



AETNA INSURANCE COMPANY OF CONNECTICUT

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2017

NAIC Group Code: 0001

NAIC Company Code: 36153

Results of Operations

Operating Summary

(Millions)	2017	2016	% Change
Premiums earned	\$ -	\$ -	-%
Net investment income earned	<u>0.4</u>	<u>0.4</u>	-%
Total revenue	<u>0.4</u>	<u>0.4</u>	-%
Losses and loss expenses incurred	0.0	0.0	-%
Other underwriting expenses	<u>0.1</u>	<u>0.1</u>	-%
Total expenses	<u>0.1</u>	<u>0.1</u>	-%
Net income (loss) before income tax benefits	0.3	0.4	(25)%
Income tax benefits	<u>0.0</u>	<u>0.1</u>	(100)%
Net income	<u>\$ 0.3</u>	<u>\$ 0.3</u>	-%

Overview

Aetna Insurance Company of Connecticut (the “Company”) is a wholly-owned subsidiary of AHP Holdings, Inc., a Connecticut corporation, whose ultimate parent is Aetna Inc., a Pennsylvania corporation (“Aetna”).

The Company had no active business during 2017 or 2016. The Company reports assumed group auto reserve that is in run off.

Revenue

Total revenue remained flat at \$0.4 million when compared to the same period in 2016. This is primarily due to stable performance in the Company's bonds portfolio.

Expenses

Losses and loss expenses incurred during the year include incurred claims and claim adjustment expenses. Changes in losses and loss expenses incurred are attributable to increases or decreases in business volume, claim frequency and severity, and estimates of the value of claims incurred but not yet paid or reported. Total expenses are comprised of losses and loss expenses incurred and other underwriting expenses. The Company had negligible losses and loss expenses incurred in 2017 and 2016. Other underwriting expenses were \$0.1 million in 2017, compared with \$0.1 million in 2016, driven by the continued run-off of the Company's pet insurance business.

Loss and loss expense reserves was \$0.2 million at both December 31, 2017 and 2016. Reserves are regularly monitored and adjusted when appropriate using a variety of actuarial and statistical techniques as more current information becomes available.

Investments

(Millions)	2017	2016
Invested Assets:		
Bonds	\$ 13.7	\$ 13.8
Cash, cash equivalents and short-term investments	<u>2.5</u>	<u>2.0</u>
Total	<u>\$ 16.2</u>	<u>\$ 15.8</u>

The Company's investment strategies and portfolios are intended to match the duration of the related liabilities and provide sufficient cash flows to meet the Company's obligations while maintaining a competitive after-tax rate of return.

Bond Investments

As of December 31, 2017 and 2016 the Company's investments in bonds were \$13.7 million and \$13.8 million (85% and 87% of total invested assets), respectively.

The Company regularly evaluates the appropriateness of its investments relative to its management-approved investment guidelines (and operates within those guidelines) and the business objective of the portfolios. The Company manages interest rate risk by seeking to maintain a tight match between the durations of the Company's assets and liabilities when appropriate, while credit risk is managed by seeking to maintain high average credit quality ratings and diversified sector exposure within the bond portfolio. The bonds in the Company's portfolio are generally rated by external rating agencies and, if not externally rated, are rated by the Company on a basis believed to be similar to that used by the rating agencies. At both December 31, 2017 and 2016, the average quality rating of the Company's bond portfolio was AA+.

The Company conducts regular reviews of its bond investments to assess whether a decline in fair value below carrying value is other-than-temporary-impairment ("OTTI"). Declines deemed to be OTTI are recognized as realized capital losses.

The fixed income investments included in the Company's bond portfolio are carried at amortized cost. At both December 31, 2017 and 2016, the fair value of these investments was \$0.5 million and \$0.6 million, respectively, higher than the statutory carrying value.

Liquidity and Capital Resources

(Millions)	2017	2016
Assets	\$ 16.3	\$ 16.1
Liabilities	0.4	0.5
Policyholder Surplus	15.9	15.6
Cash, Cash Equivalents and Short-Term Investments	2.5	2.0

The Company meets its operating requirements by maintaining liquidity in its investment portfolio, using overall cash flows from premiums and income received on investments. The Company monitors the duration of its highly marketable bond portfolio, and executes purchases and sales of these investments with the objective of having adequate funds available to satisfy its maturing liabilities. Overall cash flows are used primarily for claim payments and operating expenses.

Mortgage pass-throughs of \$0.2 million and \$0.3 million included in the bond portfolio at December 31, 2017 and 2016, respectively, are collateralized by mortgage obligations on which the timely payment of principal and interest is primarily backed by specified government agencies. Such mortgage-backed securities, treasuries and public bonds in the portfolio are highly marketable and thus can be used to enhance cash flow before maturity.

Dividends

The maximum amount of dividends which can be paid by State of Connecticut insurance companies to stockholders without prior approval by the State of Connecticut Insurance Department is the lesser of either (i) when combined with all dividends made during the preceding 12 months, the greater of ten percent of surplus at December 31 of the preceding year or the adjusted net income of the preceding year; or (ii) an amount equal to the Company's earned surplus. Dividends are paid as determined by the Company's Board of Directors. The Company did not declare or pay any dividends or returns of capital in 2017 or 2016.

Risk-Based Capital and Capital Management

The Company had an authorized control level risk-based capital of \$0.1 million and had total adjusted capital of \$15.9 million at December 31, 2017, which is above the levels that would require regulatory action. The capital management decisions of the Company are made within established internal capital standards with the goal of maintaining acceptable regulatory capital levels and ratings.

Statement of Cash Flow

(Millions)	2017	2016
Cash, Cash Equivalents and Short-Term Investments, Beginning of Year	\$ 2.0	\$ 1.5
Net Cash Provided by Operating Activities	0.4	0.4
Cash Provided by Investment Proceeds	0.1	0.1
Cash Applied for Acquiring Investments	-	-
Cash Applied for Financing and Miscellaneous Sources	-	-
Cash, Cash Equivalents and Short-Term Investments, End of Year	<u>\$ 2.5</u>	<u>\$ 2.0</u>

The Company's cash requirements for 2017 and 2016 were met by funds provided from operations and funds provided from the maturity and sale of investments as detailed in the Statement of Cash Flow in the Annual Statement on Page 5.

Regulatory Environment*General*

The Company's operations are subject to comprehensive regulation throughout the states in which it does business. The laws of these states establish supervisory agencies, including state insurance departments, with broad authority to grant licenses to transact business and regulate many aspects of the products and services offered by the Company, as well as its solvency and reserve adequacy. Many agencies also regulate the Company's investment activities on the basis of quality, diversification, and other quantitative criteria. The Company's operations and accounts are subject to examination at regular intervals by certain of these regulators.

Events Subsequent

There were no known events subsequent to the close of the books or accounts of this statement that would have a material effect on the financial condition of the Company

Other Material Items

Cash and Invested Assets

As stated previously in the “Investments” section on page 3, the Company’s investment strategies and portfolios are intended to match the duration of the related liabilities and provide sufficient cash flows to meet obligations while maintaining a competitive after-tax rate of return. Additionally, the Company manages interest risk by seeking to maintain a tight match between the durations of the Company’s assets and liabilities where appropriate, while credit risk is managed by seeking to maintain high average quality ratings and diversified sector exposure within the bond portfolio. It should also be noted that the Company’s investment decisions are made with the intention of staying within prescribed regulatory limits and guidelines for each investment category.