AETNA LIFE INSURANCE COMPANY

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: **60054**

Results of Operations Operating Summary (Millions)	**2017**	**2016**	**% Change**
Premiums and fund deposits	$17,985	$18,556	(3)
Net investment income	503	492	2
Commissions and expense allowances on reinsurance ceded	1,324	801	65
Other income	183	98	87
Total revenue	19,995	19,947	-
Benefits and fund withdrawal expenses	15,204	15,113	1
Commissions	698	659	6
General expenses	1,743	2,043	(15)
Total benefits and expenses	17,645	17,815	(1)
Net gain from operations before income taxes	2,350	2,132	10
Income taxes	1,039	895	16
Net gain from operations before net realized capital (losses) gains	1,311	1,237	6
Net realized capital (losses) gains	28	15	87
Net income	$ 1,339	$ 1,252	7

Overview

Aetna Life Insurance Company (the “Company”) is a wholly-owned subsidiary of Aetna Inc., a Pennsylvania corporation (“Aetna”). The Company's main product lines are Health Care, Group Insurance and Large Case Pensions, which are discussed separately. On November 1, 2017, Aetna completed the sale of a substantial portion of its domestic group life insurance, group disability insurance and absence management business written by the Company to Hartford Life and Accident Insurance Company (“HLAIC”) for cash consideration of $1.45 billion. The transaction was accomplished through an indemnity reinsurance arrangement, under which HLAIC contractually assumed certain of the Company’s policyholder liabilities and obligations, although the Company remains directly obligated to policyholders.

Net Income

The Company's net income in 2017 was $1,339 million as compared to net income of $1,252 million in 2016. The increase in 2017 is primarily due to a decrease in tax expense, an increase in ceded reinsurance commissions, due to the sale of the Company's domestic group life insurance, group disability insurance and absence management business, and an increase in net realized capital gains in the Company's Health Care segment.

Net Realized Capital Gains and Losses

Net realized capital gains for the Company were $87 million in 2017, before the transfer of $59 million of net realized capital gains to the Interest Maintenance Reserve ("IMR"), resulting in net realized capital gains of $28 million after transfers to the IMR. Net realized capital gains for the Company were $96 million in 2016, before the transfer of $81 million of net realized capital gains to the Interest Maintenance Reserve ("IMR"), resulting in net realized capital gains of $15 million after transfers to the IMR. The decrease in the Company's net realized capital gains before IMR transfers in 2017 were primarily due to a decrease in realized capital gains on the Company's bond portfolio and unaffiliated common stock in comparison to realized capital gains on the Company's bond portfolio and unaffiliated common stock in comparison to 2016.

Health Care and Group Insurance

Decreased net gain from operations before income taxes in the Company's Health Care business in 2017, when compared to 2016, is primarily due to the Company's estimated future guaranty fund assessments as a result of Penn Treaty Network America Insurance Company Health Care products partially offset by the increase in pre-tax adjusted earnings which is primarily due to continued strong performance across the Company's Health Care businesses and reduced losses in individual Commercial products.

Net gain from operations before incomes taxes in the Company's Group Insurance business increased in 2017 compared to 2016 primarily due to the recognition of a portion of the gain related to the Group Insurance sale in 2017.

Health Care Products and Services

The Company's Health Care products are marketed primarily to employers for the benefit of employees and their dependents through Aetna's subsidiaries. Health Care products consist of medical, pharmacy benefits management, dental and vision plans offered on both an insured basis (where the Company assumes all or a majority of the financial risk for health care costs) and an employer-funded basis (where the employer or other plan sponsor under an administrative services only ("ASO") contract, and not the Company, assumes all or a majority of this risk). The Company's medical plans include point of service ("POS"), preferred provider

organization ("PPO") and indemnity benefit plans. Medical plans also include health savings accounts and Aetna HealthFund®, consumer-directed plans that combine traditional POS or PPO and/or dental coverage, subject to a deductible, with an accumulating benefit account.

The Company's other Health Care products primarily consist of the following:

Stop Loss Coverage. The Company offers stop loss coverage for certain employers. Under this product, the Company assumes the costs associated with large individual claims and/or aggregate loss experience within the employer's ASO plan above a pre-set annual threshold.

Medicare. The Company's Medicare Advantage plans are offered on a PPO basis through the Centers for Medicare & Medicaid Services ("CMS") for Medicare-eligible individuals in certain geographic areas. Members typically receive enhanced benefits over standard Medicare fee-for-service coverage, including reduced cost-sharing, preventive care, vision and other services. The Company offered these plans in 1,213 counties in 40 states and Washington, D.C. in 2017, and is expanding to 1,317 counties in 40 states and Washington, D.C. in 2018.

The Company is a national provider of the Medicare Part D Prescription Drug Program ("PDP") in all 50 states and Washington, D.C. to both individuals and employer groups. All Medicare eligible individuals are eligible to participate in this voluntary prescription drug plan. Members typically receive coverage for certain prescription drugs, usually subject to a deductible, co-insurance and/or co-payment.

For certain qualifying employer groups, the Company offers its Medicare PPO products nationally. When combined with the Company's PDP product, these national PPO plans form an integrated national fully-insured product for employers that provides medical and pharmacy benefits.

Group Insurance Products and Services. The Company's Group Insurance products are marketed primarily to employers for the benefit of employees and their dependents through Aetna's subsidiaries. During the fourth quarter of 2017, the Company sold a substantial portion of our Group Insurance business to HLAIC) (refer to Overview for additional information). Group Insurance products primarily consist of the following:

Group Life Insurance consists principally of group term life insurance coverage, the amounts of which may be fixed or linked to individual employee wage levels. The Company also offers voluntary spouse and dependent term life coverage, group universal life and accidental death and dismemberment insurance. The Company offers life insurance products on an insured basis.

Group Disability Insurance provides employee income replacement benefits for both short-term and long-term disability. The Company also offers disability products with additional case management features. Similar to Health Care products, the Company offers disability benefits on both an insured and ASO basis. The majority of the Group Long-Term Disability Insurance written in the Company is ceded to Aetna Health and Life Insurance Company, an affiliate of the Company. The Company also provides absence management services to employers, including short-term and long-term disability administration and leave management.

Long-Term Care Insurance provides benefits to cover the cost of care in private home settings, adult day care, assisted living or nursing facilities. Long-term care benefits were offered primarily on an insured basis. The product was available on both a service reimbursement and disability basis. The Company no longer solicits or accepts new long-term care customers.

Benefit expenses provided under both Health Care and Group Insurance insured plans are reflected in benefits and fund withdrawal expenses. Administrative expenses are associated with both insured and ASO plans and are reflected in general expenses.

Insurance Reserve Liabilities

Accident and Health policy and contract claim liabilities reflect estimates of the ultimate cost of claims that have been incurred but not yet reported or reported but not yet paid. Claim liabilities are estimated periodically, and any resulting adjustments are reflected in current-period operating results. Claim liabilities are based on a number of factors, including those derived from historical claim experience. Also included in these estimates is the cost of services that will continue to be rendered after the balance sheet date if the Company is obligated to pay for such services in accordance with contractual or regulatory requirements. A large portion of health care claims are not submitted to the Company until after the end of the month in which services are rendered by providers to members. As a result, judgment is used in this estimation process, there exists variability that is inherent in such estimates and the adequacy of the estimates is highly sensitive to changes in medical claims payment patterns and changes in medical cost trends. A worsening (or improvement) of medical cost trend or changes in claim payment patterns from those that were used in estimating claim liabilities at December 31, 2017 would cause these estimates to change in the near term, and such change could be material.

Life contract claim liabilities consist primarily of reserves associated with certain term insurance group disability and group term life insurance contracts, including an estimate for claims incurred but not reported as of the balance sheet date. Such reserves are based upon the present value of future benefits, which is based on assumed investment yields and assumptions regarding mortality, morbidity and recoveries from government

programs. Reserves for claims incurred but not yet reported are developed using actuarial principles and assumptions which consider, among other things, contractual requirements, historical payment patterns, seasonality and other relevant factors.

Aggregate reserves for life and A&H policies and contracts consist primarily of reserves for limited payment pension and annuity contracts in the Large Case Pensions business and long-duration group paid-up and supplemental life and long-term care insurance contracts in the Group Insurance business. Reserves for limited payment contracts are computed using actuarial principles that consider, among other things, assumptions reflecting anticipated mortality, retirement, expense and interest rate experience. Such assumptions generally vary by plan, year of issue and policy duration. Reserves for group paid-up life and supplemental life and long-term care contracts are calculated using statutorily prescribed tables and interest rates and benefits to be paid to or on behalf of policyholders, less the present value of future net premiums. Reserves are estimated periodically and any resulting adjustments are reflected in current net income.

Liabilities for deposit-type contracts consist primarily of reserves for pension and annuity contracts in the Large Case Pensions business and customer funds associated with group life and health contracts in the Group Insurance business. Reserves on such contracts are equal to cumulative deposits less withdrawals and charges plus credited interest thereon, net of experience-rated adjustments. Reserves on contracts subject to experience rating reflect the rights of policyholders, plan participants and the Company.

Claims adjustment expenses, which are included in general expenses, represent costs incurred related to the claims settlement process such as costs to record, process and adjust claims. These expenses are calculated using a percentage of current claim liabilities, which is based on historical cost experience.

Premiums

Health and Group Insurance premiums are generally recorded as premium revenue over the term of the coverage. Some Group Insurance contracts allow for premiums to be adjusted to reflect emerging experience. Adjustments to such premiums under such contracts are recognized as the related experience emerges.

Principal Markets and Sales

One or more products of the Company's Health Care and Group Insurance businesses are sold in all 50 states. Depending on the product, the Company markets to a range of customers from individuals and small employer groups to large, multi-site and/or multi-state employers. These products are sold through the Company's sales personnel, as well as independent brokers and consultants who assist in the production and servicing of business. Sales representatives also sell to employers on a direct basis. For large customers, independent

consultants and brokers are frequently involved in employer health plan selection decisions and sales. The Company pays brokers compensation with respect to their services.

Large Case Pensions

Large Case Pensions net loss from operations before income taxes decreased in 2017 compared to 2016 due primarily to higher mortality and other gains and a smaller interest deficit, partially offset with a larger reserve increase in 2017, than in 2016, based on asset adequacy testing.

Principal Products

Large Case Pensions manages a variety of retirement products (including pension and annuity products) primarily for tax-qualified pension plans. These products provide a variety of funding and benefit payment distribution options and other services and include certain discontinued products. Contracts provide non-guaranteed, experience-rated and guaranteed investment options through General and Separate Account products. Separate Account assets and liabilities related to participating contracts, generally represent funds maintained to meet specific objectives of contract holders who bear the investment risk. Separate Account assets and liabilities related to non-participating contracts, represent funds where the Company bears the investment risk. Large Case Pensions earns fee revenue on the Separate Accounts. General Account assets supporting experience-rated products (where the contract holder, not the Company, assumes investment and other risks, subject to, among other things, certain minimum guarantees) may be subject to participant or contract holder withdrawal.

The Company discontinued the sale of its fully guaranteed Large Case Pensions products (Guaranteed Investment Contracts (GICs) and Single Premium Annuities (SPAs)) in 1993. The Company had approximately $2,306 million and $2,476 million of statutory reserves at December 31, 2017 and 2016, respectively, supporting these discontinued products. In November 2016, the last outstanding GIC contract matured.

Reserves

As discussed above, as of year-end 2017, the Company had approximately $2,306 million of statutory reserves supporting discontinued products as compared to $2,476 million at December 31, 2016. For General Account pension annuity reserves supporting continuing products, the Company had approximately $1,091 million of statutory reserves at December 31, 2017 compared to $1,117 million at December 31, 2016. The Company's reserves for limited payment type pension and annuity contracts are computed using actuarial principles that consider, among other things, assumptions reflecting anticipated mortality, retirement, expense and interest rate experience. Such assumptions generally vary by plan, year of issue and policy duration. The reserves for

pension and annuity deposit-type contracts are equal to cumulative deposits less withdrawals and charges plus credited interest thereon, net of experience-rated adjustments. Reserves on contracts subject to experience rating reflect the rights of policyholders, plan participants and the Company.

General Account Investments

(Millions)	2017	2016
Invested Assets		
Bonds	$ 7,747	$ 9,322
Mortgage Loans on Real Estate	1,384	1,281
Cash, Cash Equivalents and Short-term Investments	(51)	1,131
Real Estate	255	278
Stocks	129	70
Other	1,158	1,203
Total	$ 10,622	$ 13,285

The Company's investment objective is to fund policyholder and other liabilities in a manner that enhances shareholder and contract holder value, subject to appropriate risk constraints. The Company seeks to meet this investment objective through maintaining a mix of investments that reflect the characteristics of the liabilities they support; diversifying the types of investment risks by interest rate, liquidity, credit and equity price risk; and achieving asset diversification by investment type and industry. The Company regularly projects duration and cash flow characteristics of its liabilities and makes adjustments it believes are appropriate in its investment portfolios.

Bond Investments

At December 31, 2017 and 2016, the Company's investments in bonds were $7,747 million and $9,322 million (73% and 70% of total General Account invested assets, for December 31, 2017 and 2016).

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 where appropriate, while credit risk is managed by seeking to maintain high average 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 except for those that are in accordance with

the National Association of Insurance Commissioners' Securities Valuation Office. At each of December 31, 2017 and 2016, the average quality rating of the Company's bond portfolio was A.

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

Substantially all of the fixed income investments included in the Company's bond portfolio are carried at amortized cost. At December 31, 2017, the fair value of these investments was approximately $556 million higher than the statutory carrying value, compared with approximately $392 million higher than the statutory carrying value at December 31, 2016. The increase in difference in fair value over carrying value of the Company's bond portfolio in 2017 compared to 2016 is primarily due to lower Treasury yields in 2017 over 2016.

"Below investment grade" bonds are defined to be securities that carry a rating of below BBB-/Baa3. At December 31, 2017 and 2016, the Company's bond portfolio included approximately $810 million and $794 million, respectively (10% and 9% of the bond portfolio, for December 31, 2017 and 2016), of investments that are considered below investment grade. The fair value of such investments was $48 million greater than the carrying value at December 31, 2017 compared with $34 million greater than the carrying value at December 31, 2016. The Company does not accrue interest on problem bonds when management believes the likelihood of collection of interest is doubtful.

Mortgage Loans on Real Estate Investments

As of December 31, 2017 and 2016, the Company's investments in mortgage loans were $1,384 million and $1,281 million (13% and 10% of total General Account invested assets, for December 31, 2017 and 2016). At December 31, 2017 and 2016 the Company's mortgage loan portfolio yielded an average cash return of 6% for both years. The mortgage loan portfolio is comprised entirely of commercial loans.

The Company managed its mortgage loan portfolio during 2017 with the goal of maintaining the mortgage loan balance relative to invested assets by selectively pursuing new loan opportunities. The $103 million increase in the mortgage loan balance during 2017 primarily reflects the transfer of mortgage loans into the ALIC portfolio in exchange for bonds.

As of December 31, 2017 and 2016, there were no mortgage loans with payments over 90 days past due and no loans on properties in the process of foreclosure.

Restructured loans are loans whose original contract terms have been modified to grant concessions to the borrower and are currently performing pursuant to such modified terms. As of December 31, 2017 and 2016, the Company had no restructured mortgage loans.

As of December 31, 2017, scheduled mortgage loan principal repayments were as follows (in millions):

2018	$ 166
2019	124
2020	122
2021	239
2022	221
Thereafter	512

Real Estate Investments

At December 31, 2017 and 2016, the Company's real estate balances were as follows:

(Millions)	**2017**	**2016**
Properties occupied by the company	$ 226	$ 242
Properties held for the production of income	29	36
Total	$ 255	$ 278

The Company’s real estate investments are generally carried at the lower of depreciated cost or fair value. The fair value (based on appraisals) of properties acquired through foreclosure is established as the cost basis at the time of foreclosure. Adjustments to the carrying value, as a result of changes in fair value subsequent to foreclosures, are recorded as write-downs.

Use of Derivatives and Other Investments

The Company uses derivative instruments in order to manage interest rate risk, price risk and credit exposure. The derivatives used consist primarily of futures contracts, forward contracts and interest rate swap agreements to manage market risk and credit default swaps (including replicated synthetic assets) to manage credit exposure. These instruments, viewed separately, subject the Company to varying degrees of interest rate and credit risk. However, when used for hedging, the expectation is that these instruments would reduce overall risk. Management does not believe that the Company’s current level of hedging activity will have a material effect on the Company’s liquidity or results of operations.

As of December 31, 2017 and 2016, the Company's investments in other invested assets were $1,142 million and $1,202 million (11% and 9% of total invested assets, for December 31, 2017 and 2016). As of December 31, 2017, the Company's investments in other invested assets included its interest in Aetna Partners Diversified Fund, LLC ("APDF"), an affiliated fund of hedge funds ($286 million) (see paragraph below), its interest in Aetna Partners Diversified Fund (Cayman), Limited ("APDF Cayman"), an affiliated fund of hedge funds organized in the Cayman Islands ($148 million) (see paragraph below), Aetna Multi-Strategy 1099 fund ("Aetna 1099 Fund"), an affiliated fund of hedge funds ($48 million) (see paragraph below), private equity partnerships ($419 million), miscellaneous affiliated limited liability companies ($36 million) and real estate partnerships ($205 million). The $61 million decrease is primarily attributable to the decrease in the receivables for securities.

Effective as of January 1, 2018, the Company has redeemed its interest in ADPF Cayman and is in the process of liquidating that fund. The Company is also in the process of redeeming all of its interest in, and closing, the Aetna 1099 Fund. The Company retains its interest in APDF, an unleveraged, diversified portfolio of hedge funds, which is intended to have limited directional bias to each of the broad equity and fixed income markets. As an investor in APDF, the Company has the right to withdraw capital quarterly. Aetna Capital Management, LLC, the investment manager of APDF, informs the Company of the name, strategy, and percentage allocation of each underlying hedge fund, as well as the performance attribution of each portfolio. The following factors speak to the risk profile of the Company's investments in APDF: (1) the investment objective of APDF, is to generate superior risk-adjusted returns while limiting direct exposure to broad equity and fixed-income markets; (2) APDF invests in a diversified portfolio of hedge funds (minimum of 15 individual funds); and (3) over the past 3 and 5 year periods ending December 31, 2017 the aggregate portfolio (APDF, APDF Cayman and Aetna 1099 Fund combined) earned 2.7% and 5.0%, respectively. The return since the inception of the portfolio compares favorably to those of other asset classes including global equities.

Investment Reserves

The Company established an Asset Valuation Reserve ("AVR") of $196 million and $276 million at December 31, 2017 and 2016, respectively. The AVR is designed to address the credit-related (default) and equity risks of the Company's invested assets by calculating a basic contribution, a reserve objective, and a maximum reserve amount and controlling the flow of the reserve from/into surplus. The decrease in AVR compared to the prior year was primarily due to realized and unrealized losses on other invested assets resulting from the unfavorable investment conditions that existed during 2017.

The Company transferred $96 million of net realized capital gains, net of tax, for the year ended December 31, 2017 and $81 million of net realized capital losses, net of tax, for the year ended December 31, 2016, from

income to the IMR. The IMR captures realized capital gains and losses from fixed income investments which result from interest rate changes (including interest-rate related OTTI) and amortizes these gains/losses into income over time. IMR amortization of $46 million was recorded for both 2016 and 2015. The IMR reserve balance was $135 million and $133 million at December 31, 2017 and 2016, respectively.

Liquidity and Capital Resources

(Millions)	2017	2016
General Account Assets	$ 14,966	$ 17,714
Separate Accounts Assets	4,929	4,662
Total Assets	$ 19,895	$ 22,376
General Account Liabilities	$ 12,062	$ 14,235
Separate Accounts Liabilities	4,929	4,662
Total Liabilities	$ 16,991	$ 21,897
Total Capital and Surplus	$ 2,904	$ 3,479
Cash, Cash Equivalents and Short-term Investments	$ (51)	$ 1,131

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

The Company's current liquidity objectives are to maximize the use of available cash to fund ongoing operating needs, pay shareholder dividends, and strategically invest in core businesses.

Public bonds, mortgage-backed securities and U.S. Treasury securities in the Company's portfolio are highly marketable and thus can be used to enhance cash flow before maturity. The Company had mortgage pass-throughs of $308 million and $1,283 million included in the bond portfolio at December 31, 2017 and 2016, respectively.

Dividends and Capital Contributions

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, an amount equal to the greater of (a) ten percent of surplus at December 31 of the preceding year or (b) the net gain from operations 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 paid dividends in 2017 to Aetna as follows:

$400 million on March 17, 2017 - Extraordinary. The State of Connecticut Insurance Department approved this distribution on March 7, 2017.
$400 million on September 13, 2017 - Ordinary. The State of Connecticut Insurance Department approved this distribution on August 2, 2017.
$1,500 million on December 05, 2017 - Extraordinary. The State of Connecticut Insurance Department approved this distribution on November 30, 2017.

The Company did not record any dividends declared and unpaid at December 31, 2017.

The Company paid dividends in 2016 to Aetna as follows:

$600 million on March 28, 2016 - Extraordinary. The State of Connecticut Insurance Department approved this distribution on February 29, 2016.
$600 million on June 14, 2016 - Extraordinary. The State of Connecticut Insurance Department approved this distribution on April 29, 2016.
$300 million on December 13, 2016 - Extraordinary. The State of Connecticut Insurance Department approved this distribution on October 27, 2016.

The Company did not record any dividends declared and unpaid at December 31, 2016.

The Company did not record any capital contributions in 2017 and 2016, respectively.

Risk-Based Capital and Capital Management

The Company had an authorized control level risk-based capital of $732 million and had total adjusted capital of $2,991 million at December 31, 2017, which is above the levels which would require regulatory action. The capital management decisions of the Company are made within established internal capital standards with the goals of maintaining acceptable regulatory capital levels and ratings.

Large Case Pensions Cash Flow

In 2017 and 2016, Large Case Pensions' contract maturities, benefit payments and other payments were met primarily by funds provided from the Company's liquid investment grade bond portfolio.

At December 31, 2017, the expected run-off of the SPA liabilities, including future interest, was as follows: (in millions):

2018	$ 328
2019	312
2020	297
2021	281
2022	266
Thereafter	3,240

Large Case Pensions contract maturities and other scheduled payments, including SPAs, unscheduled contract holder withdrawals and participant directed withdrawals were as follows (excluding transfers to other Company products) for the years ended December 31:

(Millions)	**2017**	**2016**
Contract maturities and other scheduled payments	$ 394	$ 443
Unscheduled contract holder withdrawals	32	17
Participant directed withdrawals	2	2

At December 31, 2017, approximately $371 million of experience-rated pension contracts allowed for unscheduled contract holder withdrawals, subject to timing restrictions and formula-based fair value adjustments. Further, approximately $37 million of experience-rated pension contracts supported by general account assets could be withdrawn or transferred to other plan investment options at the direction of plan participants, without fair value adjustment, subject to plan, contractual and income tax provisions. The remainder of Large Case Pensions' contracts generally do not provide for unscheduled contract holder withdrawals.

Statement of Cash Flow

(Millions)	2017	2016
Cash, Cash Equivalents and Short-Term Investments, Beginning of Year	$ 1,131	$ 1,082
Net Cash Provided by Operating Activities	2,016	1,386
Cash Provided by Investment Proceeds	8,649	5,624
Cash Applied for Acquiring Investments	(7,016)	(5,785)
Cash Applied for Financing and Miscellaneous Sources	(4,831)	(1,176)
Cash, Cash Equivalents and Short-term Investments, End of Year	$ (51)	$ 1,131

The Company's cash requirements for 2017 and 2016 were met by funds provided from operations and 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 health and 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.

The Company's Medicare Advantage and Standalone Prescription Drug Plan ("PDP") products are regulated by CMS. The regulations and contractual requirements applicable to the Company and other participants in

Medicare programs are complex, expensive to comply with and subject to change. For example, in the second quarter of 2014, CMS issued a final rule implementing the Health Care Reform requirements that Medicare Advantage and PDP plans report and refund to CMS overpayments that those plans receive from CMS. The precise interpretation, impact and legality of this rule are not clear and are subject to pending litigation. In that same rule, CMS also changed in some respects how the Company can pay pharmacies in 2016 that impacts the Company's Medicare Advantage and PDP products. The Company has invested significant resources to comply with Medicare standards, and the Company's Medicare compliance efforts will continue to require significant resources. CMS may seek premium and other refunds, prohibit the Company from continuing to market and/or enroll members in or refuse to passively enroll members in one or more of the Company's Medicare or Medicare-Medicaid demonstration (historically known as "dual eligible") plans, exclude the Company from participating in one or more Medicare or dual eligible programs and/or institute other sanctions against the Company if the Company fails to comply with CMS regulations or the Company's Medicare contractual requirements.

Health Care

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (as amended, collectively, "Health Care Reform" or "ACA"), has made broad-based changes to the U.S. health care system. On January 20, 2017, the President signed an executive order that gives the regulatory agencies that enforce the ACA the authority to interpret regulations issued under the ACA in a way that limits fiscal burdens on states and financial or regulatory burdens on individuals, providers, health insurers and others. The practical implications of that order are unclear, and the future of the ACA is uncertain. While we anticipate continued efforts in 2018 and beyond to modify, repeal or replace the ACA, the Company expects aspects of the ACA to continue to significantly impact the Company's business operations and operating results, including the Company's pricing, medical benefit ratios and the geographies in which the Company's products are available. Health Care Reform has presented the Company with business opportunities, but also with financial and regulatory challenges. Most of the ACA's key components were phased in during or prior to 2014, including Public Exchanges, required minimum MLRs in commercial and Medicare products, the individual coverage mandate, guaranteed issue, rating limits in individual and small group products, significant new industry-wide fees, assessments and taxes, enhanced premium rate review and disclosure processes, reduced Medicare Advantage payment rates to insurers, and linking Medicare Advantage payments to a plan's CMS quality performance ratings or "star ratings." The effects of these changes are reflected in the Company's operating results. If the ACA is not amended, repealed or replaced, certain of its components will continue to be phased in until 2022

The Company expects to continue to dedicate significant resources and incur significant expenses during

2018 to comply with Health Care Reform as currently enacted and implement and comply with changes in Health Care Reform as well as state level health care reform. While most of the significant aspects of Health Care Reform became effective during or prior to 2014, parts of Health Care Reform continue to evolve through the promulgation of executive orders, regulations and guidance. Additional changes to Health Care Reform and those regulations and guidance at the federal and/or state level are likely, and those changes are likely to be significant. Growing state and federal budgetary pressures make it more likely that any changes, including changes at the state level in response to changes to, or repeal or replacement of, Health Care Reform and/or changes in the funding levels and/or payment mechanisms of federally supported benefit programs, will be adverse to us. Given the inherent difficulty of foreseeing the nature and scope of future changes to Health Care Reform and how states, businesses and individuals will respond to those changes, the Company cannot predict the impact to the Company of future changes to Health Care Reform. It is reasonably possible that repeal or replacement of or other changes to Health Care Reform and/or states' responses to such changes, in the aggregate, could have a significant adverse effect on the Company's business operations and financial results.

Potential repeal of Health Care Reform, ongoing legislative, regulatory and administrative policy changes to Health Care Reform, the results of congressional and state level elections, pending litigation challenging aspects of the law or funding for the law and federal budget negotiations continue to create uncertainty about the ultimate impact of Health Care Reform. Examples of recent administrative policy, legislative and regulatory changes include: the January 2018 suspension of the health insurer fee for 2019 and delay of the "Cadillac" tax on high-cost employer-sponsored health coverage until 2022; the December 2017 Tax Cuts and Jobs Act of 2017, which repealed Health Care Reform's individual mandate and related penalties; the January 20, 2017 and October 2017 executive orders relating to Health Care Reform; the federal government's October 12, 2017 curtailment of payments related to the Cost-Sharing Subsidy Program; the November 2016 HHS announcement that risk corridor collections for the 2015 program year would be applied first to amounts owed to plans for the 2014 program year; and the May 2016 final regulations relating to Health Care Reform's non-discrimination requirements. The pending litigation challenging Health Care Reform includes challenges by various states of the federal government's decision to curtail payments related to the Cost-Sharing Subsidy Program. The time frame for conclusion and final outcome and ultimate impact of this litigation are uncertain.

As described above, the availability of funding for Health Care Reform's temporary risk corridor program is an example of this uncertainty. The Company continues to believe that receipt of any risk corridor payment from HHS for the 2016 or 2015 program year and receipt of such payments in excess of the announced prorated amount for the 2014 program year are uncertain. At December 31, 2017, the Company had a

$18,901 receivable for the remaining 2014 program year prorated amount that had not been collected from HHS and had no receivable for either of the 2015 or 2016 program years. 2016 was the last program year for Health Care Reform's risk corridor program. On-going uncertainty regarding the funding of Health Care Reform-related programs and subsidies can be expected to create additional instability in the marketplace.

In addition to efforts to amend, repeal or replace Health Care Reform and the related regulations, the federal and state governments also continue to enact and seriously consider many other broad-based legislative and regulatory proposals that have had a material impact on or could materially impact various aspects of the health care and related benefits system and the Company's business. The Company cannot predict whether pending or future federal or state legislation or court proceedings, including future U.S. Congressional appropriations, will change various aspects of the health care and related benefits system or Health Care Reform or the impact those changes will have on the Company's business operations or operating results, but the effects could be materially adverse.

In addition, Health Care Reform ties a portion of each Medicare Advantage plans' reimbursement to the achievement of favorable CMS quality performance measures ("star ratings"). Since 2015, only Medicare Advantage plans with an overall star rating of four or more stars (out of five stars) are eligible for a quality bonus in their basic premium rates. As a result, the Company's Medicare Advantage plans' operating results in 2018 and going forward will be significantly affected by their star ratings.

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

Assets

General Account Invested Assets

The decrease in general account cash and other invested assets is primarily due to the decrease in the Company's Bonds in 2017 compared to 2016 as well as a decrease in cash and short-term investment in 2017 compared to 2016.

Uncollected Premiums and Agents' Balances in Course of Collection

The increase in uncollected premiums is primarily related to the timing of payments and a higher uncollected premiums balance in Medicare due to increased Medicare membership in 2017 compared to 2016.

Accrued retrospective premiums

The decrease in uncollected premiums is primarily related to the timing of payments and a lower uncollected premiums balance in Medicare in 2017 compared to 2016.

Net deferred tax asset

The net deferred tax asset/liability is computed using a balance sheet approach. Temporary adjustments are identified and deferred tax assets/liabilities computed by comparing the statutory and tax basis balances. Large swings in the underlying statutory basis of assets and liabilities can also create large variances in the deferred tax assets and liabilities year to year. The change in the net deferred tax asset between 2017 and 2016 is primarily driven by a re-measurement of deferred income taxes in 2017 due to the Tax Cuts and Jobs Act of 2017 (the "TCJA") which was enacted on December 22, 2017. The most significant components of the re-measurement activity are related to the deferred tax assets associated with severance liabilities, non-admitted assets, deferred acquisition costs and section 807(c) reserves.

Receivable from Parent, Subsidiaries and Affiliates

Receivables from parent, subsidiaries and affiliates are settled within 90 days following a month-end and fluctuations are attributable primarily to the timing of settlements.

Liabilities, Surplus and Other funds

Aggregate reserve for Life contracts, accident and health contracts

The decrease is primarily due to the sale of a substantial portion of its domestic group life insurance, group disability insurance and absence management business written by the Company to HLAIC.

Liability for deposit-type contracts

The decrease is primarily due to the sale of a substantial portion of its domestic group life insurance, group disability insurance and absence management business written by the Company to HLAIC.

Contract claims: Accident and Health

The decrease is primarily due to the sale of a substantial portion of its domestic group disability written by the Company to HLAIC.

Reinsurance in unauthorized and certified companies

The increase in reinsurance in unauthorized and certified companies is primarily due to the new reinsurance programs.

Drafts Outstanding

The drafts outstanding increase is primarily due to lump sum payments issued as drafts for the Aetna Pension Plan.

Liability for amounts held under uninured plans

The decrease plans is primarily driven by a decrease for the Kuwait Ministry Travel for Treatment (T4T) Program and a decrease due to less business volume moved from Coventry.

Summary of Operations

Premiums and Annuity Consideration for Life and Accident and Health Contracts

The decrease in premiums and annuity consideration for life and accident and health contracts is primarily due to a substantial portion of its domestic group life insurance, group disability insurance and absence management business written by the Company to HLAIC.

Commissions and expense allowances on reinsurance ceded

The increase in commission and expense allowances on reinsurance ceded is primarily due to an increase in ceded commissions received from HLAIC.

Disability benefits and benefits under accident and health contracts

The increase in disability benefits and benefits under accident and health contracts is primarily due the termination of two ceded reinsurance agreements which is partly offset by a new ceded reinsurance agreement.

Surrender benefits and withdrawals for life contract

The increase in surrender benefits and withdrawals for life contract is primarily due to, a large contract holder withdrawal in 2017.

Increase in aggregate reserves for life and accident and health contracts

The decrease in aggregate reserves for life and accident and health contracts is primarily due to a decrease in long term disability business which has ceded to HLAIC.

Change in nonadmitted assets

The decrease in change in nonadmitted assets is primarily due to net deferred taxes as discussed in "net deferred tax assets" above.