KPMG

BUPA INSURANCE COMPANY

Statutory Financial Statements
and Supplemental Schedules

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

BUPA INSURANCE COMPANY

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KPMG LLP
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78 SW 7 Street
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Independent Auditors' Report

The Board of Directors
BUPA Insurance Company:

Report on the Financial Statements

We have audited the accompanying financial statements of BUPA Insurance Company, which comprise the statutory statements of admitted assets, liabilities, and surplus as of December 31, 2019 and 2018, and the related statutory statements of income and changes in capital and surplus, and cash flow 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 Florida Department of Financial Services, Office of Insurance Regulation. 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 opinion.

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

As described in Note 1(b) to the financial statements, the financial statements are prepared by BUPA Insurance Company using statutory accounting practices prescribed or permitted by the Florida Department of Financial Services, Office of Insurance Regulation, 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 1(b) 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 BUPA Insurance Company as of December 31, 2019 and 2018, 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 admitted assets, liabilities, and surplus of BUPA Insurance Company as of December 31, 2019 and 2018, 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 Florida Department of Financial Services, Office of Insurance Regulation described in Note 1(b).

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 schedule of investments is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Florida Department of Financial Services, Office of Insurance Regulation. 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

Miami, Florida
May 27, 2020

BUPA INSURANCE COMPANY

Statutory Statements of Admitted Assets, Liabilities, and Capital and Surplus

December 31, 2019 and 2018

Admitted Assets		**2019**	**2018**
Bonds	$	133,015,267	192,421,186
Common stocks		10,538,134	12,698,553
Cash, cash equivalents, and short-term investments (including short-term bonds in the amount of $58,436,879 and $10,531,346 as of December 31, 2019 and 2018, respectively)		125,303,766	64,000,689
Contract loans		263,619	242,748
Total cash, cash equivalents, and invested assets		269,120,786	269,363,176
Investment income due and accrued		1,536,109	1,388,813
Premiums due and unpaid		1,765,011	1,819,879
Amounts recoverable from reinsurers		936,113	60,364
Other amounts receivable under reinsurance contracts		27,492,476	18,271,119
Deferred tax asset – net		—	3,735,889
Receivable from subsidiaries and affiliates		1,754,065	1,498,140
Loan receivable from subsidiaries and affiliates		13,294,133	13,666,426
Other assets		3,579	642
Total	$	315,902,272	309,804,448
Liabilities and Capital and Surplus			
Claims unpaid (including life claims liability of $19,470 and $38,850 as of December 31, 2019 and 2018, respectively)	$	40,973,932	36,585,307
Aggregate life policy reserves		1,600,885	1,579,106
Unearned health premium reserves		123,969,066	113,759,660
Premiums received in advance		1,695,656	2,091,646
General expenses due and accrued		4,520,561	5,139,949
Ceded reinsurance premiums payable		521,429	537,846
Remittances and items not allocated		1,065,854	973,583
Federal and foreign income tax payable		65,315	56,884
Payable to subsidiaries and affiliates		3,350,040	867,492
Reinsurance commissions payable		19,122,348	9,538,967
Other liabilities and accruals		109,459	146,018
Total liabilities		196,994,545	171,276,458
Common capital stock, par value of $1.25. Authorized, 10,000,000 shares at December 31, 2019 and 2018; issued and outstanding, 8,414,181 at December 31, 2019 and 2018		10,517,727	10,517,727
Gross paid-in and contributed surplus		127,984,490	127,984,490
Unassigned (deficit) surplus		(19,594,490)	25,773
Total capital and surplus		118,907,727	138,527,990
Total	$	315,902,272	309,804,448

See accompanying notes to statutory financial statements.

BUPA INSURANCE COMPANY

Statutory Statements of Income

Years ended December 31, 2019 and 2018

		2019	2018
Revenue:			
Net premium income	$	322,537,304	265,972,727
Change in unearned premium reserves and reserve for rate credits		(10,146,511)	(6,578,079)
Aggregate write-ins for other healthcare-related revenue		1,336,864	1,502,942
Total		313,727,657	260,897,590
Deductions:			
Hospital and medical benefits		73,125,978	77,418,289
Net insurance recoverable		142,380,507	107,911,857
Nonhealth claims		24,267	(299,252)
General administrative expenses (including commissions of $107,428,924 and $84,546,709 for the years ended December 31, 2019 and 2018, respectively)		112,410,740	91,636,715
Total		327,941,492	276,667,609
Net underwriting loss		(14,213,835)	(15,770,019)
Other income (expense):			
Gain on change in reinsurance treaty		—	4,837,460
Net realized capital gains (losses)		831,779	(50,751)
Net investment income		6,492,677	5,473,979
Net loss from operations before federal income taxes		(6,889,379)	(5,509,331)
Federal and foreign income tax expense		984,279	385,656
Net loss	$	(7,873,658)	(5,894,987)

See accompanying notes to statutory financial statements.

BUPA INSURANCE COMPANY

Statutory Statements of Changes in Capital and Surplus

Years ended December 31, 2019 and 2018

		Common capital stock	Gross paid-in and contributed surplus	Unassigned surplus (deficit)	Total
Balance – December 31, 2017	$	10,517,727	127,984,490	14,010,015	152,512,232
Change in net deferred tax asset		—	—	3,385,943	3,385,943
Change in nonadmitted assets		—	—	(9,281,894)	(9,281,894)
Change in net unrealized capital loss		—	—	(3,174,859)	(3,174,859)
Change in net unrealized foreign exchange capital loss		—	—	981,555	981,555
Net loss		—	—	(5,894,987)	(5,894,987)
Balance – December 31, 2018		10,517,727	127,984,490	25,773	138,527,990
Change in net deferred tax asset		—	—	(10,464,578)	(10,464,578)
Change in nonadmitted assets		—	—	878,392	878,392
Change in net unrealized capital loss		—	—	(2,160,419)	(2,160,419)
Net loss		—	—	(7,873,658)	(7,873,658)
Balance – December 31, 2019	$	10,517,727	127,984,490	(19,594,490)	118,907,727

See accompanying notes to statutory financial statements.

BUPA INSURANCE COMPANY

Statutory Statements of Cash Flow

Years ended December 31, 2019 and 2018

		2019	2018
Cash flow from operations:			
Premiums collected, net of reinsurance	$	291,157,616	272,962,707
Net investment income		6,561,553	5,355,226
Other income		1,336,864	1,502,942
Benefits and loss-related payments		(191,491,562)	(194,555,578)
Commissions, expenses paid, and aggregate write-ins		(99,423,800)	(88,383,095)
Federal and foreign income taxes received		1,483,701	224,864
Net cash provided by (used in) operations		9,624,372	(2,892,934)
Cash flow from investments:			
Proceeds from investments sold, matured, or repaid:			
Bonds		112,662,078	39,379,915
Total investment proceeds		112,662,078	39,379,915
Cost of investments acquired:			
Bonds		(52,462,502)	(117,909,519)
Common stocks		—	(6,583,545)
Total investments acquired		(52,462,502)	(124,493,064)
Net increase (decrease) in contract loans		(20,871)	19,791
Net cash provided by (used in) investments		60,178,705	(85,093,358)
Cash flow from financing and miscellaneous sources:			
Loan to subsidiaries and affiliates		(8,500,000)	(6,200,000)
Net cash used in financing and miscellaneous sources		(8,500,000)	(6,200,000)
Net change in cash, cash equivalents, and short-term investments		61,303,077	(94,186,292)
Cash, cash equivalents, and short-term investments, beginning of year		64,000,689	158,186,981
Cash, cash equivalents, and short-term investments, end of year	$	125,303,766	64,000,689

See accompanying notes to statutory financial statements.

(1) Organization and Significant Accounting Policies

(a) Organization

BUPA Insurance Company (the Company) is a health insurance company that files its annual report with the Florida Department of Financial Services, Office of Insurance Regulation (Florida OIR). The Company was incorporated in 1973 and obtained a license to write specific coverage in the state of Florida in July 1973. The Company was acquired on September 9, 2005 by Grupo BUPA Sanitas (GBS), a subsidiary of the British United Provident Association (BUPA), a corporation domiciled in England. In October 2013, Bupa Investment Overseas Limited (BIOL), a subsidiary of BUPA, acquired a 33.19% interest in the Company. During 2014, BIOL increased its ownership interest to 59.28%. In December 2015, Bupa Investments Holdings Limited acquired all shares owned by both GBS and BIOL, becoming the Company's sole shareholder. During 2016, Bupa Investments Holdings Limited changed its name to Bupa Global Holdings Limited.

The Company provides accident and health and life insurance primarily to individuals in Latin America and the Caribbean. The Company owns a 99.9% interest in Bupa Mexico, Compañía de Seguros, S.A. de C.V. y Reaseguros (Bupa Mexico).

(b) Basis of Presentation

The accompanying statutory financial statements of the Company have been prepared in conformity with accounting practices prescribed or permitted by the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* and the Florida OIR, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). Prescribed statutory accounting practices include a variety of publications of the NAIC, as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. As of December 31, 2019 and 2018, the Company did not utilize any statutory accounting principles (SAP), which were not prescribed by insurance regulators.

SAP differ from GAAP in several respects, which cause differences in reported assets, liabilities, stockholders' equity (statutory capital and surplus), net income, and cash flows. The primary differences between SAP and GAAP include the following:

- Investments in bonds are carried at admitted value, which is generally cost or amortized cost; under GAAP, investments in bonds, other than those classified as held to maturity, are carried at fair value.
- Certain assets (principally, prepaid expenses, deposits, fixed assets, and receivables that are outstanding for more than 90 days from the due date) have been designated as nonadmitted assets and excluded from assets by a charge to statutory surplus. Under GAAP, such amounts are carried at cost less amortization or net realizable value.
- Aggregate reserves for life and annuity contracts are based on statutory mortality and interest requirements without consideration for anticipated withdrawals. Morbidity assumptions are based on the Company's experience. Under GAAP, the reserves are based on either (i) the present value of future benefits less the present value of future net premiums based on mortality, morbidity, and other assumptions, which were appropriate at the time the policies were issued or acquired, or (ii) the account value for certain contracts without significant life contingencies.

- Deferred income taxes are recognized for both SAP and GAAP; however, the amount permitted to be recognized is generally more restrictive under SAP. Changes in deferred tax assets and liabilities are charged or credited directly to unassigned surplus under SAP. Under GAAP, these changes generally are included in net income. Admittance testing may result in a charge to surplus for nonadmitted portions of deferred tax assets.
- Policy acquisition costs are expensed as incurred, while under GAAP, these costs are deferred and recognized over either (i) the expected premium paying period or (ii) the estimated term of the contract. Under GAAP, assumed reinsurance commission allowances are also deferred as an offset to deferred policy acquisition costs and recognized in proportion to the related policy acquisition costs.
- Reserves are reported as liabilities, net of ceded reinsurance; under GAAP, reserves relating to business in which the Company is not legally relieved of its liability are reported gross with an offsetting reinsurance recoverable presented as an asset.
- Premiums on annuity contracts are recognized as revenue when the contracts are issued. Accident and health premiums are earned on a pro rata basis over the term of the contracts. Under GAAP, premiums on annuity contracts are not recognized as revenue but as deposits, including those held in separate accounts, and reported as a liability.
- Revenue for universal life policies consists of the entire premium received and benefits represent the death benefits paid and the change in policy reserves. Under GAAP, premiums received in excess of policy charges are not recognized as premium revenue but rather as deposit liabilities. Policy charges are deferred and amortized into earnings in proportion to future expected gross profits. Benefits represent the excess of benefits paid over the policy account values and interest credited to the account values.
- The statutory statements of cash flow differ in certain respects from the presentation required by GAAP, including the presentation of the changes in cash and short-term investments instead of cash and cash equivalents. Savings accounts and certificates of deposit in banks or other financial institutions with maturities within one year or less from the acquisition date are classified as cash for financial statement purposes. Short-term investments include securities with maturities, at the time of acquisition, of 90 days or less. For statutory purposes, there is no reconciliation between net income and cash from operations.
- Statutory financial statements do not include reporting and display of comprehensive income as specified under GAAP.
- Corrections of errors in previously issued financial statements are reported as adjustments to unassigned surplus in the period an error is detected unless otherwise directed by the domiciliary insurance department. Under GAAP, corrections of errors are reported, when material, as prior period adjustments with adjustment to the prior year income and equity.

(c) Use of Estimates

The preparation of the statutory financial statements requires management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the statutory financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of unearned health premium reserves,

(Continued)

premium deficiency reserves, liabilities for unpaid claims, aggregate life policy reserves, valuation allowances for receivables, and valuation allowances for deferred income taxes. Actual results could differ from those estimates, and such differences could be significant.

(d) Cash, Cash Equivalents, and Invested Assets

In accordance with the requirements of the NAIC SAP, bonds, certain preferred stock, and short-term investments are typically stated at amortized cost or the valuations promulgated by the NAIC. Investments in bonds not backed by other loans are generally carried at amortized cost, except where the NAIC designation indicates that a bond be carried at the fair value. Changes in prepayment assumptions are accounted for prospectively. Discount or premium on bonds is recorded for the difference between the purchase price and the principal amount. Investments in common stock and certain preferred stock are stated in accordance with the requirements of the NAIC SAP, which approximates fair value. Interest revenue is recognized when earned. Realized gains or losses on sales of investments are determined on the basis of specific identified cost and recognized in net income. Short-term investments are stated at cost, which approximates fair value. For the purpose of the statutory statements of cash flow and the statutory statements of admitted assets, liabilities, and capital and surplus, short-term investments include investments that have a maturity of 90 days or less as of the date of acquisition and cash includes negotiable certificates of deposit that have a maturity date of one year or less at the date of acquisition.

Unrealized gains or losses on bonds and stocks, including the common stock of the Company's unconsolidated subsidiary, are excluded from income and credited or charged directly to unassigned surplus. If any unrealized losses on bonds or stocks are deemed other than temporary, such unrealized losses are recognized as realized losses. The Company has not recognized other-than-temporary losses on securities during 2019 or 2018.

Contract loans are stated at their unpaid principal balance, less an allowance for loan losses, if any. As of and for the years ended December 31, 2019 or 2018, the Company had no impaired contract loans.

(e) Investment in Mexican Subsidiary

During 2003, the Company established Bupa Mexico, Compañía de Seguros, S.A. de C.V., a 99.99% owned subsidiary, which was incorporated on July 31, 2003 in Mexico. The investment in this entity is recorded based on the underlying audited GAAP equity of Bupa Mexico adjusted to a statutory basis of accounting as required by Statements of Statutory Accounting Principles (SSAP) No. 97, *Investments in Subsidiary, Controlled, and Affiliated Entities, A Replacement of SSAP No. 88*. The value of this investment is $10,538,134 and $12,698,553 at December 31, 2019 and 2018, respectively, and is included in common stocks. Dividends from unconsolidated affiliates are recognized as investment income to the extent they are not in excess of the undistributed accumulated earnings attributable to the affiliate. Dividends in excess of such amount reduce the carrying amount of the investment. No dividends have been paid by Bupa Mexico since inception. There were no capital injections made in 2019. There was a capital injection made in 2018 in the amount of $6,583,545.

(f) Premium and Annuity Considerations Recognition and Acquisition Costs

Accident and health insurance premiums are recognized as revenue ratably over the time period to which premiums relate. The liability for unearned premiums for accident and health contracts represents the unexpired portion of the premiums in force and is reported on the statutory statements of admitted assets, liabilities, and capital and surplus as unearned health premium reserves.

Life and annuity premiums are recorded as income when due from policyholders under the terms of the insurance contract. Recognition of life premium income is consistent with the assumptions made in calculating the related policy reserve.

Costs of acquiring and renewing business are expensed as incurred.

(g) Aggregate Reserve for Life Contracts

The aggregate reserve for life policies and contracts is actuarially computed in accordance with state statutes and administrative regulations. The aggregate reserve for life contracts has been calculated principally using the net single premium method and CRVM and is reported in the statutory statements of admitted assets, liabilities, and capital and surplus as aggregate life policy reserves. The mortality and interest assumptions used for life contracts were derived from the 1958 and 1980 Commissioners Standard Ordinary Mortality Tables assuming interest of 3.0% to 5.5%.

The aggregate reserve for life contracts includes reserves for reported claims in the process of settlement, valued in accordance with the terms of the related contracts, as well as reserves for claims incurred and unreported based on prior experience of the Company.

The Company previously offered various life insurance products including interest sensitive whole life, term annuities, participating whole life, and group life; all new policy sales ceased in 2012. The amount maintained in the reserves for deposit-type contracts as of December 31, 2019 and 2018 includes annuity reserves.

The Company waives deductions of deferred fractional premiums upon death of the insured and returns any portion of the final premium beyond the month of death. Surrender values are not guaranteed in excess of the legally computed reserves. Reserves for substandard policies are computed by applying the appropriate table rating or flat extra to the tabular mortality cost. As of December 31, 2019 and 2018, the Company had $1,700,000 and $2,100,000, respectively, of direct insurance in force for which the gross premiums are less than the net premium according to the standard valuation laws of the State of Florida. Tabular interest has been determined by formula as described in the instructions for the analysis of increase in reserves. The tabular less actual reserve released has been determined by a formula as described in the instructions for analysis of increase in reserves. The tabular cost has been determined by formula as described in the instructions for analysis of increase of reserves. The tabular interest on funds not involving life contingencies is the actual amount credited. For the annuity reserves and deposit liabilities, $120,890 and $107,751 is available to the contract holders at book value with minimal or no surrender charge at December 31, 2019 and 2018, respectively.

(h) Claims Unpaid

The liability for unpaid accident and health contract claims, represents the amounts estimated to fund claims that have been reported but not settled and claims incurred but not reported. Liability for unpaid claims is estimated based on the Company's historical experience and other actuarial assumptions that consider the effects of current developments, anticipated trends, risk management programs, and renewal actions. Many factors affect actuarial calculations of claim liability, including, but not limited, to current and anticipated incidence rates and economic and societal conditions. Management periodically performs a review of estimates and assumptions. If management determines assumptions need to be updated, any resulting adjustment to liabilities is reflected in the current results. Given that insurance products contain inherent risks and uncertainties, the ultimate liability may be more or less than such estimates indicate.

(i) Premium Deficiency Reserve

A premium deficiency reserve is recognized by recording an additional liability for the deficiency, which results when anticipated future losses, loss adjustment expenses, commissions, other acquisition costs, and maintenance costs exceed the recorded unearned premium reserve, any future installment premiums on existing policies, and anticipated investment income. The change in this reserve is recorded as a component of other underwriting deductions. It was determined that no premium deficiency reserve was needed as of December 31, 2019 or 2018.

The Company considered two investment income scenarios in the premium deficiency calculation in accordance with SSAP No. 54, *Individual and Group Accident and Health Contracts*. The base scenario contemplated an initial return of 1.55% that graded into the long-term average of the 90-day T-Bill rate linearly over 10 years. A level-yield scenario based on the assumed initial return of 1.55% was also considered.

(j) Income Taxes

The Company determines income tax balances and related disclosures in accordance with SSAP No. 101, *Income Taxes, a Replacement of SSAP No. 10R and SSAP No. 10*.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in surplus in the period that includes the enactment date.

The Company classifies net interest expense related to tax matters and any applicable penalties as a component of income tax expense.

The admissibility of the Company's gross deferred tax assets is based on the provisions in paragraph 11 of SSAP No. 101.

(k) Reinsurance

Premiums written are ceded on a treaty basis. Health-per-risk excess reinsurance contracts are maintained to protect against losses over specified amounts arising from any one occurrence or event. Premiums ceded to other companies have been reported as a reduction of premium income. The insurer is not relieved of its primary obligations to the policyholder in a reinsurance transaction.

In 2019, the Company entered into an excess of loss (XOL) treaty with Sirius Bermuda Insurance Company Ltd. (Sirius) covering its health risks. The amount retained by the Company is up to $400,000 per claimant and $600,000 for claims classified as Maternity Complication Losses. The full risk per claimant between $400,000 and unlimited is then transferred to Sirius after meeting an aggregate deductible on the sum of all such claims. This transfer of risk is contracted as a fixed premium per member explicitly stated in the contract. The contract was bid out to market participants resulting in a competitive premium for the risk transferred. There are no additional premiums, allowances, or loss adjustments based on the portfolio experience that would limit the risk to Sirius or return risk to the Company. Based on these points, the contract meets the requirements for reinsurance accounting.

The Company has both coinsurance and yearly renewable term treaties on its small block of life risks. These treaties were also placed in the open market with full transfer of risk for the amounts specified in the treaties. There are no additional premiums, allowances, or loss adjustments based on the portfolio experience that would limit the risk to the reinsurers or return risk to the Company. Based on these points, these contracts also meet the requirements for reinsurance accounting.

The Company assumes health risks from affiliates. The Company has treaties with Bupa Mexico, Bupa Guatemala Compañía de Seguros S.A. (Bupa Guatemala) and Bupa Dominicana S.A. (Bupa DR), companies under common ownership, which have both coinsurance and XOL elements. Bupa Panama S.A. (Bupa Panama) and Bupa Ecuador S.A., Compañía de Seguros y Reaseguros (Bupa Ecuador), Bupa Insurance (Bolivia) SA (Bupa Bolivia) only have an XOL treaty with the Company. Bupa Insurance Limited (BINS) has a coinsurance treaty with the Company.

The coinsurance treaty with Bupa Compañía Seguros de Vida S.A. of Chile, (Cruz Blanca) was terminated in 2019, and the Company entered a retrocession reinsurance contract with Axis Re Se, a European public limited company, where the Company will reinsure 100% of both premiums and losses written by Cruz Blanca.

The Company has a reinsurance contract with Lloyds Syndicate #2001, managed by Amlin Underwriting Limited, covering 85% of both premiums and losses underwritten by Amlin.

BIC has a reinsurance contract with Compañía de Seguros Bolivar S. A. (Seguros Bolivar), a company incorporated in Colombia, where the Company reinsures 95% of both premiums and losses written by Seguros Bolivar. The contract was effective in 2018.

Assumed reinsurance premiums, commissions, expense reimbursements, and reserves related to reinsured business are accounted for on the basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

All of these treaties have full transfer of risk for the amounts specified in the treaty. There are no additional premiums, allowances, or loss adjustments based on the portfolio experience that would limit the risk to the Company or return risk to the ceding companies. Based on these points, these contracts meet the requirements for reinsurance accounting.

(l) Nonadmitted Assets

Certain assets, such as work in progress, deferred tax assets, deposits, prepaid expenses, electronic data processing equipment, furniture and equipment, receivable 90 days past due, and nonadmitted portion of loan to related party have been designated as nonadmitted assets by a charge to statutory surplus. Changes in these assets are presented as changes in unassigned surplus.

		2019	2018	Increase (decrease) in surplus for 2019
Deposits and prepaid expenses	$	—	36,666	36,666
Electronic data processing equipment		2,115	5,169	3,054
Furniture and equipment		2,107,634	2,630,361	522,727
Loan receivable – related party		20,405,867	11,533,574	(8,872,293)
State income tax recoverable		1,000	1,000	—
Federal income tax recoverable		613,603	3,073,152	2,459,549
Deferred tax assets		—	6,728,689	6,728,689
Total nonadmitted assets	$	23,130,219	24,008,611	878,392

(m) Fair Value of Financial Instruments

The fair value of financial instruments represents estimates of fair values at a specific point in time determined by the Company using available market information and appropriate valuation methodologies. These estimates are subjective in nature and involve uncertainties and significant judgment in the interpretation of current market data.

(n) Fair Value Measurement

SSAP No. 100, *Fair Value Measurements*, specifies a fair value hierarchy based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about market participants' assumptions based on the best information available in the circumstances. In accordance with SSAP No. 100, the fair value hierarchy prioritizes model inputs into three broad levels:

Level 1: Quoted prices for identical instruments in active markets that the Company has the ability to access;

Level 2: Quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments that are not active markets, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3: Model-driven valuations in which one or more significant inputs or significant value drivers are unobservable.

As of December 31, 2019 or 2018, there were no significant financial assets and liabilities that are measured at fair value on a recurring basis. However, the Company discloses the fair value of bonds held to maturity, which are reported at amortized cost on the statutory statements of admitted assets, liabilities, and capital and surplus as further discussed in notes 2 and 3.

(o) Derivative Instruments and Hedging Activities

Bupa Investments Limited (BIL), an affiliated entity, enters into nondeliverable forward contracts on behalf of the Company in order to limit its exposure to fluctuations in foreign currency exchange rates. These contracts were entered into to fix U.S. dollar (USD) amounts for a portion of the anticipated net cash flow related to policyholders' premiums and claims. The Company does not use derivative instruments for speculative purposes. Fair value of derivatives is estimated using available market information and appropriate valuation methodologies. The derivatives derive their value primarily based on changes in currency exchange.

All derivatives are recorded at fair value by BIL, and the changes in fair value are charged to the Company and included in earnings. The Company reported cash outflows of $718,651 related to realized losses on hedging transactions during 2019. The Company reported cash outflows of $99,003 related to realized losses on hedging transactions during 2018. The unrealized loss of the outstanding contracts BIL held on behalf of the Company as of December 31, 2019 was $416,190. The unrealized loss of the outstanding contracts BIL held on behalf of the Company as of December 31, 2018 was $238,139. The notional principal amount related to these contracts was approximately $17.1 million and $9.6 million as of December 31, 2019 and 2018, respectively. These unrealized losses did not qualify for hedge accounting, and, thus, are reported as losses in the statutory statements of income for the years ended December 31, 2019 and 2018. The contracts are settled net; the unrealized gains or losses are recorded as an intercompany receivable (payable) with BIL, which has a corresponding asset (liability) with the respective banking institutions.

(2) Investments

The amortized cost, gross unrealized gains and losses, and fair value of investment securities as of December 31, 2019 are as follows:

		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Bonds:					
U.S. Treasury securities and obligations of U.S. government agencies, states, and political subdivisions	$	775,857	48,432	—	824,289
Industrial and miscellaneous		132,239,410	317,237	—	132,556,647
Total bonds	$	133,015,267	365,669	—	133,380,936

The industrial and miscellaneous bonds comprise $127.2 million of corporate bonds and one certificate of deposit issued by a financial institution for $5.0 million.

All bonds are held to maturity and carried at amortized cost. Discounts or premiums on bonds are recorded as the difference between the purchase price and the principal amount using the effective-interest method.

The amortized cost, gross unrealized gains and losses, and fair value of investment securities as of December 31, 2018 are as follows:

		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Bonds:					
U.S. Treasury securities and obligations of U.S. government agencies, states, and political subdivisions	$	38,984,519	—	(1,087,657)	37,896,862
Industrial and miscellaneous		153,436,667	—	(465,819)	152,970,848
Total bonds	$	192,421,186	—	(1,553,476)	190,867,710

The industrial and miscellaneous bonds comprise $148.4 million of corporate bonds and one certificate of deposit issued by a financial institution for $5.0 million.

The amortized cost, gross unrealized gains and losses, and fair value of short-term investments as of December 31, 2019 are as follows:

		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Bonds:					
U.S. Treasury securities and obligations of U.S. government agencies, states, and political subdivisions	$	38,972,409	9,651	—	38,982,060
Industrial and miscellaneous		19,464,470	6,024	—	19,470,494
Total bonds	$	58,436,879	15,675	—	58,452,554

The industrial and miscellaneous bonds comprise $19.5 million of corporate bonds.

The amortized cost, gross unrealized gains and losses, and fair value of short-term investments as of December 31, 2018 are as follows:

		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Bonds:					
Industrial and miscellaneous	$	10,531,346	—	(6,883)	10,524,463
Total bonds	$	10,531,346	—	(6,883)	10,524,463

The industrial and miscellaneous bonds comprise $10.5 million of corporate bonds.

At December 31, 2019, all of the Company’s securities in an unrealized loss position are investment-grade fixed-income securities. Each of these investments is current on interest and principal payments. The unrealized loss position is due to the changes in the interest rate environment, and the Company has the intent and ability to hold these securities until they mature or recover in value.

Management considered several factors in determining that securities carried at an unrealized loss position were not other-than-temporarily impaired, including the nature of the investments, the severity and duration of the impairment, industry analyst reports, the volatility of the securities market price, and other relevant information at the time the statutory financial statements were prepared. During 2019 and 2018, the Company recognized no other-than-temporary impairment losses on fixed-income securities.

(Continued)

The carrying values and fair value of bonds at December 31, by contractual maturity, are shown below:

	2019		2018	
	Amortized cost	**Fair value**	**Amortized cost**	**Fair value**
Due in 1 year or less	$ 86,691,931	86,892,709	68,702,008	68,596,007
Due after 1 year through 5 years	45,645,096	45,780,106	84,831,719	84,490,998
Due after 5 year through 10 years	678,240	708,121	38,887,459	37,780,705
	$ 133,015,267	133,380,936	192,421,186	190,867,710

There were sales of investment securities during 2019, which resulted in a realized capital gain of $831,779. There were sales of investment securities during 2018, which resulted in a realized capital loss of $50,751. There were no bonds with maturities due after 10 years at December 31, 2019.

The credit quality of the bond portfolio at December 31 is identified in the table below. The quality ratings represent NAIC designations.

	2019		2018	
	Amortized cost	**Percentage**	**Amortized cost**	**Percentage**
NAIC 1 (highest quality)	$ 133,015,267	100.0 %	192,421,186	100.0 %
	$ 133,015,267	100.0 %	192,421,186	100.0 %

Bonds with ratings ranging from AAA/Aaa to BBB/Baa3, as assigned by a rating service such as Standard and Poor’s Corporation or Moody’s Investment Services, are generally regarded as investment-grade securities. Those securities issued or guaranteed by the U.S. government or an agency thereof are not rated, but are considered to be investment-grade securities. The NAIC regards the U.S. government and agency securities and all A ratings as Class 1 (highest quality), BBB/Baa ratings as Class 2 (high quality), BB/Ba ratings as Class 3 (medium quality), B ratings as Class 4 (low quality), all C ratings as Class 5 (lower quality), and D ratings as Class 6 (in or near default).

Bonds include U.S. Treasury securities with a carrying value of $291,400 and $290,949 at December 31, 2019 and 2018, respectively, on deposit with the Florida OIR, as required by state insurance regulations. Bonds were also on deposit with the government of the U.S. Virgin Islands, with a carrying value of $484,457 and $484,724 at December 31, 2019 and 2018, respectively.

(Continued)

Net investment income for the years ended December 31, 2019 and 2018 comprises the following:

		2019	2018
Interest income	$	7,415,559	5,834,964
Derivative instruments		(896,701)	(338,211)
Investment income – before expense		6,518,858	5,496,753
Investment expense		26,181	22,774
Net investment income	$	6,492,677	5,473,979

(3) Fair Value Measurements

The following table represents fair value of securities by SSAP No. 100 hierarchy levels as of December 31, 2019 and 2018:

		2019					
		Admitted assets	Aggregate fair value	Level 1	Level 2	Level 3	Not practicable to estimate fair value (carrying value)
Financial assets:							
U.S. Treasury securities	$	39,748,266	39,806,349	39,806,349	—	—	—
Industrial and miscellaneous bonds		151,703,880	152,024,484	—	152,024,484	—	—
Common stock		10,538,134	10,538,134	—	—	—	10,538,134

		2018					
		Admitted assets	Aggregate fair value	Level 1	Level 2	Level 3	Not practicable to estimate fair value (carrying value)
Financial assets:							
U.S. Treasury securities	$	38,984,519	37,896,862	37,896,862	—	—	—
Industrial and miscellaneous bonds		153,436,667	152,970,848	—	152,970,848	—	—
Common stock		12,698,553	12,698,553	—	—	—	12,698,553

Investments not practicable to estimate fair value
December 31, 2019

Type of financial instrument		Carrying value	Effective interest rate	Maturity date	Explanation
Common stock	$	10,538,134	N/A	N/A	Amounts reported are book/adjusted carrying values of affiliates for which no resale market is readily available.

Investments not practicable to estimate fair value
December 31, 2018

Type of financial instrument		Carrying value	Effective interest rate	Maturity date	Explanation
Common stock	$	12,698,553	N/A	N/A	Amounts reported are book/adjusted carrying values of affiliates for which no resale market is readily available.

The fair value estimates presented herein are based on quotations of national securities exchanges or pertinent information available to the Company as of December 31, 2019 and 2018. Although the Company is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been revalued for purposes of these statutory financial statements since that date; current estimates of fair value may differ significantly from the amounts presented herein.

The admitted value of common stock is calculated under SSAP No. 97. The Company has not determined the fair value of investment in affiliated common stock.

The carrying value of cash, cash equivalents, and short-term investments, contract loans, fees and other receivables, and accrued expenses approximates fair value due to short maturity or short duration of these instruments.

(4) Accident and Health Contract Claims

Activity in the liability for accident and health contract claims, net of reinsurance ended for the years ended December 31, 2019 and 2018 is summarized as follows:

		2019	2018
Claim reserves at January 1, net of amounts ceded	$	36,546,457	35,539,869
Incurred related to:			
Current year		219,306,200	186,598,359
Prior years		(3,799,715)	(1,268,212)
Total incurred		215,506,485	185,330,147

		2019	2018
Paid related to:			
Current year	$	180,048,833	152,885,361
Prior years		31,049,647	31,438,198
Total paid		211,098,480	184,323,559
Claim reserves at December 31, net of amounts ceded	$	40,954,462	36,546,457

The above table shows the components of changes in claim liabilities. Claim liabilities include claims in process as well as provisions for the estimate of incurred but not reported claims and provisions for disputed claim obligations. Such estimates are computed using actuarial principles and assumptions that consider, among other things, contractual requirements, historical utilization trends and payment patterns, benefit changes, medical inflation, seasonality, membership, and other relevant factors.

Because claim liabilities include various actuarially developed estimates, the Company's actual medical costs and claims expense may be more or less than the Company's previously developed estimates. As a result of change in estimates of insured events, the incurred claims for prior period insured events during 2019 and 2018 were lower than anticipated and this is attributed to lower-than-expected cost per service and development. Management believes the amount of claims liabilities is reasonable and adequate to cover the Company's liability for unpaid claims and for claims incurred but not yet reported as of December 31, 2019.

(5) Premium Deficiency

The Company evaluates its healthcare contracts to determine if it is probable that a loss will be incurred. A premium deficiency loss is recognized when it is probable that expected future paid claims, administrative expenses, and reserves will exceed existing reserves plus anticipated future premiums on existing contracts. Anticipated investment income and overhead expenses are also considered in the calculation of premium deficiencies. In 2019 and 2018, it was determined that no premium deficiency reserve was necessary due to the actual results being closer to the expected scenario than the moderately adverse scenarios that were the basis for the reserve in previous years.

(6) Federal Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (Tax Reform), which legislation significantly modifies the Internal Revenue Code of 1986, as amended. Tax Reform reduces the corporate tax rate from a graduated set of rates with a maximum 35% tax rate to a flat 21% tax rate effective January 1, 2018.

The current provisions for incurred taxes on earnings for the years ended December 31 are as follows:

		2019	2018
Federal	$	452,889	(53,292)
Foreign		531,390	438,948
Federal and foreign income taxes provisions	$	984,279	385,656

A reconciliation of the federal income tax provision (other than capital gains) to the amount computed using the statutory federal income tax rate of 21% in 2019 and 21% in 2018 is as follows:

		2019	2018
Federal income taxes computed at the statutory rate	$	(1,446,770)	(1,156,960)
Change in nonadmitted assets		(1,228,772)	(1,759,659)
Valuation Allowance		13,258,508	—
Other		865,891	(83,668)
Federal and foreign income taxes provisions	$	11,448,857	(3,000,287)
Federal income tax provisions (benefit)	$	984,279	385,656
Change in net deferred income taxes		10,464,578	(3,385,943)
Total statutory income taxes provisions	$	11,448,857	(3,000,287)

The components of net deferred tax assets and deferred tax liabilities recognized in the Company’s statutory statements of admitted assets, liabilities, and capital and surplus at December 31, 2019 and 2018 are as follows:

		2019	2018
Total gross deferred tax assets	$	13,650,404	10,910,235
Adjusted gross deferred tax assets		13,650,404	10,910,235
Total deferred tax liabilities		(391,896)	(445,657)
Net deferred tax assets		13,258,508	10,464,578
Less: valuation allowance		(13,258,508)	—
Net deferred tax assets after valuation allowance	$	—	10,464,578
Total deferred tax assets nonadmitted	$	—	(6,728,689)
Net admitted deferred tax assets	$	—	3,735,889
Increase (decrease) in admitted deferred tax assets	$	(3,735,889)	2,483,377

(Continued)

Deferred tax assets can only be admitted in an amount calculated under SSAP No. 101. The amount admitted is equal to the sum of (a) federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the third subsequent calendar year plus, (b) the amount of adjusted deferred tax assets that are expected to be realized within three years of the balance sheet date after reduction by amounts that can be recovered through carrybacks and limited to 21% of adjusted statutory capital and surplus at December 31, 2019, and (c) the amount of adjusted gross deferred tax assets after application of (a) and (b) that can offset existing gross deferred tax liabilities.

The amount of admitted adjusted gross deferred tax assets admitted under each component of SSAP No. 101 as of December 31, 2019 and 2018 is as follows:

		2019	2018	Change
a. Federal income taxes paid in prior years recoverable through loss carryback	$	—	—	—
b. Adjusted gross deferred tax assets expected to be realized after application of threshold limitation		—	3,735,889	(3,735,889)
c. Adjusted gross deferred tax assets offset by deferred tax liabilities		391,896	445,657	(53,761)
	$	391,896	4,181,546	(3,789,650)

There are no temporary differences for which deferred tax liabilities are not recognized.

There are no tax planning strategies as of December 31, 2019 or 2018.

The amounts used in determination of admitted deferred tax assets in accordance with SSAP No. 101 are as follows:

Total adjusted capital (excluding DTA)	$	118,907,727
Authorized control level		16,323,851
Risk-based capital percentage		728.43 %

The valuation allowance for deferred tax assets as of December 31, 2019 and 2018 was $13,258,508 and $0, respectively. The net change in the total valuation allowance was an increase of $13,258,508 in 2019 while 2018 remained flat as compared to the previous year. The valuation allowance at December 31, 2019 was primarily related to unearned premium reserves, net operating loss carryforwards ("NOLs") and foreign tax credit carryforwards. At December 31, 2019 the Company had federal NOLs of approximately $933,000. All of the federal net operating loss carryforwards that have an indefinite life and do not expire. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the effect of available carryback and carryforward periods), projected future taxable income, and tax-planning strategies in making this assessment. Book income (loss) before taxes for the years ended December 31, 2019 and 2018 was $(6,889,379) and $(5,509,331), respectively. Based upon the level of historical losses and projections for future losses over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will not realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2019.

The net deferred tax asset at December 31, 2019 and 2018 and the change in deferred taxes comprise the following:

	December 31		
	2019	**2018**	**Change**
Total deferred tax assets net of valuation allowance	$ 391,896	10,910,235	(10,518,339)
Total deferred tax liabilities	(391,896)	(445,657)	53,761
Net deferred tax asset	$ —	10,464,578	(10,464,578)
Tax effect of unrealized gains			—
Change in net deferred income tax			$ (10,464,578)

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes and (b) operating loss and tax credit carryforwards. The tax effects of significant items comprising the

Company's net deferred tax asset (all of which are operating in nature) as of December 31, 2019 and 2018 are as follows:

		2019	2018
Deferred tax assets:			
Unearned premium reserves	$	5,582,454	5,241,986
Interest-sensitive life reserves		24,832	17,655
Deferred policy acquisition costs and other		875	795
Unpaid losses		124,654	118,282
Allowance for doubtful accounts		27,760	27,741
Accrued expenses and other		209,140	195,990
Unearned lease income		310,138	381,709
Unrealized loss from hedging instruments		87,400	50,009
Net operating tax credit carryfoward		933,326	296,853
Foreign tax credit carryforward		1,481,821	950,431
Nonadmitted assets		4,857,346	3,628,784
Capital loss carryfoward		10,658	—
Total deferred tax asset		13,650,404	10,910,235
Less: valuation allowance		(13,258,508)	—
Nonadmitted deferred tax asset		—	(6,728,689)
Deferred tax liability:			
Unrealized exchanged transactions		—	—
Property and equipment		(391,896)	(445,657)
Net deferred tax asset nonadmitted	$	—	3,735,889

There are no temporary differences associated with capital items.

As of December 31, 2019 or 2018, the Company had no unrecognized tax benefits. The statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2019 and 2018 included no amounts for interest or penalties related to unrecognized tax benefits, and no such amounts were recognized as components of income tax expense.

The Company files a federal and Florida income tax return. The Company is no longer subject to U.S. federal income tax examinations for years prior to 2015. Potential state of Florida tax examinations for those years are generally restricted to results that are based on closed U.S. federal income tax examinations.

(7) Reinsurance

The effects of reinsurance at December 31, 2019 were as follows:

		Accident and health contract/ life claims liability	Unearned health premium reserves	Premiums and annuity considerations written	Premiums and annuity considerations earned	Disability benefits and benefits under accident and health/ life contracts
Direct	$	13,255,872	40,742,240	105,081,631	104,982,437	73,150,245
Assumed		29,943,040	83,226,826	233,748,211	213,700,894	143,338,918
Ceded		(2,224,980)	—	(6,292,538)	(6,292,538)	(958,411)
Total	$	40,973,932	123,969,066	332,537,304	312,390,793	215,530,752

The effects of reinsurance at December 31, 2018 were as follows:

		Accident and health contract/ life claims liability	Unearned health premium reserves	Premiums and annuity considerations written	Premiums and annuity considerations earned	Disability benefits and benefits under accident and health/ life contracts
Direct	$	11,156,911	40,643,047	105,552,124	106,708,944	77,119,037
Assumed		28,366,342	73,116,613	166,671,652	158,936,751	112,397,964
Ceded		(2,937,946)	—	(6,251,049)	(6,251,049)	(4,486,107)
Total	$	36,585,307	113,759,660	265,972,727	259,394,646	185,030,894

The Company has a proportional reinsurance agreement with Bupa Mexico, where the Company assumes 90% of the premiums and claims with an excess of loss coverage of 100.0% on claims above $25,000, with the exception of Banamex products, which are reinsured at 100.0%. The Company also has a reinsurance agreement with Bupa DR, where the Company assumes 45.0% of the premiums and claims with an excess of loss coverage of 100.0% on claims above $30,000. Excess of loss premium paid to the Company by Bupa Mexico and Bupa DR equals 0.5% of retained premiums. The Company pays a reinsurance commission of 37.0% on all of the premiums ceded, for reimbursement of expenses to Bupa Mexico and Bupa DR.

The Company also has a reinsurance agreement with Bupa Guatemala, where the Company assumes 90.0% of the premiums and claims with an excess of loss coverage of 100.0% on claims above $80,000. Reinsurance commission paid to Bupa Guatemala is 40.0% of ceded premiums. Excess of loss premium paid to the Company equals 0.5% of retained premiums.

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The Company has an excess of loss reinsurance agreement with Bupa Panama, to cover any losses greater than $100,000. Bupa Panama pays the Company $20 per member per month.

Additionally, the Company entered into a reinsurance agreement with BINS, a company under common ownership. Under this agreement, BINS cedes 100.0% of claims and premiums net of commissions related to their Latin America portfolio to the Company. In exchange, the Company reimburses 100.0% of the operating expenses BINS incurs related to this portfolio.

The Company has an excess of loss reinsurance agreement with Bupa Ecuador to cover any losses over $400,000. Bupa Ecuador pays the Company $4.15 per member per month.

Effective January 1, 2019, the Company has an excess of loss reinsurance agreement with Bupa Bolivia, to cover any losses greater than $150,000. Bupa Bolivia pays the Company $5,000 per year, within 60 days following year-end.

The Company has a retrocession reinsurance agreement with Axis Re Se, a European public limited company, where the Company assumes 100.0% of premiums, net of applicable taxes and commissions, written by Bupa Compañía Seguros de Vida S.A. of Chile (Cruz Blanca) and ceded to Axis Re Se. The Company will reimburse Axis 100.0% of all claims paid. The Company will pay Axis Re Se an annual ceding commission of $25,000.

The Company has a reinsurance agreement with Lloyd’s Syndicate 2001, managed by Amlin Underwriting Limited (Amlin), where the Company assumes 85.0% of premiums, net of any commissions and fees paid by Amlin to Bupa Worldwide Corporation and to U.S.A. Medical Services Corporation, companies related through common ownership. The Company is liable for 85.0% of all losses. BIC pays a reinsurance commission of 4.0% on the net reinsurance premium.

The Company has a reinsurance agreement with Compañía de Seguros Bolivar S. A. (Seguros Bolivar), a company incorporated in Colombia, where the Company assumes 95.0% of premiums net of applicable tax and commissions. Under Colombian law, Seguros Bolivar must retain 20.0% of the ceded premium and may release it after a calendar year. Seguros Bolivar will recognize an interest rate of 1.5% over such deposit, subject to withholding tax of 15.0%. The Company will reimburse Seguros Bolivar 95.0% of all claims paid. Reinsurance commission paid by BIC is $282.50 per customer per year or $3,277,322 for 2019.

The Company has an excess loss reinsurance agreement with Sirius, in which the Company cedes claims in excess of $400,000 and in excess of $600,000 for claims classified as Maternity Complication Losses to the reinsurer. In the event that the reinsuring company is unable to meet its obligations under existing reinsurance agreements, the Company would be liable for such defaulted amounts. The Company reinsures all individual life coverages in excess of $50,000 on any one life, with various reinsurers.

(8) Retirement Plan

The Company has a voluntary defined-contribution 401(k) profit-sharing plan (the Plan) in which eligible employees may participate. Employees are eligible to participate in the Plan upon the attainment of age 21 and completion of six months of service. Participants may elect to contribute up to $19,000 and $18,500 of their annual compensation, not to exceed amounts prescribed by statutory guidelines, for the years ended December 31, 2019 and 2018, respectively. The Company’s matching contribution is 7% of employee’s salary. Contributions to the Plan were $45,005 and $38,345 for the years ended December 31, 2019 and 2018, respectively.

(9) Managing General Agent

Bupa Worldwide Corporation (BW) has the exclusive contract to serve as managing general agent to the Company. It is located at 18001 Old Cutler Road, Palmetto Bay, FL, 33157, with FEIN# 59-2729914. BW provides marketing, agent administration, and policy administration services. The type of authority granted by the Florida Office of Insurance Regulation is B (Binding Authority) and P (Premium Collection). Approximately $105.1 million and $105.5 million of direct premiums were written through BW, including accident and health, ordinary life, and term life, for each year ended December 31, 2019 and 2018, respectively. The Company paid BW commissions of $15,298,534 and $14,081,147 for these services in 2019 and 2018, respectively. Per the terms of the managing general agent agreement, BW must be paid for the administrative fee due on a monthly basis. BW may offset any existing or future indebtedness of the Company to BW against any future claims for compensation payable to the Company by BW. Effective January 2013, the Company amended the existing MGA agreement to also include a profit-sharing agreement for remuneration of key entrepreneurial risk-taking functions, including underwriting and renewal/retention that BW provides and which are likely to directly affect the profitability of the Company. The profit-sharing amount is calculated as a share of the Company's profit under U.S. GAAP. Under this basis of accounting the Company had a management operating loss; therefore, there was no profit-sharing fee paid during 2019 or 2018. This profit-sharing agreement was terminated on December 31, 2018, effective January 1, 2019.

(10) Transactions with Related Parties

The Company is party to a third-party administration agreement with U.S.A. Medical Services Corporation (USAMS) and U.S.A. Medical Services DR (USADR) under which USAMS and USADR provide claims administration and medical referral services to the Company for a fee. The Company paid USAMS and USADR fees for these services of $4,570,458 and $5,206,206 in 2019 and 2018, respectively. These fees are recorded as hospital and medical benefits expense in the accompanying statutory statements of income.

In 2016, the Company provided an unsecured loan to Bupa Investments Overseas Limited (BIOL), a company under common ownership, in the amount of $30,000,000, maturing on December 23, 2017. On December 1, 2017, the original $30,000,000 was repaid. The loan agreement was amended to extend the maturity date to November 21, 2019, and $15,000,000 was funded on December 15, 2017. An additional $6,200,000 was funded on June 21, 2018. An additional loan amendment was executed October 14, 2019 increasing the loan amount to $35,000,000 and extending the maturity date to November 20, 2020. During 2019, the amount of the loan was funded by an additional $8,500,000. The loan bears interest, payable quarterly in arrears on the last business day of each calendar quarter, at 35 basis points above the three-month USD LIBOR per annum. Interest income for the year ended December 31, 2019 amounted to $712,206 compared to $469,994 in 2018. According to Florida Administrative Code Rule 69O-143-047(4)(a)2., the admissibility of this loan involving the Company and a member of its holding company system is limited to 3% of its total admitted assets of the preceding year, therefore, $20,405,867 is in excess of this limitation and must be included as a nonadmitted asset as December 31, 2019. The amount included as a nonadmitted asset as of December 31, 2018 was $11,533,574.

Effective January 1, 2015, an intercompany expense allocation agreement was placed in effect among the Company, Bupa Investment Corporation, Inc., Bupa Worldwide Corporation, Bupa U.S. Holdings, Inc., Onup Group Corporation, U.S.A. Medical Services Corporation, BINS, Bupa Insurance Services, Ltd, Bupa Denmark Services A/S, Bupa Dominicana, S.A., Bupa Insurance (Bolivia) S.A., Bupa Panama, S.A., Bupa Guatemala, Compañía De Seguros, S.A., Bupa Mexico Compañía De Seguros S.A. DE C.V., Bupa Ecuador S.A., Compañía De Seguros Y Reaseguros, Bupa Servicios De Evaluacion Medica, Bupa de Brasil Saude Ltda, and Amedex Insurance Company (Bermuda) LTD. The agreement states that each paying party is authorized to pay for direct costs on behalf of one or more of the other party or parties in exchange for reimbursement for such payments from the respective purchasing party or parties. Payments shall be in the exact amount, including all applicable incurred taxes.

In November 2013, the Company signed sublease agreements with BW and USAMS to allocate the cost of a 10-year lease in an office building located in Palmetto Bay, Florida. The Company charges BW and USAMS for the portion of the space used. Total rental income is included as an offset to general administrative expenses under these leases amounted to $1,998,888 in 2019 and $1,995,407 in 2018. The total of minimum sublease rentals to be received in the future under these leases is $8,634,687.

On February 13, 2013, the Company provided an unsecured loan to USAMS in the amount of $4,000,000, maturing on February 23, 2023. The loan bears interest, payable quarterly in arrears on the last business day of each calendar quarter, at a 3% rate per annum. Interest income for the years ended December 31, 2019 and 2018 amounted to $120,300 per year.

In 2013, a profit-sharing agreement was executed between the Company and Bupa Insurance Services Limited (BISL), a company under common ownership, where the Company remunerates BISL for high value services consisting of financial, marketing, medical, and strategy consulting. This agreement was terminated on December 31, 2017, effective January 1, 2018.

Additionally, the Company has an investment in Bupa Mexico, Compañía de Seguros, S.A. de C.V y Reaseguros, as discussed in note 1(e).

(11) Regulatory Matters

The Company is subject to regulation by the Florida OIR. Florida insurance regulations require the Company to maintain not less than the greater of unimpaired paid-in surplus of $40.0 million, or 4%, of total liabilities, plus 6% of liabilities relative to health insurance. The Company is restricted by Florida insurance statutes as to the amount of dividends which can be paid. Dividends can only be paid out of available and accumulated surplus funds, which are derived from realized net operating profits and net realized capital gains. The maximum amount of dividend paid must be the lower of 10% of surplus in any one year or 100% of the net operating profits and realized net capital gains derived during the immediate preceding calendar year. During 2019 and 2018, no dividends were declared or paid. The Company is limited to distribute $0 in dividends in 2019 without prior approval from the Florida OIR.

The Company is required to comply with NAIC risk-based capital (RBC) requirements. RBC is a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations in light of its size and risk profile. NAIC RBC standards are used by regulators to determine appropriate regulatory actions relating to insurers who show signs of weak or deteriorating conditions. As of December 31, 2019 and 2018, based on calculations using appropriate NAIC formulas, the Company's total adjusted capital was in excess of ratios that would require any form of regulatory action.

(12) Concentration of Premiums

The distribution by country of accident and health premiums written by the Company is as follows as of December 31, 2019 and 2018:

	2019	2018
Mexico	51 %	45 %
Colombia	7	3
Guatemala	6	7
Venezuela	6	7
Honduras	4	4
Others	26	34
Total	100 %	100 %

(13) Commitments and Contingencies

The Company is a party to various claims, legal actions, and complaints arising in the ordinary course of business. While any proceeding or litigation has an element of uncertainty, management believes that the disposition of these matters will not have a material impact on the statutory financial position, liquidity, or results of operations of the Company.

(14) Leases

In November 2013, the Company signed a lease agreement for a 10-year lease in an office building located in Palmetto Bay, Florida. The Company is also a party to two leases for equipment with terms ranging from three to five years.

Rental expense for these operating leases was $1,856,549 in 2019 and $1,862,140 in 2018.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2019 are:

	Minimum lease payments
Year ending December 31:	
2020	$ 2,078,904
2021	2,134,669
2022	2,184,869
2023	2,238,961
2024	539,977
Total minimum lease payments	$ 9,177,380

In November 2013, the Company signed sublease agreements with BW and USAMS to allocate the cost of a 10-year lease in an office building located in Palmetto Bay, Florida, as stated in note 10 above.

Future minimum sublease receipts in the future under these leases as of December 31, 2019 are:

		BW minimum sublease receipts	USAMS minimum sublease receipts
Year ending December 31:			
2020	$	1,564,187	386,398
2021		1,606,401	396,826
2022		1,649,970	407,588
2023		1,694,893	418,685
2024		408,763	100,976
Total minimum sublease receipts	$	6,924,214	1,710,473

(15) Reconciliation of Financial Statements with the Annual Statement

The net deferred tax asset as of December 31, 2019, reported in the accompanying statutory financial statements differs with the amount reported in the Company's annual statement filed with the Florida Department of Financial Services, Office of Insurance Regulation as follows:

		Net deferred tax asset
As reported in the annual statement	$	13,258,508
Effect of valuation allowance		(13,258,508)
As reported in the accompanying statutory financial statements	$	—

There were no differences between the net income as reported in the December 31, 2019 audited statutory financial statements and the annual statement filed with the Florida Department of Financial Services, Office of Insurance Regulation.

(16) Subsequent Events

On March 11, 2020, the World Health Organization declared Coronavirus COVID-19 a pandemic due to its rapid spread throughout the world. Most governments are taking restrictive measures to contain the spread, and the situation is significantly affecting the global economy due to the interruption or slowdown of supply chains and the significant increase in economic uncertainty, evidenced by an increase in the volatility of asset prices, exchange rates, and a decrease in long-term interest rates.

Additionally, on March 27, 2020, H.R. 748, the Coronavirus Aid, Relief, and Economic Security Act, "the CARES ACT", was signed into legislation, which includes tax provisions relevant to businesses that during 2020 could impact taxes related to 2018 and 2019. The Company is required to recognize the effect on the financial statements in the period the law was enacted, which is 2020. At this time, for 2018 and 2019, the Company does not expect the impact of the CARES ACT on the Company's financial position or result of operations to be material.

As the implications of COVID-19 are indicative of conditions that arose after the end of the reporting period-end, it is a subsequent event that does not require any adjustments to the annual accounts for the financial year 2019. While it is not possible, at this stage, to accurately estimate the financial impacts of this crisis, the Company continues to monitor the business for potential impacts and to manage the associated risks.

The Company has evaluated subsequent events through May 27, 2020, the date at which the financial statements were issued. The Company has determined that there are no other items to disclose.

SUPPLEMENTAL SCHEDULES

BUPA INSURANCE COMPANY

Schedule of Investment Risks Interrogatories

December 31, 2019

1. The Company’s total admitted assets as reported in the statutory statement of admitted assets, liabilities, and capital and surplus at December 31, 2019 were: $ 315,902,272

2. The largest exposures to a single issue/borrower/investment, by investment category, excluding: (i) U.S. government, U.S. government agency securities, and those U.S. government money market funds listed in the Appendix to the *SVO Purposes and Procedures Manual* as exempt, (ii) property occupied by the Company, and (iii) policy loans at December 31, 2019 are as follows:

Issuer	Description of exposure		Amount	Percentage of total admitted assets
United States Treasury NTS	Bonds	$	39,748,266	13 %
Wells Fargo	Cash/Bonds		37,100,157	12
Standard Chartered Bank	Cash		30,000,000	9
MUFG Bank LTD	Cash/Bonds		22,000,000	7
Citibank NA	Bonds		14,062,638	4
JP Morgan Chase and Co.	Bonds		12,271,215	4
Bupa Mexico, Compania de Seguros, SA	Common stock		10,538,134	3
UBS	Bonds		10,377,050	3
Australia and New Zealand Intl	Bonds		10,209,468	3
Lloyds Bank PLC	Bonds		10,032,447	3

3. The amount and percentage of the Company’s total admitted assets held in bonds by NAIC rating are as follows:

Bonds		Amount	Percentage
NAIC-1	$	191,452,146	61 %

4. The largest exposures to foreign investments are as follows:

Issuer	Investment category		Amount	Percentage of total admitted assets
BUPA Mexico, Compañía de Seguros, S.A.	Common stock	$	10,538,134	3 %

5. Aggregate foreign investment ensure by NAIC sovereign designation:

NAIC Designation			
Countries designated NAIC – 1	$	—	— %
Countries designated NAIC – 2		—	—
Countries designated NAIC – 3 or below		10,538,134	3

6. The largest foreign investment by country, categorized by country’s NAIC sovereign designation:

Country Designated NAIC – 2				
Country	Mexico	$	10,538,134	3 %

7. N/A

8. N/A

9. N/A

10. N/A

11. There were no assets held in Canadian investments that exceeded 2.5% of total admitted assets.

12. There were no assets held in investments with contractual sales restrictions.

BUPA INSURANCE COMPANY

Schedule of Investment Risks Interrogatories

December 31, 2019

13. The largest exposure to equity interests is as follows:

Issuer	Amount	Percentage of total admitted assets
BUPA Mexico, Compañía de Seguros, S.A.	$ 10,538,134	3 %

14. There were no privately placed equities.
15. There were no assets held in general partnership interests.
16. There were no assets held in mortgage loans that exceeded 2.5% of total admitted assets.
17. N/A
18. There were no assets held in real estate.
19. There were no admitted assets held in mezzanine real estate loans.
20. There were no admitted assets subject to securities lending, repurchase, reserve repurchase, dollar repurchase, or dollar reserve repurchase.
21. There were no warrants.
22. There was no exposure for collars, swaps, or forwards.
23. There was no exposure for future contracts.
24. There were no write-ins for invested assets category included on the summary investment schedule in the annual statement.

Refer to Section 2 of Appendix A-001 to the NAIC *Accounting Practices and Procedures Manual.*

See accompanying independent auditors' report.

BUPA INSURANCE COMPANY

Supplemental Summary Investment Schedule

December 31, 2019

	Gross investment holdings	Percentage	Admitted assets	Percentage
Bonds:				
U.S. Treasury securities	$ 775,857	— %	$ 775,857	— %
U.S. government agency and corporate obligations (excluding mortgage-backed securities (MBS))	—	—	—	—
Securities issued by states, territories, and possessions and political subdivisions in the United States:				
States, territories, and possessions general obligations	—	—	—	—
Political subdivision of states, territories, and possessions and political subdivisions general obligations	—	—	—	—
Collateralized mortgage obligation and real estate mortgage investment conduits:				
Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC	—	—	—	—
Other debt and other fixed-income securities (excluding short term)	132,239,410	44	132,239,410	47
Equity interests:				
Investment in mutual funds	—	—	—	—
Preferred stocks:				
Unaffiliated	—	—	—	—
Publicly traded equity securities (excluding preferred stocks):				
Unaffiliated	—	—	—	—
Other equity securities:				
Affiliated	10,538,134	3	10,538,134	4
Contract loans	263,620	—	263,620	—
Receivables for securities	—	—	—	—
Cash, cash equivalents, and short-term investments	125,303,766	42	125,303,766	44
Other invested assets	33,700,000	11	13,294,133	5
Total invested assets	$ 302,820,787	100 %	$ 282,414,920	100 %

See accompanying independent auditors' report.