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Financial Statements - Statutory Basis

Aetna Better Health, Inc.
(a Louisiana corporation)

Years Ended December 31, 2017 and 2016
with Independent Auditors' Report

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

Independent Auditors' Report

The Board of Directors
Aetna Better Health, Inc. (a Louisiana corporation)

Report on the Financial Statements

We have audited the accompanying financial statements of Aetna Better Health, Inc. (a Louisiana corporation), which comprise the statutory statements of assets, liabilities, capital and surplus as of December 31, 2017 and 2016, and the related statutory statements of revenue and expenses, changes in capital and surplus, and cash flows for the years then ended, and the related notes to the statutory 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 statutory accounting practices prescribed or permitted by the Louisiana Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the financial statements, the financial statements are prepared by Aetna Better Health, Inc. (a Louisiana corporation) using statutory accounting practices prescribed or permitted by the Louisiana Department of Insurance, which is a basis of accounting other than U.S. generally accepted accounting principles. Accordingly, the financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.

The effects on the financial statements of the variances between the statutory accounting practices described in Note 2 and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the variances between statutory accounting practices and U.S. generally accepted accounting principles discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of Aetna Better Health, Inc. (a Louisiana corporation) as of December 31, 2017 and 2016, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and capital and surplus of Aetna Better Health, Inc. (a Louisiana corporation) as of December 31, 2017 and 2016, and the results of its operations and its cash flow for the years then ended, in accordance with statutory accounting practices prescribed or permitted by the Louisiana Department of Insurance described in Note 2.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the supplemental schedules titled Summary Investment Schedule and Supplemental Investment Risks Interrogatories is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Louisiana Department of Insurance. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

May 25, 2018

Aetna Better Health, Inc.
(a Louisiana corporation)
As of December 31, 2017 and 2016

Statutory Statements of Assets

	Current Year			Prior Year
	Assets	Nonadmitted Assets	Net Admitted Assets	Net Admitted Assets
01 Bonds (Schedule D)	$156,655,106	$0	$156,655,106	$130,822,565
02.1 Preferred stocks (Schedule D)	0	0	0	0
02.2 Common stocks (Schedule D)	0	0	0	0
03.1 Mortgage loans on real estate: First liens	0	0	0	0
03.2 Mortgage loans on real estate: Other than first liens	0	0	0	0
04.1 Properties occupied by the company	0	0	0	0
04.2 Properties held for the production of income	0	0	0	0
04.3 Properties held for sale	0	0	0	0
05 Cash ($502,623 in 2017 and $4,287,013 in 2016), cash equivalents ($5,999,318 in 2017 and $27,398,733 in 2016) and short-term investments ($0 in 2017 and $251,425 in 2016)	6,501,941	0	6,501,941	31,937,171
06 Contract loans	0	0	0	0
07 Derivatives (Schedule DB)	0	0	0	0
08 Other invested assets (Schedule BA)	0	0	0	0
09 Receivables for securities	84,375	0	84,375	84,375
10 Securities lending reinvested collateral assets (Schedule DL)	0	0	0	0
11 Aggregate write-ins for invested assets	0	0	0	0
12 Subtotals, cash and invested assets (Lines 1 to 11)	163,241,422	0	163,241,422	162,844,111
13 Title plants (for Title insurers only)	0	0	0	0
14 Investment income due and accrued	758,058	0	758,058	501,774
15.1 Uncollected premiums and agents' balances in the course of collection	49,553,035	0	49,553,035	47,348,249
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	0	0	0	0
15.3 Accrued retrospective premiums and contracts subject to redetermination	0	0	0	0
16.1 Amounts recoverable from reinsurers	0	0	0	45,536
16.2 Funds held by or deposited with reinsured companies	0	0	0	0
16.3 Other amounts receivable under reinsurance contracts	0	0	0	0
17 Amounts receivable relating to uninsured plans	0	0	0	0
18.1 Current federal and foreign income tax recoverable and interest thereon	6,700,122	0	6,700,122	0
18.2 Net deferred tax asset	2,641,327	43,890	2,597,437	27,617
19 Guaranty funds receivable or on deposit	0	0	0	0
20 Electronic data processing equipment and software	0	0	0	0
21 Furniture and equipment, including health care delivery assets	0	0	0	0
22 Net adjustment in assets and liabilities due to foreign exchange rates	0	0	0	0
23 Receivables from parent, subsidiaries and affiliates	0	0	0	0
24 Health care ($1,334,972 in 2017 and $1,009,300 in 2016) and other amounts	5,022,763	3,687,791	1,334,972	1,009,300
25 Aggregate write-ins for other than invested assets	385,305	0	385,305	0
26 Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25)	228,302,032	3,731,681	224,570,351	211,776,587
27 From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0	0	0
28 Total (Lines 26 and 27)	$228,302,032	$3,731,681	$224,570,351	$211,776,587

Details of Write-Ins				
2501 State income tax receivables	$385,305	$0	$385,305	$0
2502	0	0	0	0
2503	0	0	0	0
2598 Summary of remaining write-ins for Line 25 from overflow page	0	0	0	0
2599 Totals (Lines 2501 thru 2503) (Line 25 above)	$385,305	$0	$385,305	$0

See accompanying notes to statutory financial statements.

Aetna Better Health, Inc.
(a Louisiana corporation)
As of December 31, 2017 and 2016

Statutory Statements of Liabilities, Capital and Surplus

	Current Year Total	Prior Year Total
01 Claims unpaid	$93,805,112	$109,181,413
02 Accrued medical incentive pool and bonus amounts	571,678	0
03 Unpaid claim adjustment expenses	1,189,739	1,524,381
04 Aggregate health policy reserves, including the liability of $0 in 2017 and 2016 for medical loss ratio rebate per the Public Health Service Act	0	0
05 Aggregate life policy reserves	0	0
06 Property/casualty unearned premium reserves	0	0
07 Aggregate health claim reserves	0	0
08 Premiums received in advance	0	0
09 General expenses due or accrued	14,683,216	19,990,878
10.1 Current federal and foreign income tax payable and interest thereon	0	469,280
10.2 Net deferred tax liability	0	0
11 Ceded reinsurance premiums payable	0	0
12 Amounts withheld or retained for the account of others	0	0
13 Remittances and items not allocated	362,390	259,133
14 Borrowed money and interest thereon	0	0
15 Amounts due to parent, subsidiaries and affiliates	25,748,083	17,313,429
16 Derivatives	0	0
17 Payable for securities	0	0
18 Payable for securities lending	0	0
19 Funds held under reinsurance treaties	0	0
20 Reinsurance in unauthorized and certified	0	0
21 Net adjustments in assets and liabilities due to foreign exchange rates	0	0
22 Liability for amounts held under uninsured plans	0	0
23 Aggregate write-ins for other liabilities	264,146	69,620
24 Total liabilities (Lines 1 to 23)	136,624,364	148,808,134
25 Aggregate write-ins for special surplus funds	11,880,000	0
26 Common capital stock	0	0
27 Preferred capital stock	0	0
28 Gross paid in and contributed surplus	87,000,000	87,000,000
29 Surplus notes	0	0
30 Aggregate write-ins for other than special surplus funds	0	0
31 Unassigned surplus	(10,934,013)	(24,031,547)
32.1 Less treasury stock, at cost: 0 shares common	0	0
32.2 Less treasury stock, at cost: 0 shares preferred	0	0
33 Total capital and surplus (Lines 25 to 31 minus Line 32)	87,945,987	62,968,453
34 Total liabilities, capital and surplus (Lines 24 and 33)	$224,570,351	$211,776,587

Details of Write-Ins		
2301 Escheat payable	$264,146	$69,620
2302	0	0
2303	0	0
2398 Summary of remaining write-ins for Line 23 from overflow page	0	0
2399 Totals (Lines 2301 thru 2303) (Line 23 above)	$264,146	$69,620
2501 Estimated Health Insurer Fee accrual	$11,880,000	$0
2502	0	0
2503	0	0
2598 Summary of remaining write-ins for Line 25 from overflow page	0	0
2599 Totals (Lines 2501 thru 2503) (Line 25 above)	$11,880,000	$0

See accompanying notes to statutory financial statements.

Aetna Better Health, Inc.
(a Louisiana corporation)
For years ended December 31, 2017 and 2016

Statutory Statements of Revenue and Expenses

	Current Year Total	Prior Year Total
01 Line not used		
02 Net premium income	$591,957,999	$421,937,923
03 Change in unearned premium reserves and reserve for rate credits	0	0
04 Fee-for-service	0	0
05 Risk revenue	0	0
06 Aggregate write-ins for other health care related revenues	0	625
07 Aggregate write-ins for other non-health revenues	0	0
08 Total revenues (Lines 2 to 7)	591,957,999	421,938,548
09 Hospital/medical benefits	315,142,394	271,724,278
10 Other professional services	5,370,492	4,987,775
11 Outside referrals	19,049,549	17,231,867
12 Emergency room and out-of-area	41,157,402	22,227,103
13 Prescription drugs	113,654,855	54,590,753
14 Aggregate write-ins for other hospital and medical	0	0
15 Incentive pool, withhold adjustments and bonus amounts	221,526	0
16 Subtotal (Lines 9 to 15)	494,596,218	370,761,776
17 Net reinsurance recoveries	322,618	467,279
18 Total hospital and medical (Lines 16 minus 17)	494,273,600	370,294,497
19 Non-health claims (net)	0	0
20 Claims adjustment expenses	12,706,078	12,902,017
21 General administrative expenses	57,957,196	46,132,830
22 Increase in reserves for life and accident and health contracts	0	(475,465)
23 Total underwriting deductions (Lines 18 through 22)	564,936,874	428,853,879
24 Net underwriting gain (loss) (Lines 8 minus 23)	27,021,125	(6,915,331)
25 Net investment income earned	3,293,500	604,219
26 Net realized capital gains (losses) less capital gains (losses) tax of $(275,566) in 2017 and $16,823 in 2016	76,558	(1,775,264)
27 Net investment gains (losses) (Lines 25 plus 26)	3,370,058	(1,171,045)
28 Net gain or (loss) from agents' or premium balances charged off	0	0
29 Aggregate write-ins for other income or expenses	524,000	(1,320,000)
30 Net gain (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)	30,915,183	(9,406,376)
31 Federal and foreign income tax benefits incurred (recovered)	8,160,926	(1,552,686)
32 Net income (loss)	$22,754,257	($7,853,690)

Details of Write-Ins		
601 Other income	$0	$625
602	0	0
603	0	0
698 Summary of remaining write-ins for Line 6 from overflow page	0	0
699 Totals (Lines 0601 thru 0603) (Line 6 above)	$0	$625
2901 Regulatory fines and penalties	$524,000	($1,320,000)
2902	0	0
2903	0	0
2998 Summary of remaining write-ins for Line 29 from overflow page	0	0
2999 Totals (Lines 2901 thru 2903) (Line 29 above)	$524,000	($1,320,000)

See accompanying notes to statutory financial statements.

Aetna Better Health, Inc.
(a Louisiana corporation)
For years ended December 31, 2017 and 2016

Statutory Statements of Changes in Capital and Surplus

	Current Year	Prior Year
33 Capital and surplus prior reporting year	$62,968,453	$23,494,662
34 Net lincome (loss) from Line 32	22,754,257	(7,853,690)
35 Change in valuation basis of aggregate policy and claim reserves	0	0
36 Change in net unrealized capital gains or (losses) less capital gains tax	0	0
37 Change in net unrealized foreign exchange capital gain or (loss)	0	0
38 Change in net deferred income tax	2,613,710	27,617
39 Change in nonadmitted assets	(390,433)	(2,700,136)
40 Change in unauthorized and certified reinsurance	0	0
41 Change in treasury stock	0	0
42 Change in surplus notes	0	0
43 Cumulative effect of changes in accounting principles	0	0
44.1 Capital Changes: Paid in	0	0
44.2 Transferred from surplus (Stock Dividend)	0	0
44.3 Transferred to surplus	0	0
45.1 Surplus adjustments: Paid in	0	50,000,000
45.2 Transferred to capital (Stock Dividend)	0	0
45.3 Transferred from capital	0	0
46 Dividends to stockholders	0	0
47 Aggregate write-ins for gains or (losses) in surplus	0	0
48 Net change in capital and surplus (Lines 34 to 47)	24,977,534	39,473,791
49 Capital and surplus end of reporting period (Line 33 plus 48)	$87,945,987	$62,968,453

See accompanying notes to statutory financial statements.

Aetna Better Health, Inc.
(a Louisiana corporation)
For years ended December 31, 2017 and 2016

Statutory Statements of Cash Flows

	Current Year	Prior Year
01 Premiums collected net of reinsurance	$589,753,213	$402,352,808
02 Net investment income	2,963,956	76,321
03 Miscellaneous income (loss)	0	(2,707,169)
04 Total (Lines 1 to 3)	592,717,169	399,721,960
05 Benefit and loss related payments	509,704,901	308,115,003
06 Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0
07 Commissions, expenses paid and aggregate write-ins for deductions	76,166,883	43,101,300
08 Dividends paid to policyholders	0	0
09 Federal and foreign income taxes paid (recovered)	15,054,762	(3,043,976)
10 Total (Lines 5 through 9)	600,926,546	348,172,327
11 Net cash from operations (Line 4 minus Line 10)	(8,209,377)	51,549,633
12.1 Proceeds - Bonds	39,354,595	11,473,125
12.2 Stocks	0	0
12.3 Mortgage loans	0	0
12.4 Real estate	0	0
12.5 Other invested assets	0	0
12.6 Net losses on cash, cash equivalents and short-term investments	(17)	(1,148)
12.7 Miscellaneous proceeds	0	0
12.8 Total investment (Lines 12.1 to 12.7)	39,354,578	11,471,977
13.1 Cost of investments - Bonds	65,312,866	117,867,623
13.2 Stocks	0	0
13.3 Mortgage loans	0	0
13.4 Real estate	0	0
13.5 Other invested assets	0	0
13.6 Miscellaneous applications	0	84,375
13.7 Total investments acquired (Lines 13.1 to 13.6)	65,312,866	117,951,998
14 Net increase or (decrease) in contract loans and premium notes	0	0
15 Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	(25,958,288)	(106,480,021)
16.1 Surplus notes, capital notes	0	0
16.2 Capital and paid in surplus, less treasury stock	0	50,000,000
16.3 Borrowed funds	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities	0	0
16.5 Dividends to stockholders	0	0
16.6 Other cash provided	8,732,435	3,393,685
17 Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	8,732,435	53,393,685
18 Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	(25,435,230)	(1,536,703)
19.1 Cash, cash equivalents and short term investments - Beginning of year	31,937,171	33,473,874
19.2 Cash, cash equivalents and short term investments - End of period (Line 18 plus Line 19.1)	$6,501,941	$31,937,171

See accompanying notes to statutory financial statements.

1. Organization and operation

Aetna Better Health, Inc. (a Louisiana corporation) (the "Company") is a wholly-owned subsidiary of Aetna Health Holdings, LLC, whose ultimate parent is Aetna Inc. ("Aetna").

The Company was incorporated in the State of Louisiana on July 27, 2010. Effective February 1, 2015, the Company began administering a health plan for individuals who qualify for Medicaid coverage in the State of Louisiana. The contract with the Louisiana Department of Health and Hospitals is for a term through December 31, 2019.

2. Summary of significant accounting policies

Accounting practices

The accompanying statutory financial statements of the Company have been prepared in conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance ("Louisiana Department") ("Louisiana Accounting Practices"). The Louisiana Department recognizes only statutory accounting practices prescribed or permitted by the State of Louisiana for determining and reporting the financial condition and results of operations of an insurance company, which include accounting practices and procedures adopted by the National Association of Insurance Commissioners' ("NAIC") *Accounting Practices and Procedures Manual* ("NAIC SAP"). The Company's net income (loss) and capital and surplus as stated on a NAIC SAP basis and on the basis of practices prescribed or permitted by the State of Louisiana were the same as of and for the years ended December 31, 2017 and 2016.

The Louisiana Accounting Practices vary from U.S. generally accepted accounting principles ("GAAP"). The primary differences include the following:

- Certain assets, designated as non-admitted assets (other receivables, which are non-admitted in accordance with Statements of Statutory Accounting Principles ("SSAP") No. 4 - *Assets and Non-admitted Assets*) are not recorded as assets, but are charged to surplus. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third party interests should not be recognized on the Statutory Statements of Assets, and are, therefore, considered non-admitted;
- Bonds are recorded at amortized cost except for those with an NAIC designation of 3 through 6, which are reported at the lower of amortized cost or fair value. Therefore, changes in unrealized gains and losses for those securities held at amortized cost are not reflected in the financial statements. Under GAAP, bonds classified as available for sale are recorded at fair value, and related changes in unrealized gains and losses are recorded as a component of equity, net of deferred federal income taxes;
- Deferred tax assets and liabilities are determined and admitted in accordance with SSAP No. 101 - *Income Taxes* ("SSAP No. 101"). Changes in net deferred tax assets and liabilities are reflected as changes in surplus, whereas under GAAP, changes in such assets and liabilities are reflected in net income. In addition, statutory accounting requires consideration of a statutory allowance adjustment in the calculation of adjusted gross deferred tax assets and an admissibility test for deferred tax assets; and
- Reinsurance recoverables on unpaid losses are reported as a reduction of liability for unpaid claims and claims adjustment expenses, while under GAAP, they are reported as an asset.

There were no permitted practices by the State of Louisiana for the years ended December 31, 2017 and 2016.

Use of estimates in the preparation of the financial statements

The preparation of these financial statements in conformity with Louisiana Accounting Practices requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses. Actual results could differ from those estimates.

Significant accounting policies

The Company applies the following significant accounting policies:

Cash, cash equivalents and short-term investments

Cash, cash equivalents and short-term investments, consisting primarily of money market instruments and other debt issues with an original maturity of up to one year, are carried at amortized cost. Short-term investments consist primarily of investments purchased with an original maturity date of greater than three months but less than one year. Cash equivalents consist of highly liquid instruments, which mature within three months from the date of purchase. The carrying amount of cash, cash equivalents and short-term investments approximates fair value.

Bonds

Bonds, which include special deposits as discussed more fully in Note 4, are carried at amortized cost except for those bonds with an NAIC designation of 3 through 6, which are carried at the lower of amortized cost or fair value. The amount carried at fair value is not material to the financial statements. Bond premiums and discounts are amortized using the scientific interest method. When quoted prices in active markets for identical assets are available, the Company uses these quoted market prices to determine the fair value of bonds. This is used primarily for U.S. government securities. In other cases where a quoted market price for identical assets in an active market is either not available or not observable, the Company estimates fair values using valuation methodologies based on available and observable market information or by using a matrix pricing model. 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. The Company had no investments where fair value was determined using broker quotes or an internal analysis of financial performance and cash flow projections at December 31, 2017 and 2016. Bonds include all investments whose maturity is greater than one year when purchased.

The Company periodically reviews its bonds to determine whether a decline in fair value below the carrying value is other-than-temporary. For bonds, other than loan-backed and structured securities ("LB&SS"), an other-than-temporary impairment ("OTTI") shall be recorded if it is probable that the Company will be unable to collect all amounts due according to the contractual terms in effect at the date of acquisition. Declines deemed to be OTTI in the cost basis are recognized as realized capital losses. Yield-related impairments are deemed other-than-temporary when the Company intends to sell an investment at the reporting date before recovery of the cost of the investment.

For LB&SS, the Company records OTTI when the fair value of the loan-backed or structured security is less than the amortized cost basis at the balance sheet date and (1) the Company intends to sell the investment, or (2) the Company does not have the intent and ability to retain the investment for the time sufficient to recover the amortized cost basis, or (3) the Company does not expect to recover the entire amortized cost basis of the security, even if it does not intend to sell the security and has the intent and ability to hold. If it is determined an OTTI has occurred because of (1) or (2), the amount of the OTTI is equal to the difference between the amortized cost and the fair value of the security at the balance sheet date and this difference is recorded as a realized capital loss. If it is determined an OTTI has occurred because of (3), the amount of the OTTI is equal to the difference between the amortized cost and the present value of cash flows expected to be collected, discounted at the loan-backed or structured security's effective interest rate and this difference is also accounted for as a realized capital loss.

The Company analyzes all relevant facts and circumstances for each investment when performing its analysis to determine whether an OTTI exists. Among the factors considered in evaluating whether a decline is other-than-temporary, management considers whether the decline in fair value results from a change in the quality of the investment security itself, whether the decline results from a downward movement in the market as a whole, the prospects for realizing the carrying value of the bond based on the investee's current and short-term prospects for recovery and other factors. The risks inherent in assessing the impairment of an investment include the risk that market factors may differ from our expectations and the risk that facts and circumstances factored into our assessment may change with the passage of time. Unexpected changes to market factors and circumstances that were not present in past reporting periods may result in a current period decision to sell securities that were not other-than-temporarily-impaired in prior reporting periods.

For the Company's bonds and LB&SS that provide for a prepayment penalty or acceleration fee in the event the bond is liquidated prior to its scheduled termination date, the Company reports such fees as investment income when earned.

Investment income due and accrued

Accrued investment income consists primarily of interest. Interest is recognized on an accrual basis and dividends are recorded as earned on the ex-dividend date. Due and accrued income is not recorded on: (a) bonds in default; and (b) bonds delinquent more than 90 days or where collection of interest is improbable. At December 31, 2017 and 2016, the Company did not have any non-admitted investment income due and accrued.

Premiums and amounts due and unpaid

Premium revenue for prepaid health care products is recognized as income in the month in which enrollees are entitled to health care services.

Non-admitted amounts consist of all premiums due and unpaid greater than 90 days past due, with the exception of amounts due under government insured plans, which may be admitted assets under certain circumstances.

Hospital and medical costs and claims adjustment expenses and related reserves

Hospital and medical costs consist principally of fee-for-service medical claims and capitation costs. Claims unpaid and aggregate health claim reserves include the Company's estimate of payments to be made on claims reported but not yet paid and for health care services rendered to enrollees but not yet reported to the Company as of the Statutory Statements of Assets and Liabilities, Capital and Surplus date. Such estimates are developed using actuarial principles and assumptions, which consider, among other things, historical and projected claim submission and processing payment patterns, medical cost trends, historical utilization of health care services, claim inventory levels, medical inflation, contract requirement changes in membership and product mix, seasonality and other relevant factors. The Company reflects changes in estimates in hospital and medical costs in the Statutory Statements of Revenue and Expenses in the period they are determined. Capitation costs, which are recorded in hospital and medical expenses in the Statutory Statements of Revenue and Expenses, represent contractual monthly fees paid to participating physicians and other medical providers for providing medical care, regardless of the medical services provided to the enrollee.

The Company uses the triangulation method to estimate reserves for claims incurred but not reported. The method of triangulation makes estimates of completion factors that are then applied to the total paid claims (net of coordination of benefits) to date for each incurral month. This provides an estimate of the total projected incurred claims and total amount outstanding or claims incurred but not reported (claims unpaid). For the most current dates of service where there is insufficient paid claim data to rely solely on the triangulation method, the Company examines cost and utilization trends as well as environmental factors, plan changes, provider contracts, changes in membership and/or benefits, and historical seasonal patterns to estimate the reserve required for these months.
Claims adjustment expenses, which include cost containment expenses, represent the costs incurred related to the claim settlement process such as costs to record, process and adjust claims. These expenses are included in the Company's management agreement with an affiliate described in Note 7.

Aggregate health policy reserves and related expenses

Premium deficiency reserves ("PDR") are recognized when it is probable that the expected future hospital and medical costs, including maintenance costs, will exceed anticipated future premiums and reinsurance recoveries on existing contracts. Where allowed, anticipated investment income is considered in the calculation of any PDR. For purposes of calculating a PDR, contracts are grouped in manner consistent with the method of acquiring, servicing and measuring the profitability of such contracts. The Company had no PDR at December 31, 2017 and 2016, respectively.

Fees Paid to the Federal Government by Health Insurers

SSAP No. 106 – *Affordable Care Act Section 9010 Assessment* ("SSAP No. 106") required (1) that the health insurer fee be recognized in full on January 1 of the fee year (the calendar year in which the assessment must be paid to the federal government), in the operating expense category of insurance taxes, licenses and fees, excluding federal income taxes and (2) that in each data year preceding a fee year a reporting entity pro-ratably accrue by reclassifying from unassigned funds (surplus) to aggregate write-ins for special surplus funds an amount equal to its estimated subsequent fee year assessment. This reclassification has no impact on total capital and surplus and is reversed in full on January 1 of the fee year. In December 2015, the Consolidated Appropriation Act was enacted which included a one year suspension in 2017 of the health insurer fee. As interpreted in INT 16-01: ACA Section 9010 Assessment 2017 Moratorium, because there was not an ACA Section 9010 fee due in September 2017, there was not an accrual of a liability on January 1, 2017 based on 2016 data year net written premiums. Accrual of a liability on January 1, 2018 for the ACA Section 9010 assessment based on 2017 data year net written premiums and the reclassification from unassigned funds (surplus) to aggregate write-ins for special surplus funds equal to the estimated 2018 fee year assessment accrued in data year 2017 both continued as prescribed under SSAP No. 106. See Note 17 for disclosure of all amounts related to the health insurer fee for the Company.

Federal income taxes

The Company is included in the consolidated federal income tax return of its parent company, Aetna and Aetna's other wholly-owned subsidiaries pursuant to the terms of a tax sharing agreement. In accordance with a written tax sharing agreement with an affiliate, the Company's current federal income tax provisions are generally computed as if the Company were filing a separate federal income tax return; current income tax benefits, including those resulting from net operating losses, are recognized to the extent realized in the consolidated return. Pursuant to this agreement, the Company has the enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

Income taxes are accounted for under the asset and liability method. Deferred income tax assets ("DTAs") and liabilities ("DTLs") represent the expected future tax consequences of temporary differences generated by statutory accounting as defined in SSAP No. 101. DTAs and DTLs are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. DTAs and DTLs are computed by means of identifying temporary differences which are measured using a balance sheet approach whereby statutory and tax basis balance sheets are compared. Current income tax recoverables include all current income taxes, including interest, reasonably expected to be recovered in a subsequent accounting period.

Pursuant to SSAP No. 101, gross DTAs are first reduced by a statutory valuation allowance adjustment to an amount that is more likely than not to be realized ("adjusted gross DTAs"). Adjusted gross DTAs are then admitted in an amount equal to the sum of paragraphs a. b. and c. below:

a. Federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse during a timeframe corresponding with Internal Revenue Service ("IRS") tax loss carryback provisions.

b. The amount of adjusted gross DTAs, after the application of paragraph a. above, expected to be realized within the applicable period and that is no greater than the applicable percentage as determined using the applicable Realization Threshold Limitation Table. The applicable period refers to the number of years in which the DTA will reverse in the Company's tax return and the applicable percentage refers to the percentage of the Company's statutory capital and surplus as required to be shown on the statutory balance sheet adjusted to exclude any net DTAs, electronic data processing equipment and operating system software and any net positive goodwill ("Stat Cap ExDTA").

The Realization Threshold Limitation Tables allow DTAs to be admitted based upon either realization within 3 years and 15% of Stat Cap ExDTA, 1 year and 10% of Stat Cap ExDTA, or no DTA admitted pursuant to this paragraph b. In general, the Realization Threshold Limitation Tables allow the Company to admit more DTAs if total DTAs as reported by the Company are a smaller percentage of statutory capital and surplus.

c. The amount of gross DTAs, after the application of paragraphs a. and b. above that can be offset against existing gross DTLs. In applying this offset, the Company considers the character (i.e. ordinary versus capital) of the DTAs and DTLs such that offsetting would be permitted in the tax return under existing enacted federal income tax laws and regulations and the reversal patterns of temporary differences.

Changes in DTAs and DTLs are recognized as a separate component of gains and losses in surplus ("Change in net deferred income tax") except to the extent allocated to changes in unrealized gains and losses. Changes in DTAs and DTLs allocated to unrealized gains and losses are netted against the related changes in unrealized gains and losses and are reported as "Change in net unrealized capital gains (losses)", also a separate component of gains and losses in surplus.

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. See Note 9 for the impact that the TCJA had on the Company.

Reinsurance

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results and to help balance its risks and capital by reinsuring certain levels of risk with other insurance enterprises. The reinsurance coverage does not relieve the Company of its primary obligations. Reinsurance premiums and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded for medical losses and the related unpaid reserves have been reported as reductions of these items. The reinsurance agreements are more fully discussed in Note 10.

Reclassifications

Certain reclassifications have been made to the 2016 audited financial statements to conform with the classifications used in 2017.

Going concern

As of May 25, 2018, management evaluated whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern and management has determined that it is not probable that the Company will be unable to meet its obligations as they become due within one year after the financial statements are available to be issued. Management will continuously evaluate the Company's ability to continue as a going concern and will take appropriate action and will make appropriate disclosures if there is any change in any condition or events that would raise substantial doubt about the Company's ability to continue as a going concern.

3. Accounting changes and corrections of errors

The Company did not have any accounting changes in the years ended December 31, 2017 and 2016 or corrections of errors in the year ended December 31, 2017.

During 2016, the Company recorded a correction to its nonadmitted healthcare receivables in the amount of $2,119,801. This adjustment is further discussed in Note 16.

4. Special deposits

Special deposits, included in bonds, consist of U.S. Treasury Notes, at amortized cost, which approximates fair value of $1,000,000 at December 31, 2017 and 2016. These assets are restricted in accordance with certain state requirements relating to health maintenance organizations ("HMO").

5. Bonds and other financial instruments

The following is a summary of bonds and other financial instruments receiving bond treatment, which include special deposits, cash equivalents and short-term investments, at December 31, 2017 and 2016:

December 31, 2017

	Amortized cost	Statutory carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government	$79,059,550	$79,059,550	$81,468	($149)	$79,140,869
U.S. states, territories and possessions (direct and guaranteed)	12,384,088	12,384,088	555,787	-	12,939,875
U.S. political subdivisions of states, territories and possessions (direct and guaranteed)	4,555,199	4,555,199	170,059	-	4,725,258
U.S. special revenue and assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	25,549,129	25,549,129	566,495	(13,148)	26,102,476
Industrial and miscellaneous (unaffiliated)	41,106,458	41,106,458	80,201	(168,449)	41,018,210
Total	$162,654,424	$162,654,424	$1,454,010	($181,746)	$163,926,688

December 31, 2016

	Amortized cost	Statutory carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government	$128,840,975	$128,840,975	$375,202	-	$129,216,177
U.S. states, territories and possessions (direct and guaranteed)	8,097,059	8,097,059	44,630	($51,279)	8,090,410
U.S. political subdivisions of states, territories and possessions (direct and guaranteed)	11,757,953	11,757,953	64,383	(2,384)	11,819,952
U.S. special revenue and assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	8,776,736	8,776,736	144,639	-	8,921,375
Industrial and miscellaneous (unaffiliated)	1,000,000	1,000,000	-	-	1,000,000
Total	$158,472,723	$158,472,723	$628,854	($53,663)	$159,047,914

Summarized below are the Company's bonds and other financial instruments, which include special deposits, with unrealized losses at December 31, 2016, along with the related fair values, aggregated by the length of time the investments have been in an unrealized loss position:

December 31, 2017

	Less than 12 months			Greater than 12 months		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
United States Government	1	$9,088,523	($149)	-	-	-
Special Revenue and Assessment	3	8,489,590	(13,148)	-	-	-
Industrial & Miscellaneous	17	25,389,354	(168,449)	-	-	-
Total	21	$42,967,467	($181,746)	-	-	-

	Total		
	Number of Securities	Fair Value	Unrealized Losses
United States Government	1	$9,088,523	($149)
Special Revenue and Assessment	3	8,489,590	(13,148)
Industrial & Miscellaneous	17	25,389,354	(168,449)
Total	21	$42,967,467	($181,746)

December 31, 2016

	Less than 12 months			Greater than 12 months		
	Number of Securities	Fair value	Unrealized losses	Number of Securities	Fair value	Unrealized losses
U.S. states, territories and possessions (direct and guaranteed)	1	$5,844,750	($51,279)	-	-	-
U.S. political subdivisions of states, territories and possessions (direct and guaranteed)	1	2,685,517	(2,384)	-	-	-
Total	2	$8,530,267	($53,663)	-	-	-

	Total		
	Number of Securities	Fair value	Unrealized losses
U.S. states, territories and possessions (direct and guaranteed)	1	$5,844,750	($51,279)
U.S. political subdivisions of states, territories and possessions (direct and guaranteed)	1	2,685,517	(2,384)
Total	2	$8,530,267	($53,663)

The Company has reviewed the investments in the table above and has 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 external rating agencies and internal credit analysts and the prospects of realizing the carrying value of the security based on the investment's current prospects for recovery. Furthermore, the Company has no intention to sell the investments in the table above at December 31, 2017 and 2016 before their cost can be recovered and for LB&SS the Company has the ability and intent to hold these securities for a period of time sufficient to recover the amortized cost; therefore, no OTTI was determined to have occurred on these investments during the years December 31, 2017 and 2016. In determining if the Company needs to sell before full recovery of value, the Company considers the forecasted recovery period, expected investment returns relative to other funding sources, projected cash flow and capital requirements, regulatory obligations, and other factors. Unrealized losses at December 31, 2017 and 2016 were generally caused by widening of market credit spreads for these securities relative to interest rates on U.S. Treasury securities.

The contractual or expected maturities of bonds, cash equivalents and short-term investments at December 31, 2017 were as follows:

	Carrying value	Fair value
Due one year or less	$15,837,991	$15,837,842
Due after one year through five years	94,463,986	94,417,007
Due after five years through ten years	47,970,429	48,922,494
Due after ten years	4,382,018	4,749,345
	$162,654,424	$163,926,688

The maturity for a mortgage pass-through security, included in U.S. Government and U.S. special revenue and assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions, is not based on stated maturity, but instead is based on prepayment assumptions. Prepayment assumptions are calculated utilizing published repayment factors that estimate the prepayment rates on the mortgages in the Federal National Mortgage Association and Government National Mortgage Association pools.

Proceeds from the sales of bonds and other financial instruments were $37,854,595 and $11,473,125 in 2017 and 2016, respectively. Proceeds from the maturities of bonds in were $1,500,000 and $0 in 2017 and 2016, respectively. Gross realized gains on sales of bonds were $161,299 and $51,866 in 2017 and 2016, respectively. Gross realized losses on sales of bonds were $32,699 and $0 in 2017 and 2016, respectively. Included in net realized capital losses for 2017 and 2016 were $329,309 and $1,810,687, respectively, of OTTI charges on debt securities that were in an unrealized loss position. The Company conducts regular reviews of its bond investments to assess whether a decline in fair value below carrying value is an OTTI. The Company will also recognize an OTTI on debt securities when the Company intends to sell a security that is in an unrealized loss position. Declines deemed to be OTTI are recognized as realized capital losses. The Company had no individually material realized capital losses on debt or equity securities that impacted its results of operations in 2017 or 2016.

The Company's unrealized loss position on LB&SS held by the Company at December 31, 2017 is as follows:

<u>December 31, 2017</u>

a.	The aggregate amount of unrealized losses:			
		1.	Less than 12 months	$23,186
		2.	12 months or longer	-
b.	The aggregate related fair value of securities with unrealized losses:			
		1.	Less than 12 months	$4,976,138
		2.	12 months or longer	-

There were no securities in an unrealized loss position in 2016.

The Company has reviewed the LB&SS in accordance with SSAP No. 43R - *Loan-Backed and Structured Securities* ("SSAP No. 43R") in the table above and have concluded that these are performing assets generating investment income to support the needs of the business. Furthermore, the Company has no intention to sell the securities at December 31, 2017 before their cost can be recovered and does have the intent and ability to retain the securities for the time sufficient to recover the amortized cost basis; therefore, no OTTI write-down to fair value was determined to have occurred on these securities.

There was no investment income due and accrued excluded from surplus at December 31, 2017 and 2016.

<u>Restricted assets (including pledged)</u>

The Company had $1,000,000 on deposit with other regulatory bodies, which represented 0.45% and 0.47% of total admitted assets at December 31, 2017 and 2016, respectively.

The Company did not have any assets pledged as collateral not captured in other categories at December 31, 2017 and 2016.

The Company did not have any other restricted assets at December 31, 2017 and 2016.

Prepayment Penalty and Acceleration Fees

	General Account
Number of Cusips	1
Aggregate Amount of Investment Income	$15,000

6. Financial instruments

Financial instruments measured at fair value in the financial statements

Certain of the Company's financial instruments are measured at fair value in the financial statements. The fair values of these instruments are based on valuations that include inputs that can be classified within one of three levels of a hierarchy established by U.S. generally accepted accounting principles. 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 or liabilities 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 our 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, we use these quoted market prices to determine the fair value of financial assets and liabilities and classify these assets and liabilities as 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, we estimate 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 as Level 2. If quoted market prices are not available, we determine 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 statutory carrying values and estimated fair values of the Company's financial instruments at December 31, 2017 and 2016 were as follows:

December 31, 2017

	Aggregate fair value	Admitted assets	Level 1	Level 2	Level 3	Not practicable (carrying value)
Bonds, short-term investments and cash equivalents	$163,926,688	$162,654,424	$79,139,238	$84,787,450	-	-
Total	$163,926,688	$162,654,424	$79,139,238	$84,787,450	-	-

December 31, 2016

	Aggregate fair value	Admitted assets	Level 1	Level 2	Level 3	Not practicable (carrying value)
Bonds, short-term investments and cash equivalents	$159,047,914	$158,472,723	$129,214,752	$29,833,162	-	-
Total	$159,047,914	$158,472,723	$129,214,752	$29,833,162	-	-

The valuation methods and assumptions used by the Company in estimating the fair value of debt securities are discussed in Note 2.

There were no material realized and unrealized capital gains, purchases, sales, settlements, or transfers into or out of the Company's Level 3 financial assets during 2017 or 2016. There were no transfers between the Company's Level 1 or 2 financial assets during 2017 or 2016.

In evaluating the Company's management of interest rate and liquidity risk and currency exposures, the fair values of all assets and liabilities should be taken into consideration, not only those presented above.

7. Information concerning Parent, subsidiaries, and affiliates

As of and for the years ended December 31, 2017 and 2016, the Company had the following significant transactions with affiliates:

The Company and Aetna Medicaid Administrators, LLC ("AMA"), an indirectly wholly-owned subsidiary of Aetna, are parties to an administrative services agreement, under which AMA provides certain administrative services, including accounting and processing of premiums and claims. Under this agreement, the Company will remit a percentage of its earned premium revenue, as applicable, to AMA as a fee. For these services, the Company was charged $38,744,284 in 2017 and $31,302,565 in 2016. The agreement also provides for interest on all intercompany balances. There was no interest earned (incurred) on amounts due from (to) affiliates in 2017 or 2016.

Prior to March 1, 2016, the Company had coverage for certain litigation exposures ($10,000,000 per claim and in the aggregate including defense costs) through an affiliated captive insurance company.

As explained in Note 2, the Company participates in a tax sharing agreement with Aetna and Aetna's other subsidiaries. All federal income tax receivables/payables were due from/due to Aetna.

Amounts due to and due from affiliates shown in the accompanying Statutory Statements of Assets, Liabilities, Capital and Surplus include the Company's net receipts and disbursements processed by affiliates and transactions related to its administrative services agreement with AMA.

At December 31, 2017 and 2016, the Company had no amounts due from affiliates and the following amounts due to affiliates:

	December 31	
	2017	2016
Amounts due to affiliates:		
Aetna Medicaid Administrators LLC	$10,522,578	$3,230,743
Aetna Inc.	15,225,486	13,582,380
Others not individually listed	19	500,306
	$25,748,083	$17,313,429

The terms of settlement require that these amounts be settled within 45 days after the end of the calendar quarter.

8. Health care receivables

Pharmaceutical rebates

The Company receives pharmaceutical rebates through an arrangement with Aetna Health Management, LLC ("AHM"), indirectly a wholly-owned subsidiary of Aetna. AHM has contractual agreements with pharmaceutical companies for rebates, which cover the Company's membership as well as the membership of other Aetna affiliates. The Company receives those rebates from AHM (either directly or through intercompany arrangements with other Aetna affiliates) that relate to the Company's membership. The Company estimates pharmaceutical rebate receivables based upon the historical payment trends, actual utilization and other variables. Actual rebates collected are applied to the collection periods below, using a first in, first out methodology. The Company had admitted pharmaceutical rebate receivables of $732,169 and $453,001 at December 31, 2017 and 2016, respectively. (Refer to the Company's accounting practices related to pharmaceutical rebate receivables in Note 2).

The following table discloses the quarterly revenue and subsequent cash collections relating to the pharmaceutical rebates:

Quarter	Estimated pharmacy rebates as reported on financial statements	Pharmacy rebates as invoiced/ confirmed	Actual rebates collected within 90 days of invoicing/ confirmation	Actual rebates collected within 91 to 180 days of invoicing/ confirmation	Actual rebates collected more than 180 days after invoicing/ confirmation
12/31/2017	$732,169	-	-	-	-
9/30/2017	632,953	$732,169	-	-	-
6/30/2017	438,408	632,953	$188,967	-	-
3/31/2017	424,111	438,407	123,440	$312,237	-
12/31/2016	$453,001	$424,110	$144,710	$275,258	$394
9/30/2016	364,342	363,229	161,366	178,397	134
6/30/2016	167,062	167,028	44,026	83,680	35,745
3/31/2016	142,155	142,122	83,063	40,304	15,036
12/31/2015	$138,640	$140,137	$61,099	$49,907	$25,732
9/30/2015	126,685	122,763	36,348	68,449	13,682
6/30/2015	92,635	91,541	21,139	55,620	7,285
3/31/2015	49,466	47,311	22,742	18,368	6,196

9. Income taxes

The components of the net DTAs recognized in the Company's Statutory Statements of Assets and Liabilities, Capital and Surplus are as follows:

	December 31, 2017		
	Ordinary	Capital	Total
(a) Gross DTAs	$2,437,654	$271,210	$2,708,864
(b) Statutory valuation allowance adjustment	-	-	-
(c) Adjusted gross DTAs	2,437,654	271,210	2,708,864
(d) DTAs non-admitted	-	(43,890)	(43,890)
(e) Subtotal net admitted DTAs	2,437,654	227,320	2,664,974
(f) DTLs	-	(67,537)	(67,537)
(g) Net admitted DTAs/(DTLs)	$2,437,654	$159,783	$2,597,437

	December 31, 2016		
	Ordinary	Capital	Total
(a) Gross DTAs	$4,085,476	$720,547	$4,806,023
(b) Statutory valuation allowance adjustment	(4,085,476)	(654,122)	(4,739,598)
(c) Adjusted gross DTAs	-	66,425	66,425
(d) DTAs non-admitted	-	-	-
(e) Subtotal net admitted DTAs	-	66,425	66,425
(f) DTLs	-	(38,808)	(38,808)
(g) Net admitted DTAs/(DTLs)	-	$27,617	$27,617

	Change		
	Ordinary	Capital	Total
(a) Gross DTAs	($1,647,822)	($449,337)	($2,097,159)
(b) Statutory valuation allowance adjustment	4,085,476	654,122	4,739,598
(c) Adjusted gross DTAs	2,437,654	204,785	2,642,439
(d) DTAs non-admitted	-	(43,890)	(43,890)
(e) Subtotal net admitted DTAs	2,437,654	160,895	2,598,549
(f) DTLs	-	(28,729)	(28,729)
(g) Net admitted DTAs/(DTLs)	$2,437,654	$132,166	$2,569,820

The amount of admitted gross DTAs admitted under each component of SSAP No. 101:

	December 31, 2017		
	Ordinary	Capital	Total
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	$2,421,022	$27,235	$2,448,257
(b) Adjusted gross DTAs expected to be realized (excluding the amount of DTAs) after application of the threshold limitations (the lesser of 2(b)1 and 2(b)2 below)	16,632	132,548	149,180
1. Adjusted gross DTAs expected to realized following the balance sheet date	16,632	132,548	149,180
2. Adjusted gross DTAs allowed per limitation threshold	N/A	N/A	12,802,283
(c) Adjusted gross DTAs (excluding the amount of DTAs from 2(a) and 2(b) above) offset by gross DTLs	-	67,537	67,537
(d) DTAs admitted as the result of application of SSAP No. 101	$2,437,654	$227,320	$2,664,974

	December 31, 2016		
	Ordinary	Capital	Total
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	-	$27,617	$27,617
(b) Adjusted gross DTAs expected to be realized (excluding the amount of DTAs) after application of the threshold limitations (the lesser of 2(b)1 and 2(b)2 below)	-	-	-
1. Adjusted gross DTAs expected to realized following the balance sheet date	-	-	-
2. Adjusted gross DTAs allowed per limitation threshold	N/A	N/A	9,759,096
(c) Adjusted gross DTAs (excluding the amount of DTAs from 2(a) and 2(b) above) offset by gross DTLs	-	38,808	38,808
(d) DTAs admitted as the result of application of SSAP No. 101	-	$66,425	$66,425

	Change		
	Ordinary	Capital	Total
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	$2,421,022	($382)	$2,420,640
(b) Adjusted gross DTAs expected to be realized (excluding the amount of DTAs) after application of the threshold limitations (the lesser of 2(b)1 and 2(b)2 below)	16,632	132,548	149,180
1. Adjusted gross DTAs expected to realized following the balance sheet date	16,632	132,548	149,180
2. Adjusted gross DTAs allowed per limitation threshold	N/A	N/A	3,043,187
(c) Adjusted gross DTAs (excluding the amount of DTAs from 2(a) and 2(b) above) offset by gross DTLs	-	28,729	28,729
(d) DTAs admitted as the result of application of SSAP No. 101	$2,437,654	$160,895	$2,598,549

	2017	2016
(a) Ratio percentage used to determine recovery period and threshold limitation amount	435%	433%
(b) Amount of adjusted capital and surplus used to determine recovery period threshold limitation in 2(b)2 above	$85,348,550	$64,894,225

The impact of tax planning strategies is as follows:

	December 31, 2017		
	Ordinary	Capital	Total
(a) Determination of adjusted gross DTAs and net admitted DTAs, by tax character as a percentage:			
1. Adjusted gross DTAs	$2,437,654	$271,210	$2,708,864
2. Percentage of adjusted DTAs by tax character attributable to the impact of tax planning strategies	0%	5%	5%
3. Net admitted adjusted gross DTAs	2,437,654	227,320	$2,664,974
4. Percentage of net admitted adjusted DTAs by tax character admitted because of the impact of tax planning strategies	0%	5%	5%

	December 31, 2016		
	Ordinary	Capital	Total
(a) Determination of adjusted gross DTAs and net admitted DTAs, by tax character as a percentage:			
1. Adjusted gross DTAs	-	$66,425	$66,425
2. Percentage of adjusted DTAs by tax character attributable to the impact of tax planning strategies	0%	0%	0%
3. Net admitted adjusted gross DTAs	-	$66,425	$66,425
4. Percentage of net admitted adjusted DTAs by tax character admitted because of the impact of tax planning strategies	0%	0%	0%

	Change		
	Ordinary	Capital	Total
(a) Determination of adjusted gross DTAs and net admitted DTAs, by tax character as a percentage:			
1. Adjusted gross DTAs	$2,437,654	$204,785	$2,642,439
2. Percentage of adjusted DTAs by tax character attributable to the impact of tax planning strategies	0%	5%	5%
3. Net admitted adjusted gross DTAs	$2,437,654	$160,895	$2,598,549
4. Percentage of net admitted adjusted DTAs by tax character admitted because of the impact of tax planning strategies	0%	5%	5%

The Company's tax-planning strategies did not include the use of reinsurance.

There are no DTLs that were not recognized at December 31, 2017 or 2016.

The (benefit) provision for income taxes for the years ended December 31, 2017 and 2016 were as follows:

	December 31		
	2017	2016	Change
Federal income tax benefit on operations	$8,160,926	($1,552,686)	$9,713,612
Federal income tax expense on net capital gains	(275,566)	16,823	(292,389)
Federal income tax benefit incurred	$7,885,360	($1,535,863)	$9.421.223

The tax effects of temporary differences that gave rise to deferred tax assets and liabilities at December 31, 2017 and 2016 were as follows:

	2017	2016	Change
DTAs:			
Ordinary			
Claims unpaid	$1,663,218	$2,916,040	($1,252,822)
Provider advances – non-admitted	774,436	1,169,436	(395,000)
Total ordinary DTAs	2,437,654	4,085,476	(1,647,822)
Statutory valuation allowance adjustment	-	(4,085,476)	4,085,476
Non-admitted ordinary DTAs	-	-	-
Admitted ordinary DTAs	2,437,654	-	2,437,654
Capital			
Investments - impairment	271,210	720,547	(449,337)
Total capital DTAs	271,210	720,547	(449,337)
Statutory valuation allowance adjustment	-	(654,122)	654,122
Non-admitted capital DTAs	(43,890)	-	(43,890)
Admitted capital DTAs	227,320	66,425	160,895
Admitted DTAs	2,664,974	66,425	2,598,549
DTLs:			
Ordinary			
Ordinary DTLs	-	-	-
Capital			
Investments	67,537	38,808	28,729
Capital DTLs	67,537	38,808	28,729
Total DTLs	67,537	38,808	28,729
Net admitted DTAs	$2,597,437	$27,617	$2,569,820

The change in net deferred income taxes is comprised of the following:

	2017	2016	Change
Total DTAs	$2,708,864	$66,425	$2,642,439
Total DTLs	(67,537)	(38,808)	(28,729)
Net DTAs/(DTLs)	2,641,327	27,617	2,613,710
Tax effect of unrealized gains (losses)			-
Change in net deferred income tax			$2,613,710

The valuation allowance adjustment to gross DTAs was $0 and $4,739,598 at December 31, 2017 and 2016, respectively

The benefit for federal income taxes is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The items causing this difference are as follows:

	December 31, 2017	Effective tax rate	December 31, 2016	Effective tax rate
Provision (benefit) computed at statutory rate	$10,723,866	35.0%	($3,286,344)	35.0%
Health Insurer Fee	-	-	1,130,668	(12.0)%
Transfer pricing adjustment	(2,149,445)	(7.0)%	(1,982,297)	21.1%
Tax exempt interest	(272,281)	(0.9)%	(16,407)	0.2%
Change in non-admitted assets	(121,291)	(0.4)%	(945,046)	10.1%
Prior year true-up	252,915	0.8%	(44,975)	0.5%
Change in statutory valuation allowance adjustment	(4,739,598)	(15.5)%	3,118,921	(33.2)%
Impact on deferred tax for enacted rate change	1,760,884	5.7%	-	-
Non-deductible penalties	(183,400)	(0.6)%	462,000	(5.0)%
Other	(1)	0.1%	-	-
Total	$5,271,650	17.2%	($1,563,480)	16.7%
Federal and foreign income tax (benefit) expense	$7,885,360	25.7%	($1,535,863)	16.4%
Change in net deferred income taxes	(2,613,710)	(8.5)%	(27,617)	0.3%
Total statutory income taxes	$5,271,650	17.2%	($1,563,480)	16.7%

The transfer pricing adjustment allows taxpayers to apply different methods to price current period intercompany services at arm's length prices as compared to what would be charged to an unrelated entity, which results in a permanent deduction for tax reporting purposes.

At December 31, 2017 and 2016, the Company had no net capital loss or net operating loss carryforwards for tax purposes.

The amount of federal income taxes incurred that are available for recoupment in the event of future net losses are:

Year	Ordinary	Capital	Total
2017	$7,328,125	-	$7,328,125
2016	-	18,286	18,286
2015	-	8,949	8,949
Total	$7,328,125	$27,235	$7,355,360

The Company did not report any deposits as admitted assets under Internal Revenue Code Section 6603 at December 31, 2017 and 2016.

At December 31, 2017, the Company's Federal Income Tax Return was consolidated with the following entities:

Aetna Inc.
@ Credentials Inc.
Active Health Management Inc.
American Health Holding, Inc.
AUSHC Holdings, Inc.
Broadspire National Services, Inc.

Adminco, Inc.
Administrative Enterprises, Inc.
AE Fourteen Incorporated
Aetna ACO Holdings, Inc.
Aetna Better Health Inc. (Connecticut)
Aetna Better Health Inc. (Georgia)
Aetna Better Health Inc. (Illinois)
Aetna Better Health Inc. (New Jersey)
Aetna Better Health Inc. (New York)
Aetna Better Health Inc. (Ohio)
Aetna Better Health Inc. (Pennsylvania)
Aetna Better Health Inc. (Tennessee)
Aetna Better Health of California Inc.
Aetna Better Health of Iowa Inc.
Aetna Better Health of Kansas, Inc.
Aetna Better Health of Kentucky Insurance Company
Aetna Better Health of Michigan, Inc.
Aetna Better Health of Missouri LLC
Aetna Better Health of Nevada Inc.
Aetna Better Health of North Carolina, Inc.
Aetna Better Health of Oklahoma Inc.
Aetna Better Health of Texas, Inc.
Aetna Better Health of Washington, Inc.
Aetna Better Health, Inc. (Louisiana)
Aetna Dental Inc. (New Jersey)
Aetna Dental Inc. (Texas)
Aetna Dental of California Inc.
Aetna Florida Inc. (fka Aetna Better Health Inc. (Florida))
Aetna Health and Life Insurance Company
Aetna Health Inc. (Connecticut)
Aetna Health Inc. (Florida)
Aetna Health Inc. (Georgia)
Aetna Health Inc. (Louisiana)
Aetna Health Inc. (Maine)
Aetna Health Inc. (Michigan)
Aetna Health Inc. (New Jersey)
Aetna Health Inc. (New York)
Aetna Health Inc. (Pennsylvania)
Aetna Health Inc. (Texas)
Aetna Health Insurance Company
Aetna Health Insurance Company of New York
Aetna Health of California, Inc.
Aetna Health of Iowa Inc. (fka Aetna Health Inc. (Iowa))
Aetna Health of Utah, Inc.
Aetna HealthAssurance Pennsylvania, Inc.
Aetna Insurance Company of Connecticut
bswift, LLC
Carefree Insurance Services, Inc.
Claims Administration Corporation
Cofinity, Inc.
Continental Life Insurance Company of Brentwood, Tennessee
Corporate Benefit Strategies, Inc.
Coventry Consumer Advantage, Inc.
Coventry Health and Life Insurance Company
Coventry Health Care National Accounts, Inc.
Coventry Health Care National Network, Inc.
Coventry Health Care of Florida, Inc.
Coventry Health Care of Illinois, Inc.
Coventry Health Care of Kansas, Inc.
Coventry Health Care of Missouri, Inc.
Coventry Health Care of Nebraska, Inc.
Coventry Health Care of Virginia, Inc.
Coventry Health Care of West Virginia, Inc.
Coventry Health Care Workers' Compensation, Inc.
Coventry Health Plan of Florida, Inc.
Coventry HealthCare Management Corporation
Coventry Prescription Management Services, Inc.
Coventry Rehabilitation Services, Inc.
Coventry Transplant Network, Inc.
Delaware Physicians Care, Incorporated
Echo Merger Sub, Inc.
First Health Group Corp.
First Health Life and Health Insurance Company
First Script Network Services, Inc.
Florida Health Plan Administrators, LLC
FOCUS Healthcare Management, Inc.
Group Dental Service of Maryland, Inc.
Group Dental Service, Inc.
Health and Human Resource Center, Inc.
Health Data & Management Solutions, Inc.
Health Re, Incorporated
HealthAssurance Pennsylvania, Inc.
Managed Care Coordinators, Inc.
Medicity Inc.
Mental Health Associates, Inc.
Mental Health Network of New York IPA, Inc.
Meritain Health, Inc.
MetraComp, Inc.
MHNet Life and Health Insurance Co.
MHNet of Florida, Inc.
Niagara Re, Inc.
PayFlex Holdings, Inc.
PayFlex Systems USA, Inc.
Performax, Inc.

Aetna Integrated Informatics, Inc.
Aetna International Inc.
Aetna Ireland Inc.
Aetna Life & Casualty (Bermuda) Ltd.
Aetna Life Assignment Company
Aetna Life Insurance Company
Aetna Risk Assurance Company of. Connecticut, Inc.
Aetna Student Health Agency Inc.
AHP Holdings, Inc.
Allviant Corporation
American Continental Insurance Company
Precision Benefit Services, Inc.
Prime Net, Inc.
Prodigy Health Group, Inc.
Professional Risk Management, Inc.
Resources for Living, LLC
Schaller Anderson Medical Administrators, Incorporated
Strategic Resource Company
The Vasquez Group Inc.
U.S. Health Care Properties, Inc.
Work and Family Benefits, Inc.

As explained in Note 2, the Company participates in a tax sharing agreement with its parent and affiliates.

The Company does not have any tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date.

The Company is subject to Louisiana premium taxes. Premium tax expenses were recorded in general administrative expenses in the Statutory Statements of Revenue and Expenses. Premium tax expenses were $32,046,093 and $23,560,150 for the years ended December 31, 2017 and 2016, respectively. The Company had premium taxes payable of $14,681,631 and $19,234,270 at December 31, 2017 and 2016, respectively, which was recorded as general expenses due or accrued in the Statutory Statements of Liabilities.

10. Reinsurance

Effective February 1, 2017, the Company and Berkley Life and Health Insurance Company ("Berkley") entered into an excess loss reinsurance agreement. Under this agreement, Berkley is liable for 90% of covered expenses in excess of the specific deductible of $500,000 per covered member, with a maximum reimbursement of $5,000,000 per member per agreement year. The Company paid reinsurance premiums of $350,464 in 2017 and $574,667 in 2016. In 2017 and 2016, the Company realized reinsurance recoveries of $322,618 and $467,279, respectively.

11. Change in claims unpaid, unpaid claims adjustment expense, and aggregate health claim reserves

The following table shows the components of the change in claims unpaid, unpaid claims adjustment expense and aggregate health claim reserves for the years ended December 31, 2017 and 2016:

	2017	2016
Balance, January 1	$110,705,794	$46,407,227
Health care receivable	(1,001,642)	-
Balance, January 1, net of health care receivable	109,704,152	46,407,227
Incurred related to:		
Current year	540,829,707	$394,571,509
Prior years	(33,850,029)	(11,374,995)
Total incurred	506,979,678	383,196,514
Paid related to:		
Current year	456,636,325	286,666,821
Prior years	69,503,739	33,232,768
Total paid	526,140,064	319,899,589
Balance, December 31, net of health care receivable	90,543,766	109,704,152
Health care receivable	5,022,763	1,001,642
Balance, December 31	$95,566,529	$110,705,794

In 2017, reserves for incurred claims and claim adjustment expenses attributable to insured events of prior years' decreased by $33,850,029 from $110,705,794 in 2016 to $76,855,765 in 2017. In 2016, reserves for incurred claims and claim adjustment expenses attributable to insured events of prior years' decreased by $11,374,995 from $46,407,227 in 2015 to $35,032,232 in 2016. The lower than anticipated health care cost trend rates observed in 2017 and 2016 for claims incurred in 2016 and 2015 were generally due to the result of ongoing analysis of recent loss development trends. The Company considers historical trend rates together with knowledge of recent events that may impact current trends when developing estimates of current trend rates. Original estimates are increased or decreased as additional information becomes known regarding individual claims. Historical health care cost trend rates are not necessarily representative of current trends.

Net coordination of benefits is implicit in the claims incurred but not reported calculation and could not be specifically identified.

12. Capital and surplus, shareholder's dividend restrictions and quasi-reorganizations

The Company had 10,000 shares of common stock with no par value authorized, with 1,000 shares issued and outstanding at December 31, 2017 and 2016.

The Company did not have any preferred stock outstanding at December 31, 2017 and 2016.

Dividend restrictions

No domestic stock insurer shall declare and pay any dividends to its stockholders unless its capital is fully paid in cash and is unimpaired and it has a surplus beyond its capital stock and the initial minimum surplus required and all other liabilities equal to fifteen percent of its capital stock, provided that this restriction shall not apply to an insurer when its paid-in capital and surplus exceed the minimum required by the Louisiana Department Code by one hundred percent or more.

At December 31, 2017 and 2016, there was $22,677,699 and $0, respectively, of the Company's net income less realized capital gains that may be paid as ordinary dividends to stockholders.

The Company did not pay any dividends in 2017 or 2016. The Company did not receive any capital contributions in 2017. The Company received capital contributions in the amounts of $10,000,000, $20,000,000 and $20,000,000 from its parent on March 30, June 29 and September 28, 2016, respectively. The Louisiana Department approved these transactions on March 30, June 29 and September 28, 2016, respectively.

There were no restrictions placed on the Company's surplus, including for whom the surplus was being held at December 31, 2017 or 2016, except as noted in Note 14.

The Company did not hold any stock for any special purposes at December 31, 2017 or 2016.

Changes in the balances of special surplus funds from the prior year are due to the accrual of estimated ACA health insurer fees reclassified from unassigned funds or surplus to aggregate write-ins for special surplus funds as discussed more fully in Notes 2 and 17.

At December 31, 2017 and 2016, there was no portion of unassigned funds or surplus that was represented or reduced by unrealized gains and losses.

13. Contingencies

Litigation and Regulatory Proceedings

The following description of litigation and regulatory proceedings covers Aetna Inc. and certain of its subsidiaries, including the Company (collectively, "we", "our" or "us"). 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 Aetna holding company group.

Other Litigation and Regulatory Proceedings

We are involved in numerous other lawsuits arising, for the most part, in the ordinary course of our business operations, including 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 in our Health Care and Group Insurance businesses (including our post-payment audit and collection practices and reductions in payments to providers due to sequestration), provider network structure (including the use of performance-based networks and termination of provider contracts), provider directory accuracy, rescission of insurance coverage, improper disclosure of personal information, anticompetitive practices, intellectual property litigation, other legal proceedings in our Health Care and Group Insurance businesses and employment litigation. Some of these other lawsuits are or are purported to be class actions. We intend to defend ourselves vigorously against the claims brought in these matters.

Awards to us and others of certain government contracts, particularly Medicaid contracts and contracts with government customers in our Commercial business are subject to increasingly frequent protests by unsuccessful bidders. These protests may result in awards to us being reversed, delayed or modified. The loss or delay in implementation of any government contract could adversely affect our operating results. We will continue to defend vigorously contract awards we receive.

In addition, our operations, current and past business practices, current and past contracts, and accounts and other books and records are subject to routine, regular and special investigations, audits, examinations and reviews by, and from time to time we receive subpoenas and other requests for information from, the Centers for Medicare and Medicaid Services ("CMS"), the U.S. Department of Health and Human Services, various state insurance and health care regulatory authorities, state attorneys general, treasurers and offices of inspector general, the Center for Consumer Information and Insurance Oversight, OIG, the Office of Personnel Management, the U.S. Department of Labor, the U.S. Department of the Treasury, the U.S. Food and Drug Administration, committees, subcommittees and members of the U.S. Congress, the U.S. Department of Justice, the

Federal Trade Commission, U.S. attorneys and other state, federal and international governmental authorities. These government actions include inquiries by, and testimony before, certain members, committees and subcommittees of the U.S. Congress regarding our withdrawal from certain states' health insurance exchanges ("Public Exchanges") for 2017, certain of our current and past business practices, including our overall claims processing and payment practices, our business practices with respect to our small group products, student health products or individual customers (such as market withdrawals, rating information, premium increases and medical benefit ratios), executive compensation matters and travel and entertainment expenses, as well as the investigations by, and subpoenas and requests from attorneys general. We also have produced documents and information to the Civil Division of the Department of Justice in cooperation with a current investigation of our patient chart review processes in connection with risk adjustment data submissions under Parts C and D of the Medicare program.

There also continues to be a heightened level of review and/or audit by regulatory authorities of, and increased litigation regarding, our 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 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 and payments on life insurance policies).

As a leading national health and related benefits company, we regularly are the subject of government actions of the types described above. These government actions may prevent or delay us from implementing planned premium rate increases and may result, and have resulted, in restrictions on our business, changes to or clarifications of our business practices, retroactive adjustments to premiums, refunds or other payments to members, beneficiaries, states or the federal government, withholding of premium payments to us 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.

Estimating the probable losses or a range of probable losses resulting from litigation, government actions and other legal proceedings is inherently difficult and requires an extensive degree of judgment, particularly where the matters involve indeterminate claims for monetary damages, involve claims for injunctive relief, may involve fines, penalties or punitive damages that are discretionary in amount, involve a large number of claimants or regulatory authorities, represent a change in regulatory policy, present novel legal theories, are in the early stages of the proceedings, are subject to appeal or could result in changes in business practices. In addition, because most legal proceedings are resolved over long periods of time, potential losses are subject to change due to, among other things, new developments, changes in litigation strategy, the outcome of intermediate procedural and substantive rulings and other parties' settlement posture and their evaluation of the strength or weakness of their case against us. Except as specifically noted above under "*Other Litigation and Regulatory Proceedings*," we are currently unable to predict the ultimate outcome of, or reasonably estimate the losses or a range of losses resulting from, the matters described above, and it is reasonably possible that their outcome could be material to us.

Litigation exposure coverage

The Company has coverage for certain litigation exposures ($10,000,000 per claim and in the aggregate including defense costs) through an unaffiliated insurance company.

14. Minimum capital and surplus

Pursuant to the laws of Louisiana, each health maintenance organization shall establish prior to the issuance of any certificate of authority, and shall maintain as long as it does business in Louisiana as a health maintenance organization, capital and surplus in the amount of three million dollars. At December 31, 2017 and 2016, the Company's capital and surplus exceeded all such requirements.

The NAIC and the State of Louisiana adopted risk-based capital ("RBC") standards for health organizations, including HMOs, that are designed to identify weakly capitalized companies by comparing each company's adjusted capital and surplus to its required capital and surplus (the "RBC Ratio"). The RBC Ratio is designed to reflect the risk profile of the company. Within certain ratio ranges, regulators have increasing authority to take action as the RBC Ratio decreases. There are four levels of regulatory action, ranging from requiring insurers to submit a comprehensive plan to the state insurance commissioner to requiring the state insurance commissioner to place the insurer under regulatory control. At December 31, 2017 and 2016, the Company had capital and surplus that exceeded the highest threshold specified by the RBC rules.

15. Medicaid

The Company's Medicaid products also are heavily regulated by state Medicaid agencies, which have the right to audit the Company's performance to determine compliance with contracts and regulations. The Company's Medicaid products and Children's Health Insurance Program ("CHIP") contracts also are subject to complex federal and state regulations and oversight by state Medicaid agencies regarding the services the Company provides to Medicaid enrollees, payment for those services, network requirements (including mandatory inclusion of specified high-cost providers), and other aspects of these programs, and by external review organizations which audit Medicaid plans on behalf of the state Medicaid agencies. The laws, regulations and contractual requirements applicable to the Company and other participants in Medicaid programs, including requirements that the Company submit encounter data to the applicable state agency, are extensive, complex and subject to change. The Company has invested significant resources to comply with these standards, and the Company's Medicaid program compliance efforts will continue to require significant resources. State Medicaid agencies may fine the Company, withhold payments to the Company, seek premium and other refunds, terminate the Company's existing contracts, elect not to award the Company new contracts or not to renew the Company's existing contracts, prohibit the Company from continuing to market and/or enroll members in or refuse to automatically assign members to one or more of the Company's Medicaid products, exclude the Company from participating in one or more Medicaid program and/or institute other sanctions and/or civil monetary penalties against the Company if it fails to comply with state regulations or the Company's contractual requirements. The Company cannot predict whether pending or future federal or state legislation or court proceedings will change various aspects of the Medicaid program, nor can it predict the impact those changes will have on its business operations or financial results, but the effects could be materially adverse.

16. Reconciliation to statutory financial statements as filed with the Louisiana Department

There were no reconciling differences between the amounts previously reported to state regulatory authorities in the 2017 Annual Statement and those reported in the accompanying statutory financial statements.

The Company's non-admitted health care receivables were understated on the statutory financial statements for December 31, 2016.

The following is a reconciliation of December 31, 2016 total assets as reflected in the accompanying Statutory Statements of Assets to amounts reported to the Louisiana Department (statutory reports) in the Company's 2016 annual statement:

Total assets as reflected in the accompanying Statutory Statements of Assets	$211,776,587
Decrease in health care receivables	2,119,801
Total assets as reported in the annual statement	$213,896,388

The following is a reconciliation of December 31, 2016 capital and surplus as reflected in the accompanying Statutory Statements of Liabilities, Capital and Surplus to amounts reported to the Louisiana Department (statutory reports) in the Company's 2016 annual statement:

Capital and surplus as reflected in the accompanying Statutory Statements of Liabilities, Capital and Surplus	$62,968,453
Increase in current federal and foreign tax recoverable and interest thereon	2,119,801
Statutory capital and surplus as reported in the annual statement	$65,088,254

17. Subsequent events

Type I - Recognized subsequent events

Subsequent events have been considered through May 25, 2018.

The Company had no known reportable recognized subsequent events.

Type II – Non-recognized subsequent events

Subsequent events have been considered through May 25, 2018.

On January 1, 2018, the Company will be subject to an annual fee under the Section 9010 of the Federal Affordable Care Act ("ACA"). This annual fee will be allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for each calendar year beginning on or after January 1 of the year the fee is due. As of December 31, 2017, the Company has written health insurance subject to the ACA assessment, expects to conduct health insurance business in 2018, and estimates its portion of the annual health insurance industry fee to be payable on September 30, 2018 to be $11,880,000. This amount is reflected in aggregate write-ins for special surplus funds and was estimated based on premiums written subject to the ACA assessment of $592,308,464. The Company's total adjusted capital before and after the special surplus adjustment was $87,945,987 and $76,065,987, respectively. The Company's total authorized control level both before and after the special surplus adjustment was estimated to be $19,641,636. As a result, this assessment is expected to impact RBC by 14%. Reporting the ACA assessment as of December 31, 2017 would not have triggered an RBC action level.

As discussed in Note 2, in December 2015, the Consolidated Appropriation Act was enacted which included a one year suspension in 2017 of the health insurer fee. As a result, there was no annual health insurance industry fee payable on September 30, 2017 and there were no amounts reflected in the Company's aggregate write-ins for special surplus funds related to this payable at December 31, 2016 as a result. There was also no resulting impact to the Company's RBC to assess as of December 31, 2016 as a result of this suspension.

In January 2018, the annual fee was suspended for 2019.

SUMMARY INVESTMENT SCHEDULE

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
Investment Categories	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3 + 4) Amount	Percentage
1. Bonds:						
1.1 U.S. treasury securities	79,057,920	48.430	79,057,920	0	79,057,920	48.430
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies	0	0.000	0	0	0	0.000
1.22 Issued by U.S. government sponsored agencies	0	0.000	0	0	0	0.000
1.3 Non-U.S. government (including Canada, excluding mortgaged-backed securities)	0	0.000	0	0	0	0.000
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S. :						
1.41 States, territories and possessions general obligations	12,384,088	7.586	12,384,088	0	12,384,088	7.586
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	4,555,199	2.790	4,555,199	0	4,555,199	2.790
1.43 Revenue and assessment obligations	25,549,129	15.651	25,549,129	0	25,549,129	15.651
1.44 Industrial development and similar obligations	0	0.000	0	0	0	0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA	0	0.000	0	0	0	0.000
1.512 Issued or guaranteed by FNMA and FHLMC	0	0.000	0	0	0	0.000
1.513 All other	2,055,189	1.259	2,055,189	0	2,055,189	1.259
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	0	0.000	0	0	0	0.000
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521	0	0.000	0	0	0	0.000
1.523 All other	4,999,324	3.063	4,999,324	0	4,999,324	3.063
2. Other debt and other fixed income securities (excluding short-term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	27,055,777	16.574	27,055,777	0	27,055,777	16.574
2.2 Unaffiliated non-U.S. securities (including Canada)	998,480	0.612	998,480	0	998,480	0.612
2.3 Affiliated securities	0	0.000	0	0	0	0.000
3. Equity interests:						
3.1 Investments in mutual funds	0	0.000	0	0	0	0.000
3.2 Preferred stocks:						
3.21 Affiliated	0	0.000	0	0	0	0.000
3.22 Unaffiliated	0	0.000	0	0	0	0.000
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated	0	0.000	0	0	0	0.000
3.32 Unaffiliated	0	0.000	0	0	0	0.000
3.4 Other equity securities:						
3.41 Affiliated	0	0.000	0	0	0	0.000
3.42 Unaffiliated	0	0.000	0	0	0	0.000
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated	0	0.000	0	0	0	0.000
3.52 Unaffiliated	0	0.000	0	0	0	0.000
4. Mortgage loans:						
4.1 Construction and land development	0	0.000	0	0	0	0.000
4.2 Agricultural	0	0.000	0	0	0	0.000
4.3 Single family residential properties	0	0.000	0	0	0	0.000
4.4 Multifamily residential properties	0	0.000	0	0	0	0.000
4.5 Commercial loans	0	0.000	0	0	0	0.000
4.6 Mezzanine real estate loans	0	0.000	0	0	0	0.000
5. Real estate investments:						
5.1 Property occupied by company	0	0.000	0	0	0	0.000
5.2 Property held for production of income (including $ 0 of property acquired in satisfaction of debt)	0	0.000	0	0	0	0.000
5.3 Property held for sale (including $ 0 property acquired in satisfaction of debt)	0	0.000	0	0	0	0.000
6. Contract loans	0	0.000	0	0	0	0.000
7. Derivatives	0	0.000	0	0	0	0.000
8. Receivables for securities	84,375	0.052	84,375	0	84,375	0.052
9. Securities Lending (Line 10, Asset Page reinvested collateral)	0	0.000	0	XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments	6,501,941	3.983	6,501,941	0	6,501,941	3.983
11. Other invested assets	0	0.000	0	0	0	0.000
12. Total invested assets	163,241,422	100.000	163,241,422	0	163,241,422	100.000

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SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2017
(To Be Filed by April 1)

Of The Aetna Better Health, Inc. (a Louisiana corporation)

ADDRESS (City, State and Zip Code) Blue Bell , PA 19422

NAIC Group Code 0001 NAIC Company Code 15616 Federal Employer's Identification Number (FEIN) 80-0629718

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. $ 224,570,351

2. Ten largest exposures to a single issuer/borrower/investment.

	1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2.01	LOUISIANA STATE REF-SER B	Bond	$ 7,996,976	3.6 %
2.02	SAN JOSE CA REDEV AGY REF-SUB-SER B	Bond	$ 6,019,956	2.7 %
2.03	METROPOLITAN TRANSN AUTH N Y REF-TRANSPTRN-SUBSER C-1	Bond	$ 5,165,759	2.3 %
2.04	SACRAMENTO CA MUNI UTIL DIST REF SER E	Bond	$ 5,012,074	2.2 %
2.05	DOUGLAS CNTY NE SCH DIST 1	Bond	$ 4,555,199	2.0 %
2.06	COLUMBIA DIST OF SER D	Bond	$ 4,387,112	2.0 %
2.07	ALABAMA ECON SETTLEMENT AUTH BP SETTLEMENT REV-SER A	Bond	$ 4,382,018	2.0 %
2.08	WESTAR ENERGY INC	Cash Equivalent	$ 3,999,794	1.8 %
2.09	AMERICAN EXPRESS CREDIT SR UNSECURED	Bond	$ 3,003,673	1.3 %
2.10	CAPITAL ONE MULTI-ASSET EXE TR SERIES 2017-A1 CLASS A1	Bond	$ 2,999,509	1.3 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.

	Bonds	1	2		Preferred Stocks	3	4
3.01	NAIC-1	$ 151,597,000	67.5 %	3.07	P/RP-1	$ 0	0.0 %
3.02	NAIC-2	$ 11,055,793	4.9 %	3.08	P/RP-2	$ 0	0.0 %
3.03	NAIC-3	$ 0	0.0 %	3.09	P/RP-3	$ 0	0.0 %
3.04	NAIC-4	$ 0	0.0 %	3.10	P/RP-4	$ 0	0.0 %
3.05	NAIC-5	$ 0	0.0 %	3.11	P/RP-5	$ 0	0.0 %
3.06	NAIC-6	$ 0	0.0 %	3.12	P/RP-6	$ 0	0.0 %

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

4.02	Total admitted assets held in foreign investments	$ 998,480	0.4 %
4.03	Foreign-currency-denominated investments	$ 0	0.0 %
4.04	Insurance liabilities denominated in that same foreign currency	$ 0	0.0 %

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

		1	2
5.01	Countries designated NAIC-1	$ 0	0.0 %
5.02	Countries designated NAIC-2	$ 0	0.0 %
5.03	Countries designated NAIC-3 or below	$ 0	0.0 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

		1	2
	Countries designated NAIC - 1:		
6.01	Country 1:	$ 0	0.0 %
6.02	Country 2:	$ 0	0.0 %
	Countries designated NAIC - 2:		
6.03	Country 1:	$ 0	0.0 %
6.04	Country 2:	$ 0	0.0 %
	Countries designated NAIC - 3 or below:		
6.05	Country 1:	$ 0	0.0 %
6.06	Country 2:	$ 0	0.0 %

		1	2
7.	Aggregate unhedged foreign currency exposure	$ 0	0.0 %

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

		1	2
8.01	Countries designated NAIC-1	$ 0	0.0 %
8.02	Countries designated NAIC-2	$ 0	0.0 %
8.03	Countries designated NAIC-3 or below	$ 0	0.0 %

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

		1	2
	Countries designated NAIC - 1:		
9.01	Country 1:	$ 0	0.0 %
9.02	Country 2:	$ 0	0.0 %
	Countries designated NAIC - 2:		
9.03	Country 1:	$ 0	0.0 %
9.04	Country 2:	$ 0	0.0 %
	Countries designated NAIC - 3 or below:		
9.05	Country 1:	$ 0	0.0 %
9.06	Country 2:	$ 0	0.0 %

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1 Issuer	2 NAIC Designation	3	4
10.01			$ 0	0.0 %
10.02			$ 0	0.0 %
10.03			$ 0	0.0 %
10.04			$ 0	0.0 %
10.05			$ 0	0.0 %
10.06			$ 0	0.0 %
10.07			$ 0	0.0 %
10.08			$ 0	0.0 %
10.09			$ 0	0.0 %
10.10			$ 0	0.0 %

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 11.01 is yes, detail is not required for the remainder of interrogatory 11.

		1	2
11.02	Total admitted assets held in Canadian investments	$ 0	0.0 %
11.03	Canadian-currency-denominated investments	$ 0	0.0 %
11.04	Canadian-denominated insurance liabilities	$ 0	0.0 %
11.05	Unhedged Canadian currency exposure	$ 0	0.0 %

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

	1	2	3
12.02	Aggregate statement value of investments with contractual sales restrictions	$ 0	0.0 %
	Largest three investments with contractual sales restrictions:		
12.03		$ 0	0.0 %
12.04		$ 0	0.0 %
12.05		$ 0	0.0 %

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

	1 Issuer	2	3
13.02		$ 0	0.0 %
13.03		$ 0	0.0 %
13.04		$ 0	0.0 %
13.05		$ 0	0.0 %
13.06		$ 0	0.0 %
13.07		$ 0	0.0 %
13.08		$ 0	0.0 %
13.09		$ 0	0.0 %
13.10		$ 0	0.0 %
13.11		$ 0	0.0 %

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	1	2	3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities	$ 0	0.0 %
	Largest three investments held in nonaffiliated, privately placed equities:		
14.03		$ 0	0.0 %
14.04		$ 0	0.0 %
14.05		$ 0	0.0 %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	1	2	3
15.02	Aggregate statement value of investments held in general partnership interests	$ 0	0.0 %
	Largest three investments in general partnership interests:		
15.03		$ 0	0.0 %
15.04		$ 0	0.0 %
15.05		$ 0	0.0 %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1 Type (Residential, Commercial, Agricultural)	2	3
16.02		$ 0	0.0 %
16.03		$ 0	0.0 %
16.04		$ 0	0.0 %
16.05		$ 0	0.0 %
16.06		$ 0	0.0 %
16.07		$ 0	0.0 %
16.08		$ 0	0.0 %
16.09		$ 0	0.0 %
16.10		$ 0	0.0 %
16.11		$ 0	0.0 %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		Loans	
16.12	Construction loans	$ 0	0.0 %
16.13	Mortgage loans over 90 days past due	$ 0	0.0 %
16.14	Mortgage loans in the process of foreclosure	$ 0	0.0 %
16.15	Mortgage loans foreclosed	$ 0	0.0 %
16.16	Restructured mortgage loans	$ 0	0.0 %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

		Residential		Commercial		Agricultural	
	Loan to Value	1	2	3	4	5	6
17.01	above 95%	$ 0	0.0 %	$ 0	0.0 %	$ 0	0.0 %
17.02	91 to 95%	$ 0	0.0 %	$ 0	0.0 %	$ 0	0.0 %
17.03	81 to 90%	$ 0	0.0 %	$ 0	0.0 %	$ 0	0.0 %
17.04	71 to 80%	$ 0	0.0 %	$ 0	0.0 %	$ 0	0.0 %
17.05	below 70%	$ 0	0.0 %	$ 0	0.0 %	$ 0	0.0 %

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

	Description 1	2	3
18.02		$ 0	0.0 %
18.03		$ 0	0.0 %
18.04		$ 0	0.0 %
18.05		$ 0	0.0 %
18.06		$ 0	0.0 %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

	1	2	3
19.02	Aggregate statement value of investments held in mezzanine real estate loans:	$ 0	0.0 %
	Largest three investments held in mezzanine real estate loans:		
19.03		$ 0	0.0 %
19.04		$ 0	0.0 %
19.05		$ 0	0.0 %

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year End 1	At Year End 2	At End of Each Quarter 1st Quarter 3	2nd Quarter 4	3rd Quarter 5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	$ 0	0.0 %	$ 0	$ 0	$ 0
20.02 Repurchase agreements	$ 0	0.0 %	$ 0	$ 0	$ 0
20.03 Reverse repurchase agreements	$ 0	0.0 %	$ 0	$ 0	$ 0
20.04 Dollar repurchase agreements	$ 0	0.0 %	$ 0	$ 0	$ 0
20.05 Dollar reverse repurchase agreements	$ 0	0.0 %	$ 0	$ 0	$ 0

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	Owned 1	Owned 2	Written 3	Written 4
21.01 Hedging	$ 0	0.0 %	$ 0	0.0 %
21.02 Income generation	$ 0	0.0 %	$ 0	0.0 %
21.03 Other	$ 0	0.0 %	$ 0	0.0 %

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	At Year End 1	At Year End 2	At End of Each Quarter 1st Quarter 3	2nd Quarter 4	3rd Quarter 5
22.01 Hedging	$ 0	0.0 %	$ 0	$ 0	$ 0
22.02 Income generation	$ 0	0.0 %	$ 0	$ 0	$ 0
22.03 Replications	$ 0	0.0 %	$ 0	$ 0	$ 0
22.04 Other	$ 0	0.0 %	$ 0	$ 0	$ 0

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	At Year End 1	At Year End 2	At End of Each Quarter 1st Quarter 3	2nd Quarter 4	3rd Quarter 5
23.01 Hedging	$ 0	0.0 %	$ 0	$ 0	$ 0
23.02 Income generation	$ 0	0.0 %	$ 0	$ 0	$ 0
23.03 Replications	$ 0	0.0 %	$ 0	$ 0	$ 0
23.04 Other	$ 0	0.0 %	$ 0	$ 0	$ 0