the timing or outcome of the legal matters described below, 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. The outcome of such governmental investigations of proceedings could be material to the Company.

### Provider Proceedings

The CVS Health Group is named as a defendant in purported class actions and individual lawsuits arising out of its practices related to the payment of claims for services rendered to its members by providers with whom the CVS Health Group has a contract and with whom the CVS Health Group does not have a contract ("out-of-network providers"). Among other things, these lawsuits allege that the CVS Health Group paid too little to its health plan members and/or providers for out-of-network services and/or otherwise allege that the CVS Health Group failed to timely or appropriately pay or administer out-of-network claims and benefits (including the CVS Health Group's post payment audit and collection practices and reductions in payments to providers due to sequestration). Other major health insurers are the subject of similar litigation or have settled similar litigation.

The CVS Health Group also has received subpoenas and/or requests for documents and other information from, and been investigated by, state Attorneys General and other state and/or federal regulators, legislators and agencies relating to, and the CVS Health Group is involved in other litigation regarding, its out-of-network benefit payment and administration practices. It is reasonably possible that others could initiate additional litigation or additional regulatory action against one or more members of the CVS Health Group, including the Company, with respect to their respective out-of-network benefit payment and/or administration practices.

### Other Legal and Regulatory Proceedings

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. These other legal proceedings and government actions include claims of or relating to bad faith, medical or professional malpractice, claims processing, dispensing of medications, non-compliance with state and

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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.

Awards to the Company and others of certain government contracts, particularly Medicaid contracts and other contracts with government customers in the Company's health care and related benefits businesses, frequently are subject to protests by unsuccessful bidders. These protests may result in awards to the Company being reversed, delayed or modified. The loss or delay in implementation of any government contract could adversely affect the Company's results of operations. The Company will continue to defend contract awards it receives.

There also continues to be a heightened level of review and/or audit by regulatory authorities and legislators of, and increased litigation regarding, the Company's and the rest of the health care and related benefits industry's business and reporting practices, including premium rate increases, utilization management, development and application of medical policies, complaint, grievance and appeal processing, information privacy, provider network structure (including provider network adequacy, the use of performance-based networks and termination of provider contracts), provider directory accuracy, calculation of minimum medical loss ratios and/or payment of related rebates, delegated arrangements, rescission of insurance coverage, limited benefit health products, student health products, pharmacy benefit management practices (including manufacturers' rebates, pricing, the use of narrow networks and the placement of drugs in formulary tiers), sales practices, customer service practices, vendor oversight and claim payment practices (including payments to out-of-network providers).

As a leading national health care company, the CVS Health Group regularly is the subject of government actions of the types described above. These government actions may prevent or delay the Company from implementing planned premium rate increases and may result, and have resulted, in restrictions on the Company's businesses, changes to or clarifications of the Company's business practices, retroactive adjustments to premiums, refunds or other payments to members, beneficiaries, states or the federal government, withholding of premium payments to the Company by government agencies, assessments of damages, civil or criminal fines or penalties, or other sanctions, including the possible suspension or loss of licensure and/or suspension or exclusion from participation in government programs.

The Company can give no assurance that its businesses, financial condition, results of operations and/or cash flows will not be materially adversely affected, or that the Company will not be required to materially change its business practices, based on: (i) future enactment of new health care or other laws or regulations; (ii) the interpretation or application of existing laws or regulations as they may relate to one or more of the Company's businesses, one or more of the industries in which the Company competes and/or the health care industry generally; (iii) pending or future federal or state government investigations of one or more of the CVS Health Group's and/or the Company's businesses, one or more of the industries in which the CVS Health Group and/or the Company competes and/or the health care industry generally; (iv) pending or future government audits, investigations or enforcement actions against the CVS Health Group and/or the Company; (v) adverse developments in any pending qui tam lawsuit against the CVS Health Group and/or the Company, whether sealed or unsealed, or in any future qui tam lawsuit that may be filed

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against the CVS Health Group and/or the Company; or (vi) adverse developments in pending or future legal proceedings against the CVS Health Group and/or the Company or affecting one or more of the industries in which the CVS Health Group and/or the Company competes and/or the health care industry generally.

Litigation Insurance Coverage

The Company maintains insurance coverage for certain litigation exposures in an amount it believes is reasonable.

**(16) 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 \$107.7 million at December 31, 2020. 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, 2020, the Company met the ECR.

**(17) Subsequent Events**

The Company evaluated subsequent events through April 26, 2021 and no material events were identified other than what has been disclosed above.