

Gansberg David
Form 3
March 08, 2019

FORM 3 UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934,
Section 17(a) of the Public Utility Holding Company Act of 1935 or Section
30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *		2. Date of Event Requiring Statement	3. Issuer Name and Ticker or Trading Symbol	
Â Gansberg David		(Month/Day/Year)	ARCH CAPITAL GROUP LTD. [ACGL]	
(Last)	(First)	(Middle)	03/01/2019	
C/O ARCH CAPITAL GROUP LTD., Â WATERLOO HOUSE, 100 PITTS BAY ROAD			4. Relationship of Reporting Person(s) to Issuer	5. If Amendment, Date Original Filed(Month/Day/Year)
(Street)			(Check all applicable)	
PEMBROKE, Â D0 Â HM 08			<input type="checkbox"/> Director	<input type="checkbox"/> 10% Owner
(City)	(State)	(Zip)	<input checked="" type="checkbox"/> Officer	<input type="checkbox"/> Other
			(give title below)	(specify below)
			CEO, Global Mortgage Group	
			6. Individual or Joint/Group Filing(Check Applicable Line)	
			<input checked="" type="checkbox"/> Form filed by One Reporting Person	
			<input type="checkbox"/> Form filed by More than One Reporting Person	

Table I - Non-Derivative Securities Beneficially Owned

1. Title of Security (Instr. 4)	2. Amount of Securities Beneficially Owned (Instr. 4)	3. Ownership Form: Direct (D) or Indirect (I) (Instr. 5)	4. Nature of Indirect Beneficial Ownership (Instr. 5)
Common Shares, \$.0011 par value per share	116,206	D	Â
Common Shares, \$.0011 par value per share	9,000	I	See Footnote ⁽¹⁾

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly. SEC 1473 (7-02)

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Table II - Derivative Securities Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 4)	2. Date Exercisable and Expiration Date (Month/Day/Year)	3. Title and Amount of Securities Underlying Derivative Security	4. Conversion or Exercise	5. Ownership Form of	6. Nature of Indirect Beneficial Ownership
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	Date Exercisable	Expiration Date	(Instr. 4) Title	Amount or Number of Shares	Price of Derivative Security	Derivative Security: Direct (D) or Indirect (I) (Instr. 5)	(Instr. 5)
Share Appreciation Right	Â <u>(2)</u>	05/06/2021	Common Shares, \$.0011 par value per share	9,900	\$ 11.3043	D	Â
Share Appreciation Right	Â <u>(3)</u>	05/09/2022	Common Shares, \$.0011 par value per share	9,900	\$ 12.86	D	Â
Share Appreciation Right	11/12/2017	11/12/2022	Common Shares, \$.0011 par value per share	18,810	\$ 14.2167	D	Â
Share Appreciation Right	Â <u>(4)</u>	05/09/2023	Common Shares, \$.0011 par value per share	7,395	\$ 17.8433	D	Â
Share Appreciation Right	Â <u>(5)</u>	02/04/2024	Common Shares, \$.0011 par value per share	29,070	\$ 17.68	D	Â
Share Appreciation Right	Â <u>(6)</u>	05/13/2024	Common Shares, \$.0011 par value per share	10,950	\$ 19.09	D	Â
Stock Option (right to buy)	Â <u>(7)</u>	05/13/2025	Common Shares, \$.0011 par value per share	13,560	\$ 20.835	D	Â
Stock Option (right to buy)	Â <u>(8)</u>	05/13/2026	Common Shares, \$.0011 par value per share	10,770	\$ 23.9	D	Â
	Â <u>(9)</u>	05/08/2027		15,090	\$ 32.0867	D	Â

Stock Option (right to buy)			Common Shares, \$.0011 par value per share				
Stock Option (right to buy)	Â (10)	05/11/2028	Common Shares, \$.0011 par value per share	15,822	\$ 26.55	D	Â
Stock Option (right to buy)	Â (11)	02/28/2029	Common Shares, \$.0011 par value per share	15,929	\$ 32.67	D	Â

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Gansberg David C/O ARCH CAPITAL GROUP LTD. WATERLOO HOUSE, 100 PITTS BAY ROAD PEMBROKE,Â D0Â HM 08	Â	Â	Â CEO, Global Mortgage Group	Â

Signatures

/s/ David Gansberg 03/05/2019

Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 5(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) The reporting person owns such common shares indirectly with his spouse.
- (2) The Share Appreciation Right became exercisable in three equal annual installments, with the first installment becoming exercisable on May 6, 2012 and the next two installments on May 6, 2013 and May 6, 2014, subject to the applicable award agreement.
- (3) The Share Appreciation Right became exercisable in three equal annual installments, with the first installment becoming exercisable on May 9, 2013 and the next two installments on May 9, 2014 and May 9, 2015 subject to the applicable award agreement.
- (4) The Share Appreciation Right became exercisable in three equal annual installments, with the first installment becoming exercisable on May 9, 2014 and the next two installments on May 9, 2015 and May 9, 2016 subject to the applicable award agreement.
- (5) The Share Appreciation Right became exercisable in three equal annual installments, with the first installment becoming exercisable on February 4, 2015 and the next two installments on February 4, 2016 and February 4, 2017, subject to the applicable award agreement.
- (6) The Share Appreciation Right became exercisable in three equal annual installments, with the first installment becoming exercisable on May 13, 2015 and the next two installments on May 13, 2016 and May 13, 2017 subject to the applicable award agreement.
- (7) The Stock Option is exercisable in three equal annual installments, with the first installment becoming exercisable on May 13, 2016 and the next two installments on May 13, 2017 and May 13, 2018, subject to the applicable award agreement.

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- (8) The Stock Option is exercisable in three equal annual installments, with the first installment becoming exercisable on May 13, 2017 and the next two installments on May 13, 2018 and May 13, 2019, subject to the applicable award agreement.
- (9) The Stock Option is exercisable in three equal annual installments, with the first installment becoming exercisable on May 8, 2018 and the next two installments on May 8, 2019 and May 8, 2020, subject to the applicable award agreement.
- (10) The Stock Option is exercisable in three equal annual installments, with the first installment becoming exercisable on May 11, 2019, and the next two installments on May 11, 2020 and May 11, 2021, subject to the applicable award agreement.
- (11) The stock option becomes exercisable in three equal annual installments commencing February 28, 2020, and the next two installments on February 28, 2021 and February 28, 2022, subject to the applicable award agreement.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, See Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. e:10pt;">

Hedge fund investments

\$
4,110.0

\$
3,535.3

Private equity investments

2,527.8

3,235.7

Real estate partnerships

4,808.6

5,044.5

Total

\$
11,446.4

\$
11,815.5

Non-controlling (Minority) Interests

At September 30, 2016 and December 31, 2015, continuing business non-controlling interests were \$61 million and \$64 million, respectively, primarily related to third party interests in our investment holdings as well as third party interests in certain of our operating entities. The non-controlling entities' share was included in total equity. Net loss attributable to non-controlling interests was \$6.7 million and \$3.5 million for the three and nine months ended September 30, 2016, respectively. Net income attributable to non-controlling interests was \$2.3 million and \$3.9 million for the three and nine months ended September 30, 2015, respectively. These non-controlling interests did not have a material impact on our financial position or operating results.

Net Investment Income

Sources of net investment income for the three and nine months ended September 30, 2016 and 2015 were as follows:

(Millions)	Three Months		Nine Months	
	Ended		Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Debt securities	\$186.7	\$196.7	\$578.0	\$594.4
Mortgage loans	24.1	22.6	74.2	66.2
Other investments	17.5	4.7	64.1	67.2
Gross investment income	228.3	224.0	716.3	727.8
Investment expenses	(9.9)	(10.7)	(29.2)	(34.2)
Net investment income ⁽¹⁾	\$218.4	\$213.3	\$687.1	\$693.6

Net investment income includes \$47.6 million and \$158.3 million for the three and nine months ended

⁽¹⁾ September 30, 2016, respectively, and \$50.3 million and \$191.7 million for the three and nine months ended September 30, 2015, respectively, related to investments supporting our experience rated and discontinued products.

8. Health Care Reform's Reinsurance, Risk Adjustment and Risk Corridor (the "3Rs")

We participate in certain public health insurance exchanges ("Public Exchanges") established pursuant to the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (as amended, collectively, "Health Care Reform" or the "ACA"). Under regulations established by the U.S. Department of Health and Human Services ("HHS"), HHS pays us a portion of the premium ("Premium Subsidy") and a portion of the health care costs ("Cost Sharing Subsidy") for low-income individual Public Exchange members. In addition, HHS administers the 3Rs risk management programs.

Our net receivable (payable) related to the 3Rs risk management programs at September 30, 2016 and December 31, 2015 were as follows:

(Millions)	At September 30, 2016			At December 31, 2015		
	Reinsurance	Risk Adjustment	Risk Corridor	Reinsurance	Risk Adjustment	Risk Corridor
Current ⁽¹⁾	\$132.9	\$ (555.1)	\$ (53.9)	\$394.5	\$ (710.2)	\$ (8.1)
Long-term	10.1	49.1	—	—	—	—
Total net receivable (payable)	\$143.0	\$ (506.0)	\$ (53.9)	\$394.5	\$ (710.2)	\$ (8.1)

⁽¹⁾ At September 30, 2016, \$41.7 million of ACA reinsurance receivables and \$35.4 million of ACA risk adjustment receivables related to the respective 2015 programs. The remainder of the net balances related to the respective

2016 programs.

At September 30, 2016, we estimate that we are entitled to receive a total of \$377 million from HHS under the three year ACA risk corridor program for the 2014 through 2016 program years. At September 30, 2016, we did not record any ACA risk corridor receivables related to the 2016 or 2015 program years or any amount in excess of the prorated 12.6% HHS funding amount received for the 2014 program year, because payments from HHS are uncertain.

We expect to perform an annual final reconciliation and settlement with HHS of the Cost Sharing Subsidy and the 3Rs in each subsequent year.

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9. Other Comprehensive (Loss) Income

Shareholders' equity included the following activity in accumulated other comprehensive loss for the nine months ended September 30, 2016 and 2015:

(Millions)	Net Unrealized Gains (Losses) Securities			Pension and OPEB Plans		Total Accumulated Other Comprehensive (Loss) Income
	Previously Impaired (1)	All Other	Foreign Currency and Derivatives	Unrecognized Net Actuarial Losses	Unrecognized Prior Service Credit	
Nine months ended September 30, 2016						
Balance at December 31, 2015	\$18.7	\$312.4	\$(74.0)	\$(1,602.3)	\$ 14.9	\$(1,330.3)
Other comprehensive (loss) income before reclassifications	(3.4)	403.2	(176.1)	—	—	223.7
Amounts reclassified from accumulated other comprehensive income	4.1 (2)	(19.5) (2)	11.3 (3)	31.1 (4)	(2.0) (4)	25.0
Other comprehensive income (loss)	.7	383.7	(164.8)	31.1	(2.0)	248.7
Balance at September 30, 2016	\$19.4	\$696.1	\$(238.8)	\$(1,571.2)	\$ 12.9	\$(1,081.6)
Nine months ended September 30, 2015						
Balance at December 31, 2014	\$34.9	\$568.0	\$(60.9)	\$(1,670.9)	\$ 17.6	\$(1,111.3)
Other comprehensive (loss) income before reclassifications	(19.7)	(229.5)	(36.2)	—	—	(285.4)
Amounts reclassified from accumulated other comprehensive income	6.8 (2)	42.2 (2)	2.9 (3)	31.3 (4)	(2.0) (4)	81.2
Other comprehensive (loss) income	(12.9)	(187.3)	(33.3)	31.3	(2.0)	(204.2)
Balance at September 30, 2015	\$22.0	\$380.7	\$(94.2)	\$(1,639.6)	\$ 15.6	\$(1,315.5)

(1) Represents unrealized gains or losses on the non-credit related component of impaired debt securities that we do not intend to sell and subsequent changes in the fair value of any previously impaired security.

(2) Reclassifications out of accumulated other comprehensive income for previously impaired debt securities and all other securities are reflected in net realized capital gains (losses) within the Consolidated Statements of Income.

(3) Reclassifications out of accumulated other comprehensive income for foreign currency gains (losses) and derivatives are reflected in net realized capital gains (losses) within the Consolidated Statements of Income, except for the effective portion of derivatives related to interest rate swaps which are reflected in interest expense during the nine months ended September 30, 2016 or 2015. Refer to Note 12 for additional information.

(4) Reclassifications out of accumulated other comprehensive income for pension and OPEB plan expenses are reflected in general and administrative expenses within the Consolidated Statements of Income. Refer to Note 11 for additional information.

Refer to the Consolidated Statements of Comprehensive Income for additional information regarding reclassifications out of accumulated other comprehensive income on a pretax basis.

10. Financial Instruments

Explanation of Responses:

The preparation of our consolidated financial statements in accordance with GAAP requires certain of our assets and liabilities to be reflected at their fair value, and others on another basis, such as an adjusted historical cost basis. In this note, we provide details on the fair value of financial assets and liabilities and how we determine those fair values. We present this information for those financial instruments that are measured at fair value for which the change in fair value impacts net income attributable to Aetna or other comprehensive income separately from other financial assets and liabilities.

Financial Instruments Measured at Fair Value in our Balance Sheets

Certain of our financial instruments are measured at fair value in our balance sheets. The fair values of these instruments are based on valuations that include inputs that can be classified within one of three levels of a hierarchy established by GAAP. The following are the levels of the hierarchy and a brief description of the type of valuation information (“inputs”) that qualifies a financial asset or liability for each level:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than Level 1 that are based on observable market data. These include: quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets, inputs that are observable that are not prices (such as interest rates and credit risks) and inputs that are derived from or corroborated by observable markets.

Level 3 – Developed from unobservable data, reflecting our own assumptions.

Financial assets and liabilities are classified based upon the lowest level of input that is significant to the valuation. When quoted prices in active markets for identical assets and liabilities are available, we use these quoted market prices to determine the fair value of financial assets and liabilities and classify these assets and liabilities in Level 1. In other cases where a quoted market price for identical assets and liabilities in an active market is either not available or not observable, we estimate fair value using valuation methodologies based on available and observable market information or by using a matrix pricing model. These financial assets and liabilities would then be classified in Level 2. If quoted market prices are not available, we determine fair value using broker quotes or an internal analysis of each investment’s financial performance and cash flow projections. Thus, financial assets and liabilities may be classified in Level 3 even though there may be some significant inputs that may be observable.

The following is a description of the valuation methodologies used for our financial assets and liabilities that are measured at fair value, including the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Debt Securities – Where quoted prices are available in an active market, our debt securities are classified in Level 1 of the fair value hierarchy. Our Level 1 debt securities are comprised primarily of U.S. Treasury securities.

The fair values of our Level 2 debt securities are obtained using models such as matrix pricing, which use quoted market prices of debt securities with similar characteristics, or discounted cash flows to estimate fair value. We review these prices to ensure they are based on observable market inputs that include, but are not limited to, quoted prices for similar assets in active markets, quoted prices for identical assets in inactive markets and inputs that are observable but not prices (for example, interest rates and credit risks). We also review the methodologies and the assumptions used to calculate prices from these observable inputs. On a quarterly basis, we select a sample of our Level 2 debt securities’ prices and compare them to prices provided by a secondary source. Variances over a specified threshold are identified and reviewed to confirm the price provided by the primary source represents an appropriate estimate of fair value. In addition, our internal investment team consistently compares the prices obtained for select Level 2 debt securities to the team’s own independent estimates of fair value for those securities. We obtained one price for each of our Level 2 debt securities and did not adjust any of these prices at September 30, 2016 or December 31, 2015.

We also value certain debt securities using Level 3 inputs. For Level 3 debt securities, fair values are determined by outside brokers or, in the case of certain private placement securities, are priced internally. Outside brokers determine the value of these debt securities through a combination of their knowledge of the current pricing environment and market flows. We obtained one non-binding broker quote for each of these Level 3 debt securities and did not adjust any of these quotes at September 30, 2016 or December 31, 2015. The total fair value of our broker quoted debt securities was \$112 million at September 30, 2016 and \$78 million at December 31, 2015. Examples of these broker quoted Level 3 debt securities include certain U.S. and foreign corporate securities and certain of our commercial mortgage-backed securities as well as other asset-backed securities. For some of our private placement securities, our internal staff determines the value of these debt securities by analyzing spreads of corporate and sector indices as well as interest spreads of comparable public bonds. Examples of these private placement Level 3 debt securities include certain U.S. and foreign securities and certain tax-exempt municipal securities.

Equity Securities – We currently have two classifications of equity securities: those that are publicly traded and those that are privately placed. Our publicly-traded securities are classified in Level 1 because quoted prices are available for these securities in an active market. For privately-placed equity securities, there is no active market; therefore, we classify these securities in Level 3 because we price these securities through an internal analysis of each investment's financial statements and cash flow projections. Significant unobservable inputs consist of earnings and revenue multiples, discount for lack of marketability and comparability adjustments. An increase or decrease in any of these unobservable inputs would result in a change in the fair value measurement, which may be significant.

Derivatives – Where quoted prices are available in an active market, our derivatives are classified in Level 1. Certain of our derivative instruments are valued using models that primarily use market observable inputs and therefore are classified in Level 2 because they are traded in markets where quoted market prices are not readily available.

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Financial assets and liabilities measured at fair value on a recurring basis in our balance sheets at September 30, 2016 and December 31, 2015 were as follows:

(Millions)	Level 1	Level 2	Level 3	Total
September 30, 2016				
Assets:				
Debt securities:				
U.S. government securities	\$1,610.5	\$188.4	\$—	\$1,798.9
States, municipalities and political subdivisions	—	5,245.8	.9	5,246.7
U.S. corporate securities	—	8,712.4	75.0	8,787.4
Foreign securities	—	3,199.2	30.7	3,229.9
Residential mortgage-backed securities	—	860.0	—	860.0
Commercial mortgage-backed securities	—	1,357.6	30.8	1,388.4
Other asset-backed securities	—	1,072.3	—	1,072.3
Redeemable preferred securities	—	27.1	1.8	28.9
Total debt securities	1,610.5	20,662.8	139.2	22,412.5
Equity securities	114.3	—	33.8	148.1
Derivatives	—	—	—	—
Total	\$1,724.8	\$20,662.8	\$173.0	\$22,560.6
Liabilities:				
Derivatives	\$—	\$.2	\$—	\$.2
December 31, 2015				
Assets:				
Debt securities:				
U.S. government securities	\$1,671.0	\$200.7	\$—	\$1,871.7
States, municipalities and political subdivisions	—	5,123.4	1.1	5,124.5
U.S. corporate securities	—	8,110.5	63.9	8,174.4
Foreign securities	—	2,972.3	24.8	2,997.1
Residential mortgage-backed securities	—	924.9	—	924.9
Commercial mortgage-backed securities	—	1,270.6	—	1,270.6
Other asset-backed securities	—	894.3	—	894.3
Redeemable preferred securities	—	39.0	5.5	44.5
Total debt securities	1,671.0	19,535.7	95.3	21,302.0
Equity securities	1.7	—	19.3	21.0
Derivatives	—	19.7	—	19.7
Total	\$1,672.7	\$19,555.4	\$114.6	\$21,342.7
Liabilities:				
Derivatives	\$—	\$88.3	\$—	\$88.3

There were no transfers between Levels 1 and 2 during the three or nine months ended September 30, 2016 or 2015. During both the three and nine months ended September 30, 2016 we had an immaterial amount of gross transfers out of Level 3 financial assets. During the three and nine months ended September 30, 2015, we had gross transfers out of Level 3 of \$29 million and \$62 million, respectively, related to other asset-backed securities. During both the three and nine months ended September 30, 2016 and 2015, we had an immaterial amount of gross transfers into Level 3 financial assets.

Financial Instruments Not Measured at Fair Value in our Balance Sheets

The following is a description of the valuation methodologies used for estimating the fair value of our financial assets and liabilities that are carried on our balance sheets at adjusted cost or contract value.

Mortgage loans: Fair values are estimated by discounting expected mortgage loan cash flows at market rates that reflect the rates at which similar loans would be made to similar borrowers. These rates reflect our assessment of the creditworthiness of the borrower and the remaining duration of the loans. The fair value estimates of mortgage loans of lower credit quality, including problem and restructured loans, are based on the estimated fair value of the underlying collateral.

Bank loans: Where fair value is determined by quoted market prices of bank loans with similar characteristics, our bank loans are classified in Level 2. For bank loans classified in Level 3, fair value is determined by outside brokers using their internal analyses through a combination of their knowledge of the current pricing environment and market flows.

Equity securities: Certain of our equity securities are carried at cost. The fair values of our cost-method investments are not estimated if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment.

Investment contract liabilities:

- With a fixed maturity: Fair value is estimated by discounting cash flows at interest rates currently being offered by, or available to, us for similar contracts.
- Without a fixed maturity: Fair value is estimated as the amount payable to the contract holder upon demand. However, we have the right under such contracts to delay payment of withdrawals that may ultimately result in paying an amount different than that determined to be payable on demand.

Long-term debt: Fair values are based on quoted market prices for the same or similar issued debt or, if no quoted market prices are available, on the current rates estimated to be available to us for debt of similar terms and remaining maturities.

The carrying value and estimated fair value classified by level of fair value hierarchy for our financial instruments carried at adjusted cost or contract value at September 30, 2016 and December 31, 2015 were as follows:

(Millions)	Carrying Value	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
September 30, 2016					
Assets:					
Mortgage loans	\$1,518.5	\$-\$	—	-\$1,575.7	\$1,575.7
Bank loans	8.7	—	—	8.1	8.1
Equity securities ⁽¹⁾	35.2	N/A	N/A	N/A	N/A
Liabilities:					
Investment contract liabilities:					
With a fixed maturity	8.7	—	—	8.7	8.7
Without a fixed maturity	381.9	—	—	381.8	381.8
Long-term debt	20,662.2	—	—	22,091.8	22,091.8
December 31, 2015					
Assets:					
Mortgage loans	\$1,553.7	\$-\$	—	-\$1,598.7	\$1,598.7
Bank loans	192.8	—	179.9	7.6	187.5
Equity securities ⁽¹⁾	34.9	N/A	N/A	N/A	N/A
Liabilities:					
Investment contract liabilities:					
With a fixed maturity	8.6	—	—	8.6	8.6
Without a fixed maturity	371.3	—	—	351.1	351.1
Long-term debt	7,785.4	—	—	8,227.3	8,227.3

(1) It was not practical to estimate the fair value of these cost-method investments as it represents shares of unlisted companies.

Separate Accounts Measured at Fair Value in our Balance Sheets

Separate Accounts assets in our Large Case Pensions business represent funds maintained to meet specific objectives of contract holders. Since contract holders bear the investment risk of these assets, a corresponding Separate Accounts liability has been established equal to the assets. These assets and liabilities are carried at fair value. Net investment income and capital gains and losses accrue directly to such contract holders. The assets of each account are legally segregated and are not subject to claims arising from our other businesses. Deposits, withdrawals, net investment income and realized and unrealized capital gains and losses on Separate Accounts assets are not reflected in our statements of income, shareholders' equity or cash flows.

Separate Accounts assets include debt and equity securities and derivative instruments. The valuation methodologies used for these assets are similar to the methodologies described in this Note 10. Separate Accounts assets also include investments in common/collective trusts that are carried at fair value. Common/collective trusts invest in other investment funds otherwise known as the underlying funds. The Separate Accounts' interests in the common/collective trust funds are based on the fair values of the investments of the underlying funds and therefore are classified in Level 2. The assets in the underlying funds primarily consist of equity securities. Investments in common/collective trust funds are valued at their respective net asset value per share/unit on the valuation date.

Separate Accounts financial assets at September 30, 2016 and December 31, 2015 were as follows:

(Millions)	September 30, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt securities	\$844.9	\$2,460.5	\$3.2	\$3,308.6	\$750.4	\$2,382.0	\$3.8	\$3,136.2
Equity securities	167.3	5.5	—	172.8	169.8	5.2	—	175.0
Derivatives	—	—	—	—	—	.2	—	.2
Common/collective trusts	—	610.6	—	610.6	—	540.2	—	540.2
Total ⁽¹⁾	\$1,012.2	\$3,076.6	\$3.2	\$4,092.0	\$920.2	\$2,927.6	\$3.8	\$3,851.6

⁽¹⁾ Excludes \$225.7 million and \$183.5 million of cash and cash equivalents and other receivables at September 30, 2016 and December 31, 2015, respectively.

During the three and nine months ended September 30, 2016 and 2015, we had an immaterial amount of Level 3 Separate Accounts financial assets.

Offsetting Financial Assets and Liabilities

Certain financial assets and liabilities are offset in our balance sheets or are subject to master netting arrangements or similar agreements with the applicable counterparty. Financial assets, including derivative assets, subject to offsetting and enforceable master netting arrangements at September 30, 2016 and December 31, 2015 were as follows:

(Millions)	Gross Amounts			
	Gross Amounts of Recognized Assets ⁽¹⁾	Not Offset in the Balance Sheets	Cash Financial Collateral Received	Net Amount
September 30, 2016				
Derivatives	\$ —	\$14.1	\$ —	\$ 14.1
Total	\$ —	\$14.1	\$ —	\$ 14.1
December 31, 2015				
Derivatives	\$ 19.7	\$11.8	\$ (16.4)	\$ 15.1
Total	\$ 19.7	\$11.8	\$ (16.4)	\$ 15.1

⁽¹⁾ There were no amounts offset in our balance sheets at September 30, 2016 or December 31, 2015.

Financial liabilities, including derivative liabilities, subject to offsetting and enforceable master netting arrangements at September 30, 2016 and December 31, 2015 were as follows:

(Millions)	Gross Amounts Not Offset in the Balance Sheets			
	Gross Amounts of Recognized Liabilities ⁽¹⁾	Not Offset in the Balance Sheets	Cash Financial Collateral Paid	Net Amount
September 30, 2016				

Explanation of Responses:

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Derivatives	\$.2	\$—	\$.2
Total	\$.2	\$—	\$.2

December 31, 2015

Derivatives	\$ 88.3	\$— (90.7)	\$ (2.4)
Total	\$ 88.3	\$— (90.7)	\$ (2.4)

(1) There were no amounts offset in our balance sheets at September 30, 2016 or December 31, 2015.

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11. Pension and Other Postretirement Plans

Defined Benefit Retirement Plans

Components of the net periodic benefit (income) cost of our defined benefit pension plans and other postretirement employee benefit (“OPEB”) plans for the three and nine months ended September 30, 2016 and 2015 were as follows:

	Pension Plans				OPEB Plans			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30,		September 30,		September 30,		September 30,	
(Millions)	2016	2015	2016	2015	2016	2015	2016	2015
Amortization of prior service credit	\$(.1)	\$(.1)	\$(.3)	\$(.3)	\$(.8)	\$(1.0)	\$(2.7)	\$(2.8)
Interest cost	64.9	65.3	194.8	195.7	2.7	2.7	8.1	8.1
Expected return on plan assets	(97.3)	(104.8)	(291.9)	(314.3)	(.7)	(.7)	(1.9)	(2.2)
Recognized net actuarial losses	15.4	15.3	46.1	46.1	.6	.7	1.8	2.0
Net periodic benefit (income) cost	\$(17.1)	\$(24.3)	\$(51.3)	\$(72.8)	\$1.8	\$1.7	\$5.3	\$5.1

We do not expect to make a voluntary cash contribution to our tax-qualified noncontributory defined benefit pension plan in 2016.

In September 2016, we announced a voluntary early retirement program (the “Program”). Under the terms of the Program, eligible employees can elect early retirement during the month of October. We expect to record an expense associated with the Program in the fourth quarter of 2016.

12. Debt

The carrying value of our long-term debt at September 30, 2016 and December 31, 2015 was as follows:

(Millions)	September 30, 2016	December 31, 2015
Senior notes, 5.95%, due March 2017 ⁽¹⁾	\$ 390.5	\$ 402.4
Senior notes, 1.75%, due May 2017 ⁽¹⁾	249.6	249.1
Senior notes, 1.5%, due November 2017	498.6	497.7
Senior notes, floating rate, due December 2017	498.9	—
Senior notes, 1.7%, due June 2018	996.6	—
Senior notes, 2.2%, due March 2019	373.4	372.9
Senior notes, 1.9%, due June 2019	1,641.2	—
Senior notes, 3.95%, due September 2020	744.4	743.4
Senior notes, 2.4%, due June 2021	1,838.3	—
Senior notes, 5.45%, due June 2021	664.6	674.9
Senior notes, 4.125%, due June 2021	494.9	494.1
Senior notes, 2.75%, due November 2022	985.0	983.1
Senior notes, 2.8%, due June 2023	1,289.6	—
Senior notes, 3.5%, due November 2024	742.3	741.6
Senior notes, 3.2%, due June 2026	2,770.4	—
Senior notes, 4.25%, due June 2036	1,480.0	—
Senior notes, 6.625%, due June 2036	765.1	765.0
Senior notes, 6.75%, due December 2037	527.3	527.0
Senior notes, 4.5%, due May 2042	477.7	477.1
Senior notes, 4.125%, due November 2042	489.0	488.6
Senior notes, 4.75%, due March 2044	370.6	370.5
Senior notes, 4.375%, due June 2046	2,375.3	—
Total long-term debt	20,663.3	7,787.4
Less current portion of long-term debt	640.1	—
Less credit facility issuance costs	1.1	2.0
Total long-term debt, less current portion and credit facility issuance costs	\$ 20,022.1	\$ 7,785.4

⁽¹⁾ At September 30, 2016, our 5.95% senior notes due March 2017 and 1.75% senior notes due May 2017 are each classified as current in our consolidated balance sheet.

Humana-Related Senior Notes; Long-Term Debt and Bridge Credit Agreement

In June 2016, in connection with the Humana Acquisition, we issued the Humana-related senior notes, which are comprised of: \$500 million of floating rate senior notes due December 2017, \$1.0 billion of 1.7% senior notes due June 2018, approximately \$1.7 billion of 1.9% senior notes due June 2019, approximately \$1.9 billion of 2.4% senior notes due June 2021, \$1.3 billion of 2.8% senior notes due June 2023, \$2.8 billion of 3.2% senior notes due June 2026, \$1.5 billion of 4.25% senior notes due June 2036 and \$2.4 billion of 4.375% senior notes due June 2046. If the Humana Acquisition has not been completed by December 31, 2016 (or such later date to which the “End Date” under the Merger Agreement is extended by agreement between us and Humana) or if, prior to such date, the Merger Agreement is terminated, we must redeem the entire \$10.2 billion aggregate principal amount of the 2016 Humana-related senior notes that are due in 2019, 2021, 2026, 2036 and 2046 at a redemption price equal to 101% of the aggregate principal amount of those notes plus accrued and unpaid interest.

On July 30, 2015, we entered into a \$13.0 billion 364-day senior unsecured bridge credit agreement (the “Bridge Credit Agreement”) with a group of fifteen lenders. In connection with the closing of the 2016 Humana-related senior notes, we terminated the Bridge Credit Agreement effective June 9, 2016. There were no amounts outstanding under the Bridge Credit Agreement at any time during the nine months ended September 30, 2016.

Cash Flow Hedges

From September 2015 through June 2016, prior to issuing the 2016 Humana-related senior notes, we entered into various interest rate swaps and treasury rate locks with an aggregate notional value of \$3.5 billion. We designated these interest rate swaps and treasury rate locks as cash flow hedges against interest rate exposure related to the forecasted future issuance of fixed-rate debt to be primarily used to finance a portion of the purchase price of the Humana Acquisition.

During the second quarter of 2016, prior to issuing the 2016 Humana-related senior notes, we terminated interest rate swaps with an aggregate notional value of \$2.3 billion and paid an aggregate of \$193 million to the swap counterparties upon termination. We performed a final effectiveness test upon the termination of each swap, and the effective portion of the hedge loss of \$193 million was recorded in accumulated other comprehensive loss, net of tax, as the forecasted future issuance of fixed-rate debt associated with the Humana Acquisition remained probable of occurring at the time of termination. The hedge loss is being amortized as an increase to interest expense over a period consistent with the term of the hedged 2016 Humana-related senior notes. Upon termination of the interest rate swaps, we concurrently entered into treasury rate locks with an aggregate notional value of \$2.3 billion to replace the vacated hedged positions. The treasury rate locks were designated as cash flow hedges against interest rate exposure related to the forecasted future issuance of fixed-rate debt to be primarily used to finance a portion of the purchase price of the Humana Acquisition.

In June 2016, in conjunction with the issuance of the 2016 Humana-related senior notes, we terminated outstanding interest rate swaps and treasury rate locks with an aggregate notional value of \$3.5 billion and paid an aggregate of \$51 million to the hedge counterparties upon termination. We performed a final effectiveness test upon termination of each interest rate swap and treasury rate lock, and the effective portion of the hedge loss of \$51 million was recorded in accumulated other comprehensive loss, net of tax, and is being amortized as an increase to interest expense over a period consistent with the term of the hedged 2016 Humana-related senior notes.

In March 2014, we entered into two interest rate swaps with an aggregate notional value of \$500 million. We designated these swaps as cash flow hedges against interest rate exposure related to the forecasted future issuance of fixed-rate debt to be primarily used to refinance long-term debt maturing in 2017. On September 30, 2015, we modified the timing of the forecasted future issuance of fixed-rate debt in conjunction with the expected timing of the financing of the Humana Acquisition and, as a result, we de-designated these swaps and re-designated them as cash flow hedges against interest rate exposure related to the forecasted future issuance of fixed-rate debt. The effective portion of the hedge loss of \$73 million pretax remains in accumulated other comprehensive loss, net of tax, and will be amortized as an increase to interest expense over the first 20 semi-annual interest payments related to the fixed-rate debt. At March 31, 2016, we performed a quarterly effectiveness test of these swaps and determined there was \$4 million pretax of ineffectiveness. That ineffectiveness was recorded as a realized capital loss in the first quarter of 2016. In June 2016, we terminated the hedges in conjunction with the issuance of the 2016 Humana-related senior notes and paid an aggregate of \$103 million to the hedge counterparties upon termination of the interest rate swaps. We performed a final effectiveness test upon termination of each interest rate swap and determined there was \$2 million pretax of ineffectiveness. That ineffectiveness was recorded as a realized capital loss in the second quarter of 2016. The effective portion of the hedge loss of \$25 million pretax was recorded in accumulated other comprehensive loss, net of tax, and is being amortized as an increase to interest expense over the first 20 semi-annual interest payments of certain of the hedged 2016 Humana-related senior notes.

Refer to Note 9 for additional information regarding hedge losses reclassified from accumulated other comprehensive loss to net income during the nine months ended September 30, 2016. At September 30, 2016, the total amount of amortization over the next twelve months for our cash flow hedges will increase interest expense by \$30 million. If we are required to redeem certain of the 2016 Humana-related senior notes as described above, the entire unrealized

hedge loss recorded in accumulated other comprehensive loss related to the redeemed notes will be recognized in net income upon such redemption.

Revolving Credit Facility

On March 27, 2012, we entered into an unsecured \$1.5 billion five-year revolving credit agreement (the “Credit Agreement”) with several financial institutions. On September 24, 2012, and in connection with the acquisition of Coventry Health Care, Inc. (“Coventry”), we entered into a First Amendment (the “First Amendment”) to the Credit Agreement and also entered into an Incremental Commitment Agreement (the “Incremental Commitment Agreement”). On March 2, 2015, we entered into a Second Amendment to the Credit Agreement (the “Second Amendment”). On July 30, 2015, in connection with the Humana Acquisition, we entered into a Third Amendment (the “Third Amendment,” and together with the First Amendment, the Incremental Commitment Agreement, the Second Amendment and the Credit Agreement, resulting in the “Facility”). The Facility is an unsecured \$2.0 billion revolving credit agreement. The Third Amendment permits us to increase the commitments available under the Facility from \$2.0 billion to \$3.0 billion upon our request and the satisfaction of certain conditions, including the completion of the transactions contemplated by the Merger Agreement and the termination of Humana’s existing credit agreement dated as of July 9, 2013 (“Humana’s Existing Credit Agreement”). The Third Amendment also modified the calculation of total debt for purposes of determining compliance prior to the closing date of the Humana Acquisition (the “Closing Date”) with certain covenants to exclude debt incurred by us to finance the Humana Acquisition, the other financing transactions related to the Humana Acquisition and/or the payment of fees and expenses incurred in connection therewith so long as either (A) the net proceeds of such debt are set aside to finance the Humana Acquisition, the other financing transactions related to the Humana Acquisition and/or the payment of fees and expenses incurred in connection therewith or (B) such debt is subject to mandatory redemption in the event that the Merger Agreement is terminated or expires.

In addition, upon our agreement with one or more financial institutions, we may expand the commitments under the Facility by an additional \$500 million. The Facility also provides for the issuance of up to \$200 million of letters of credit at our request, which count as usage of the available commitments under the Facility. In each of 2013, 2014 and 2015 we extended the maturity date of the Facility by one year. The maturity date of the Facility is March 27, 2020.

Various interest rate options are available under the Facility. Any revolving borrowings mature on the termination date of the Facility. We pay facility fees on the Facility ranging from .050% to .150% per annum, depending upon our long-term senior unsecured debt rating. The facility fee was .100% at September 30, 2016. The Facility contains a financial covenant that requires us to maintain a ratio of total debt to consolidated capitalization as of the end of each fiscal quarter at or below 50%. For this purpose, consolidated capitalization equals the sum of total shareholders’ equity, excluding any overfunded or underfunded status of our pension and OPEB plans and any net unrealized capital gains and losses, and total debt (as defined in the Facility). We met this requirement at September 30, 2016. There were no amounts outstanding under the Facility at any time during the nine months ended September 30, 2016 or 2015.

Term Loan Agreement

On July 30, 2015, we entered into a senior three-year term loan credit agreement (the “Term Loan Agreement”) with a group of seventeen lenders. Under the Term Loan Agreement, on or before December 31, 2016, we may borrow on an unsecured basis an aggregate principal amount of up to \$3.2 billion. Any proceeds of the Term Loan Agreement are required to be used to fund the Humana Acquisition and to pay fees and expenses in connection with the Humana Acquisition. The lenders’ obligation to fund the loans under the Term Loan Agreement is subject to the satisfaction of certain conditions, including the completion of the transactions contemplated by the Merger Agreement and the termination of Humana’s Existing Credit Agreement. Any borrowings under the Term Loan Agreement mature three years after the Closing Date. The Term Loan Agreement contains a financial covenant that requires us to maintain a ratio of total debt to consolidated capitalization as of the end of each fiscal quarter at or below 50%. For this purpose, consolidated capitalization equals the sum of total shareholders’ equity, excluding any overfunded or underfunded status of our pension and OPEB plans and any net unrealized capital gains and losses, and total debt (as defined in the Term Loan Agreement). For purposes of determining compliance prior to the Closing Date with certain covenants,

total debt also excludes debt incurred by us to finance the Humana Acquisition, the other financing transactions related to the Humana Acquisition and/or the payment of fees and expenses incurred in connection therewith so long as either (A) the net proceeds of such debt are set aside to finance

the Humana Acquisition, the other financing transactions related to the Humana Acquisition and/or the payment of fees and expenses incurred in connection therewith or (B) such debt is subject to mandatory redemption in the event that the Merger Agreement is terminated or expires. The Term Loan Agreement also contains a covenant limiting “Restricted Payments” (as defined in the Term Loan Agreement) by Aetna, subject to certain exceptions and baskets, including an exception permitting the payment of regular cash dividends. We met these requirements at September 30, 2016.

Amounts outstanding under the Term Loan Agreement will bear interest, at our option, either (a) at LIBOR; or (b) at the base rate (defined as the highest of (i) the prime rate, (ii) the federal funds effective rate plus 0.50% per annum and (iii) LIBOR for an interest period of one month plus 1.00% per annum), plus, in each case, the applicable LIBOR margin or base rate margin depending upon the ratings of our long-term senior unsecured debt. The minimum and maximum LIBOR margins are 0.75% and 1.50% per annum, respectively, and the minimum and maximum base rate margins are 0.0% and 0.50% per annum, respectively. We will also pay the lenders certain other fees. There were no amounts outstanding under the Term Loan Agreement at any time during the nine months ended September 30, 2016.

Federal Home Loan Bank of Boston

We are a member of the Federal Home Loan Bank of Boston (the “FHLBB”), and as a member we have the ability to obtain cash advances, subject to certain minimum collateral requirements. Our maximum borrowing capacity available from the FHLBB at September 30, 2016 was \$902 million. At both September 30, 2016 and December 31, 2015, we did not have any outstanding borrowings from the FHLBB.

13. Capital Stock

On November 21, 2014 and February 28, 2014, our Board of Directors (our “Board”) authorized two separate share repurchase programs of our common stock of up to \$1.0 billion each. We did not repurchase any shares of common stock during the nine months ended September 30, 2016.

At September 30, 2016, we had remaining authorization to repurchase an aggregate of up to approximately \$1.1 billion of common stock under the November 21, 2014 and February 28, 2014 programs. The repurchases are effected from time to time in the open market, through negotiated transactions, including accelerated share repurchase agreements, and through plans designed to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

During the nine months ended September 30, 2016 our Board declared the following cash dividends:

Date Declared	Dividend Amount Per Share	Stockholders of Record Date	Date Paid/ To be Paid	Total Dividends (Millions)
February 19, 2016	\$.25	April 14, 2016	April 29, 2016	\$ 87.6
May 20, 2016	.25	July 14, 2016	July 29, 2016	87.7
September 30, 2016	.25	October 13, 2016	October 28, 2016	87.7

Prior to completion of the Humana Acquisition, pursuant to the Merger Agreement, our regular quarterly cash dividend will not exceed \$.25 per share. Our dividend policy following the completion of the Humana Acquisition will be determined by our Board. Declaration and payment of future dividends is at the discretion of our Board and may be adjusted as business needs or market conditions change.

On February 19, 2016, .3 million PSUs, .9 million restricted stock units (“RSUs”) and 2.2 million SARs were granted to certain employees. The number of vested PSUs (which could range from zero to 200% of the original number of units

granted) is dependent upon the degree to which we achieve certain operating performance goals, as determined by our Board's Committee on Compensation and Talent Management, during a three-year performance period which began January 1, 2016 and ends on December 31, 2018. The vesting period for the PSUs ends on February 19, 2019. Each vested PSU and RSU represents one share of common stock and will be paid in shares of

common stock, net of taxes, at the end of the applicable vesting period. The RSUs generally will become 100% vested approximately three years from the grant date, with one-third vesting each December. The SARs, if exercised by the employee, will be settled in common stock, net of taxes, based on the appreciation of our common stock price over \$103.45 per share, the closing price of our common stock on the grant date. SARs will generally become 100% vested approximately three years from the grant date, with one-third vesting on each anniversary of the grant date.

The SARs granted to certain employees during first quarters of 2016 and 2015 had an estimated fair market value of \$34.33 and \$32.13 per unit, respectively. The fair value per unit was calculated on each respective grant date using a modified Black-Scholes option pricing model using the following assumptions during the first quarters of 2016 and 2015:

	2016	2015		
Expected term (in years)	7.11	6.48		
Volatility	32.9	% 33.4	%	
Risk-free interest rate	1.52	% 1.81	%	
Dividend yield	.91	% 1.13	%	
Initial price	\$103.45	\$100.50		

The expected term is based on historical equity award activity. Volatility is based on a weighted average of the historical volatility of our stock price and implied volatility from traded options on our stock. The risk-free interest rate is based on a U.S. Treasury rate with a life equal to the expected life of the SARs grant. This rate was calculated by interpolating between the 7-year and 10-year U.S. Treasury rates for 2016 SARs grants and the 5-year and 10-year U.S. Treasury rates for 2015 SARs grants. The dividend yield is based on our historical dividends in the 12 months prior to the grant date.

There were no material SARs granted during the three months ended September 30, 2016 or 2015.

14. Dividend Restrictions and Statutory Surplus

Under applicable regulatory requirements at September 30, 2016, the amount of dividends that may be paid through the end of 2016 by our insurance and HMO subsidiaries without prior approval by regulatory authorities was \$396 million in the aggregate. There are no such regulatory restrictions on distributions from Aetna to its shareholders. Prior to completion of the Humana Acquisition, pursuant to the Merger Agreement, Aetna is not permitted to declare, set aside or pay any dividend or other distribution other than a regular quarterly cash dividend in the ordinary course of business, which will not exceed \$.25 per share. In addition, the Term Loan Agreement contains a covenant limiting "Restricted Payments" (as defined in the applicable agreement) by Aetna, subject to certain exceptions and baskets, including an exception permitting the payment of regular cash dividends. During the third quarter of 2016, our insurance and HMO subsidiaries paid \$320 million of dividends to the Company.

The aggregate statutory capital and surplus of our insurance and HMO subsidiaries was \$10.1 billion and \$9.9 billion at September 30, 2016 and December 31, 2015, respectively.

15. Commitments and Contingencies

Guaranty Fund Assessments, Market Stabilization and Other Non-Voluntary Risk Sharing Pools

Under guaranty fund laws existing in all states, insurers doing business in those states can be assessed (up to prescribed limits) for certain obligations of insolvent insurance companies to policyholders and claimants. The life and health insurance guaranty associations in which we participate that operate under these laws respond to insolvencies of long-term care insurers as well as health insurers. Our assessments generally are based on a formula

relating to our premiums in the state compared to the premiums of other insurers. Certain states allow assessments to be recovered as offsets to premium taxes. Some states have similar laws relating to HMOs and/or other payors such as not-for-profit consumer-governed health plans established under the ACA.

In 2009, the Pennsylvania Insurance Commissioner (the “Commissioner”) placed long-term care insurer Penn Treaty Network America Insurance Company and one of its subsidiaries (collectively, “Penn Treaty”) in rehabilitation, an intermediate action before insolvency, and subsequently petitioned a state court to convert the rehabilitation into a liquidation. In 2012, the state court denied the Commissioner’s petition for liquidation. The Pennsylvania Supreme Court affirmed that ruling in July 2015. Between April 2013 and October 2014, the Commissioner filed proposed rehabilitation plans, which have been withdrawn. In July 2016, the Commissioner again petitioned the state court to convert the rehabilitation into a liquidation. A hearing to consider that petition is scheduled for November 9, 2016. If Penn Treaty is placed in liquidation, we and other insurers likely would be assessed immediately or over a period of years by guaranty associations for the payments the guaranty associations are required to make to Penn Treaty policyholders. We are currently unable to predict the ultimate outcome of, or reasonably estimate the loss or range of losses resulting from, this potential insolvency because we cannot predict when or to what extent Penn Treaty ultimately will be declared insolvent, the amount of the insolvency, the amount and timing of associated future guaranty association assessments or the amount or availability of potential offsets, such as premium tax offsets. It is reasonably possible that during 2016 we may record a liability and expense relating to Penn Treaty and/or other insolvencies which could have a material adverse effect on our operating results, financial position and cash flows. While we have historically recovered more than half of guaranty fund assessments through statutorily permitted premium tax offsets, significant increases in assessments could lead to legislative and/or regulatory actions that may limit future offsets.

HMOs in certain states in which we do business are subject to assessments, including market stabilization and other risk-sharing pools, for which we are assessed charges based on incurred claims, demographic membership mix and other factors. We establish liabilities for these assessments based on applicable laws and regulations. In certain states, the ultimate assessments we pay are dependent upon our experience relative to other entities subject to the assessment, and the ultimate liability is not known at the balance sheet date. While the ultimate amount of the assessment is dependent upon the experience of all pool participants, we believe we have adequate reserves to cover such assessments.

Humana Acquisition Related Matters

If the Humana Acquisition has not been completed by December 31, 2016 (or such later date to which the “End Date” under the Merger Agreement is extended by agreement between us and Humana) or if, prior to such date, the Merger Agreement is terminated, we must redeem \$10.2 billion aggregate principal amount of the 2016 Humana-related senior notes that are due in 2019, 2021, 2026, 2036 and 2046 at a redemption price equal to 101% of the aggregate principal amount of those notes plus accrued and unpaid interest and recognize the entire unamortized portion of the related cash flow hedge losses, debt issuance costs and debt issuance discounts in our net income upon such redemption. For additional information on the 2016 Humana-related senior notes, refer to Notes 3, 6 and 12.

We may be required to pay Humana a regulatory termination fee of \$1 billion if the Merger Agreement is terminated under certain circumstances.

Litigation and Regulatory Proceedings

Humana Acquisition - Department of Justice Litigation

On July 21, 2016, the DOJ and certain state attorneys general filed a civil complaint in the U.S. District Court for the District of Columbia against us and Humana charging that the Humana Acquisition would violate Section 7 of the Clayton Antitrust Act, and seeking a permanent injunction to prevent Aetna from acquiring Humana. The trial in the DOJ litigation is scheduled to begin during December 2016, and the trial court decision in the DOJ litigation is expected in January 2017. We plan to vigorously defend the Humana Acquisition.

Out-of-Network Benefit Proceedings

We are named as a defendant in several purported class actions and individual lawsuits arising out of our practices related to the payment of claims for services rendered to our members by health care providers with whom we do not have a contract (“out-of-network providers”). Among other things, these lawsuits allege that we paid too little to our health plan members and/or providers for these services, among other reasons, because of our use of data provided by Ingenix, Inc., a subsidiary of one of our competitors (“Ingenix”). Other major health insurers are the subject of similar litigation or have settled similar litigation.

Various plaintiffs who are health care providers or medical associations seek to represent nationwide classes of out-of-network providers who provided services to our members during the period from 2001 to the present. Various plaintiffs who are members in our health plans seek to represent nationwide classes of our members who received services from out-of-network providers during the period from 2001 to the present. Taken together, these lawsuits allege that we violated state law, the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), the Racketeer Influenced and Corrupt Organizations Act (“RICO”) and federal antitrust laws, either acting alone or in concert with our competitors. The purported classes seek reimbursement of all unpaid benefits, recalculation and repayment of deductible and coinsurance amounts, unspecified damages and treble damages, statutory penalties, injunctive and declaratory relief, plus interest, costs and attorneys’ fees, and seek to disqualify us from acting as a fiduciary of any benefit plan that is subject to ERISA. Individual lawsuits that generally contain similar allegations and seek similar relief have been brought by health plan members and out-of-network providers.

The first class action case was commenced on July 30, 2007. The federal Judicial Panel on Multi-District Litigation (the “MDL Panel”) has consolidated these class action cases in the U.S. District Court for the District of New Jersey (the “New Jersey District Court”) under the caption In re: Aetna UCR Litigation, MDL No. 2020 (“MDL 2020”). In addition, the MDL Panel has transferred the individual lawsuits to MDL 2020. On May 9, 2011, the New Jersey District Court dismissed the physician plaintiffs from MDL 2020 without prejudice. The New Jersey District Court’s action followed a ruling by the United States District Court for the Southern District of Florida (the “Florida District Court”) that the physician plaintiffs were enjoined from participating in MDL 2020 due to a prior settlement and release. The United States Court of Appeals for the Eleventh Circuit has dismissed the physician plaintiffs’ appeal of the Florida District Court’s ruling.

On December 6, 2012, we entered into an agreement to settle MDL 2020. Under the terms of the proposed nationwide settlement, we would have been released from claims relating to our out-of-network reimbursement practices from the beginning of the applicable settlement class period through August 30, 2013. The settlement agreement did not contain an admission of wrongdoing. The medical associations were not parties to the settlement agreement.

Under the settlement agreement, we would have paid up to \$120 million to fund claims submitted by health plan members and health care providers who were members of the settlement classes. These payments also would have funded the legal fees of plaintiffs’ counsel and the costs of administering the settlement. In connection with the proposed settlement, the Company recorded an after-tax charge to net income attributable to Aetna of \$78 million in the fourth quarter of 2012.

The settlement agreement provided us the right to terminate the agreement under certain conditions related to settlement class members who opted out of the settlement. Based on a report provided to the parties by the settlement administrator, the conditions permitting us to terminate the settlement agreement were satisfied. On March 13, 2014, we notified the New Jersey District Court and plaintiffs’ counsel that we were terminating the settlement agreement. Various legal and factual developments since the date of the settlement agreement led us to believe terminating the settlement agreement was in our best interests. As a result of this termination, we released the reserve established in connection with the settlement agreement, net of amounts due to the settlement administrator, which reduced first quarter 2014 other general and administrative expenses by \$67 million (\$103 million pretax).

On June 30, 2015, the New Jersey District Court granted in part our motion to dismiss the proceeding. The New Jersey District Court dismissed with prejudice the plaintiffs' RICO and federal antitrust claims; their ERISA claims

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that are based on our disclosures and our purported breach of fiduciary duties; and certain of their state law claims. The New Jersey District Court also dismissed with prejudice all claims asserted by several medical association plaintiffs. The plaintiffs' remaining claims are for ERISA benefits and breach of contract. We intend to vigorously defend ourselves against the plaintiffs' remaining claims.

We also have received subpoenas and/or requests for documents and other information from, and been investigated by, attorneys general and other state and/or federal regulators, legislators and agencies relating to, and we are involved in other litigation regarding, our out-of-network benefit payment and administration practices. It is reasonably possible that others could initiate additional litigation or additional regulatory action against us with respect to our out-of-network benefit payment and/or administration practices.

CMS Actions

The Centers for Medicare & Medicaid Services ("CMS") regularly audits our performance to determine our compliance with CMS's regulations and our contracts with CMS and to assess the quality of services we provide to Medicare beneficiaries. CMS uses various payment mechanisms to allocate and adjust premium payments to our and other companies' Medicare plans by considering the applicable health status of Medicare members as supported by information prepared, maintained and provided by health care providers. We collect claim and encounter data from providers and generally rely on providers to appropriately code their submissions to us and document their medical records, including the diagnosis data submitted to us with claims. CMS pays increased premiums to Medicare Advantage plans and prescription drug program plans for members who have certain medical conditions identified with specific diagnosis codes. Federal regulators review and audit the providers' medical records to determine whether those records support the related diagnosis codes that determine the members' health status and the resulting risk-adjusted premium payments to us. In that regard, CMS has instituted risk adjustment data validation ("RADV") audits of various Medicare Advantage plans, including certain of the Company's plans, to validate coding practices and supporting medical record documentation maintained by health care providers and the resulting risk adjusted premium payments to the plans. CMS may require us to refund premium payments if our risk adjusted premiums are not properly supported by medical record data. The Office of Inspector General (the "OIG") also is auditing risk adjustment data of other companies, and we expect CMS and the OIG to continue auditing risk adjustment data.

CMS revised its audit methodology for RADV audits to determine refunds payable by Medicare Advantage plans for contract year 2011 and forward. Under the revised methodology, among other things, CMS will project the error rate identified in the audit sample of approximately 200 members to all risk adjusted premium payments made under the contract being audited. Historically, CMS did not project sample error rates to the entire contract. As a result, the revised methodology may increase our exposure to premium refunds to CMS based on incomplete medical records maintained by providers. Since 2013, CMS has selected certain of our Medicare Advantage contracts for contract years 2011 and 2012 for RADV audit. We are currently unable to predict which of our Medicare Advantage contracts will be selected for future audit, the amounts of any retroactive refunds of, or prospective adjustments to, Medicare Advantage premium payments made to us, the effect of any such refunds or adjustments on the actuarial soundness of our Medicare Advantage bids, or whether any RADV audit findings would cause a change to our method of estimating future premium revenue in future bid submissions to CMS or compromise premium assumptions made in our bids for prior contract years or the current contract year. Any premium or fee refunds or adjustments resulting from regulatory audits, whether as a result of RADV, Public Exchange related or other audits by CMS, the OIG, HHS or otherwise, including audits of our minimum medical loss ratio rebates, methodology and/or reports, could be material and could adversely affect our operating results, financial position and cash flows.

Other Litigation and Regulatory Proceedings

We are involved in numerous other lawsuits arising, for the most part, in the ordinary course of our business operations, including claims of or relating to bad faith, medical malpractice, non-compliance with state and federal regulatory regimes, marketing misconduct, failure to timely or appropriately pay or administer claims and benefits in

our Health Care and Group Insurance businesses (including our post-payment audit and collection practices and reductions in payments to providers due to sequestration), provider network structure (including the use of

performance-based networks and termination of provider contracts), rescission of insurance coverage, improper disclosure of personal information, anticompetitive practices, patent infringement and other intellectual property litigation, other legal proceedings in our Health Care and Group Insurance businesses and employment litigation. Some of these other lawsuits are or are purported to be class actions. We intend to vigorously defend ourselves against the claims brought in these matters.

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

In addition, our operations, current and past business practices, current and past contracts, and accounts and other books and records are subject to routine, regular and special investigations, audits, examinations and reviews by, and from time to time we receive subpoenas and other requests for information from, CMS, the U.S. Department of Health and Human Services, various state insurance and health care regulatory authorities, state attorneys general and offices of inspector general, the Center for Consumer Information and Insurance Oversight, OIG, the Office of Personnel Management, the U.S. Department of Labor, the U.S. Department of the Treasury, the U.S. Food and Drug Administration, committees, subcommittees and members of the U.S. Congress, the U.S. Department of Justice, the Federal Trade Commission, U.S. attorneys and other state, federal and international governmental authorities. These government actions include inquiries by, and testimony before, certain members, committees and subcommittees of the U.S. Congress regarding our withdrawal from certain states' Public Exchanges for 2017, certain of our current and past business practices, including our overall claims processing and payment practices, our business practices with respect to our small group products, student health products or individual customers (such as market withdrawals, rating information, premium increases and medical benefit ratios), executive compensation matters and travel and entertainment expenses, as well as the investigations by, and subpoenas and requests from, attorneys general and others described above under "Out-of-Network Benefit Proceedings."

A significant number of states are investigating life insurers' claims payment and related escheat practices. These investigations have resulted in significant charges to earnings by other life insurers in connection with related settlements. We have received requests for information from a number of states, and certain of our subsidiaries are being audited, with respect to our life insurance claim payment and related escheat practices. In the fourth quarter of 2013, we made changes to our life insurance claim payment practices (including related escheatment practices) based on evolving industry practices and regulatory expectations and interpretations, including expanding our existing use of the Social Security Administration's Death Master File to identify additional potentially unclaimed death benefits and locate applicable beneficiaries. As a result of these changes, in the fourth quarter of 2013, we increased our estimated liability for unpaid life insurance claims with respect to insureds who passed away on or before December 31, 2013, and recorded in current and future benefits a charge of \$35.7 million (\$55.0 million pretax). Given the judicial, legislative and regulatory uncertainty with respect to life insurance claim payment and related escheat practices, it is reasonably possible that we may incur additional liability related to those practices, whether as a result of further changes in our business practices, litigation, government actions or otherwise, which could adversely affect our operating results and cash flows.

There also continues to be a heightened level of review and/or audit by regulatory authorities of, and increased litigation regarding, our and the rest of the health care and related benefits industry's business and reporting practices, including premium rate increases, utilization management, development and application of medical policies, complaint, grievance and appeal processing, information privacy, provider network structure (including provider network adequacy, the use of performance-based networks and termination of provider contracts), provider directory accuracy, calculation of minimum medical loss ratios and/or payment of related rebates, delegated arrangements,

rescission of insurance coverage, limited benefit health products, student health products, pharmacy benefit management practices (including the use of narrow networks and the placement of drugs in formulary tiers), sales practices, customer service practices, vendor oversight and claim payment practices (including payments to out-of-network providers and payments on life insurance policies).

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

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

16. Segment Information

Our operations are conducted in three business segments: Health Care, Group Insurance and Large Case Pensions. Our Corporate Financing segment is not a business segment; it is added to our business segments to reconcile to our consolidated results. The Corporate Financing segment includes interest expense on our outstanding debt and the financing components of our pension and OPEB plan expense (the service cost and prior service cost components of this expense are allocated to our business segments). Non-GAAP financial measures we disclose, such as operating earnings, should not be considered a substitute for, or superior to, financial measures determined or calculated in accordance with GAAP.

Summarized financial information of our segment operations for the three and nine months ended September 30, 2016 and 2015 were as follows:

(Millions)	Health Care	Group Insurance	Large Case Pensions	Corporate Financing	Total Company
Three Months Ended September 30, 2016					
Revenue from external customers	\$ 14,949.9	\$ 563.7	\$ 14.7	\$ —	\$ 15,528.3
Operating earnings (loss) ⁽¹⁾	752.5	19.1	5.0	(42.3)	734.3
Three Months Ended September 30, 2015					
Revenue from external customers	\$ 14,202.3	\$ 557.5	\$ 13.0	\$ —	\$ 14,772.8
Operating earnings (loss) ⁽¹⁾	675.4	25.6	4.4	(36.8)	668.6
Nine Months Ended September 30, 2016					
Revenue from external customers	\$ 44,932.6	\$ 1,683.1	\$ 38.9	\$ —	\$ 46,654.6
Operating earnings (loss) ⁽¹⁾	2,365.8	90.3	9.1	(126.5)	2,338.7
Nine Months Ended September 30, 2015					
Revenue from external customers ⁽²⁾	\$ 42,904.9	\$ 1,677.6	\$ 34.9	\$ —	\$ 44,617.4
Operating earnings (loss) ⁽¹⁾	2,219.0	114.3	12.7	(111.0)	2,235.0

Explanation of Responses:

- (1) Operating earnings (loss) excludes net realized capital gains or losses, amortization of other acquired intangible assets and the other items described in the reconciliation below.
- (2) In the nine months ended September 30, 2015, we received proceeds of \$71.3 million (\$109.6 million pretax), net of legal costs, in connection with a litigation settlement. These net proceeds were recorded in fees and other revenue in our GAAP Consolidated Statements of Income.

A reconciliation of net income attributable to Aetna to operating earnings ⁽¹⁾ for the three and nine months ended September 30, 2016 and 2015 was as follows:

(Millions)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income attributable to Aetna (GAAP measure)	\$603.9	\$560.1	\$2,131.6	\$2,069.4
Transaction and integration-related costs	164.0	62.3	333.1	138.6
Reduction of reserve for anticipated future losses on discontinued products	—	—	(128.5)	—
Litigation-related proceeds	—	—	—	(109.6)
Amortization of other acquired intangible assets	61.4	65.1	187.0	192.0
Net realized capital (gains) losses	(34.8)	33.1	(85.5)	23.0
Income tax benefit	(60.2)	(52.0)	(99.0)	(78.4)
Operating earnings ⁽¹⁾	\$734.3	\$668.6	\$2,338.7	\$2,235.0

In addition to net realized capital losses and gains and amortization of other acquired intangible assets, the ⁽¹⁾ following other items are excluded from operating earnings because we believe they neither relate to the ordinary course of our business nor reflect our underlying business performance:

We incurred transaction and integration-related costs during the three and nine months ended September 30, 2016 and 2015 related to the acquisitions of Coventry and bswift LLC (“bswift”) and the Humana Acquisition. Transaction costs include advisory, legal and other professional fees which are not deductible for tax purposes and are reflected in our GAAP Consolidated Statements of Income in general and administrative expenses, as well as the cost of the Bridge Credit Agreement and the Term Loan Agreement executed in connection with the Humana Acquisition, which are reflected in our GAAP Consolidated Statements of Income in interest expense. Transaction costs also include the negative cost of carry associated with the 2016 Humana-related senior notes. Prior to the closing of the Humana Acquisition, the negative cost of carry associated with the 2016 Humana-related senior notes is excluded from operating earnings. The components of the negative cost of carry are reflected in our GAAP Consolidated Statements of Income in interest expense and net investment income. On and after the closing of the Humana Acquisition, the interest expense and net investment income associated with the 2016 Humana-related senior notes no longer will be excluded from operating earnings.

In 1993, we discontinued the sale of our fully guaranteed large case pensions products and established a reserve for anticipated future losses on these products, which we review quarterly. During the nine months ended September 30, 2016, we reduced the reserve for anticipated future losses on discontinued products. We believe excluding any changes in the reserve for anticipated future losses on discontinued products from operating earnings provides more useful information as to our continuing products and is consistent with the treatment of the operating results of these discontinued products, which are credited or charged to the reserve and do not affect our operating results. Refer to Note 18 for additional information on the reduction of the reserve for anticipated future losses on discontinued products.

In the nine months ended September 30, 2015, we received proceeds, net of legal costs, in connection with a litigation settlement. These net proceeds were recorded in fees and other revenue in our GAAP Consolidated Statements of Income.

The corresponding tax benefit or expense related to the items excluded from operating earnings discussed above. The tax benefit or expense was calculated utilizing the appropriate tax rate for each individual item excluded from operating earnings.

17. Reinsurance

In January 2016, we entered into four-year reinsurance agreements with Vitality Re VII Limited, an unrelated reinsurer. The agreements allow us to reduce our required capital and provide \$200 million of collateralized excess of loss reinsurance coverage on a portion of our group Commercial Insured Health Care business.

18. Discontinued Products

Prior to 1993, we sold single-premium annuities (“SPAs”) and guaranteed investment contracts (“GICs”), primarily to employer sponsored pension plans. In 1993, we discontinued selling these products to Large Case Pensions customers, and now we refer to these products as discontinued products.

We discontinued selling these products because they were generating losses for us, and we projected that they would continue to generate losses over their life (which is currently greater than 30 years for SPAs); so we established a reserve for anticipated future losses at the time of discontinuance. At both September 30, 2016 and December 31, 2015, our remaining GIC liability was not material. This reserve represents the present value (at the risk-free rate of return at the time of discontinuance, consistent with the duration of the liabilities) of the difference

between the expected cash flows from the assets supporting these products and the cash flows expected to be required to meet the obligations of the outstanding contracts.

Key assumptions in setting the reserve for anticipated future losses include future investment results, payments to retirees, mortality and retirement rates and the cost of asset management and customer service. In 2014, we modified the mortality tables used in order to reflect the more up-to-date 2014 Retired Pensioner's Mortality table. The mortality tables were previously modified in 2012, in order to reflect the more up-to-date 2000 Retired Pensioner's Mortality table, and in 1995, in order to reflect the more up-to-date 1994 Uninsured Pensioner's Mortality table. In 1997, we began the use of a bond default assumption to reflect historical default experience. Other than these changes, since 1993 there have been no significant changes to the assumptions underlying the reserve.

We review the adequacy of this reserve quarterly based on actual experience. As long as our expected future losses remain consistent with prior projections, the results of the discontinued products are applied against the reserve and do not impact net income attributable to Aetna. If actual or expected future losses are greater than we currently estimate, we may increase the reserve, which could adversely impact net income attributable to Aetna. If actual or expected future losses are less than we currently estimate, we may decrease the reserve, which could favorably impact net income attributable to Aetna. As a result of this review, we released \$84 million (\$129 million pretax) of the reserve in the nine months ended September 30, 2016. This reserve release was primarily due to favorable retirement experience as well as favorable investment performance compared to assumptions we previously made in estimating the reserve. The reserve at each of September 30, 2016 and December 31, 2015 reflects management's best estimate of anticipated future losses, and is included in future policy benefits on our balance sheets.

The activity in the reserve for anticipated future losses on discontinued products for the nine months ended September 30, 2016 and 2015 was as follows (pretax):

(Millions)	2016	2015
Reserve, beginning of period	\$1,067.2	\$1,014.7
Operating loss	(19.9)	(2.1)
Net realized capital gains	49.5	57.2
Reserve reduction	(128.5)	—
Reserve, end of period	\$968.3	\$1,069.8

During the nine months ended September 30, 2016, our discontinued products reflected operating losses and net realized capital gains, primarily attributable to gains from the sale of debt securities. During the nine months ended September 30, 2015, our discontinued products reflected operating losses and net realized capital gains, primarily attributable to gains from the sale of other invested assets, debt securities and investment real estate.

Assets and liabilities supporting discontinued products ⁽¹⁾ at September 30, 2016 and December 31, 2015 were as follows:

(Millions)	2016	2015
Assets:		
Debt and equity securities available for sale	\$2,082.5	\$2,019.6
Mortgage loans	378.5	396.0
Other investments	658.1	643.5
Total investments	3,119.1	3,059.1
Other assets	87.1	128.9
Current and deferred income taxes	—	20.5
Receivable from continuing products ⁽²⁾	545.2	602.0
Total assets	\$3,751.4	\$3,810.5
Liabilities:		
Future policy benefits	\$2,373.0	\$2,493.5
Reserve for anticipated future losses on discontinued products	968.3	1,067.2
Current and deferred income taxes	43.1	—
Other liabilities ⁽³⁾	367.0	249.8
Total liabilities	\$3,751.4	\$3,810.5

- (1) Assets supporting the discontinued products are distinguished from assets supporting continuing products. At the time of discontinuance, a receivable from Large Case Pensions' continuing products was established on the discontinued products balance sheet. This receivable represented the net present value of anticipated cash shortfalls in the discontinued products, which will be funded from continuing products. Interest on the receivable is accrued at the discount rate that was used to calculate the reserve. The offsetting payable, on which interest is similarly accrued, is reflected in continuing products. Interest on the payable generally offsets investment income on the assets available to fund the shortfall. These amounts are eliminated in consolidation.
- (2) Net unrealized capital gains on the available-for-sale debt securities are included in other liabilities and are not reflected in consolidated shareholders' equity.

The distributions on our discontinued products consisted of scheduled contract maturities, settlements and benefit payments of \$85 million and \$265 million for the three and nine months ended September 30, 2016, respectively, and \$89 million and \$269 million for the three and nine months ended September 30, 2015, respectively. Participant-directed withdrawals from our discontinued products were not significant during the three or nine months ended September 30, 2016 or 2015. Cash required to fund these distributions was provided by earnings and scheduled payments on, and sales of, invested assets.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Aetna Inc.:

We have reviewed the accompanying consolidated balance sheet of Aetna Inc. and subsidiaries as of September 30, 2016, the related consolidated statements of income and comprehensive income for the three and nine-month periods ended September 30, 2016 and 2015, and the related statements of shareholders' equity and cash flows for the nine-month periods ended September 30, 2016 and 2015. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Aetna Inc. and subsidiaries as of December 31, 2015, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 19, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2015, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Hartford, Connecticut

October 27, 2016

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”)

OVERVIEW

We are one of the nation’s leading diversified health care benefits companies, serving an estimated 46.7 million people with information and resources to help them in consultation with their health care professionals make better informed decisions about their health care. We offer a broad range of traditional, voluntary and consumer-directed health insurance products and related services, including medical, pharmacy, dental, behavioral health, group life and disability plans, medical management capabilities, Medicaid health care management services, Medicare Advantage and Medicare supplement plans, workers’ compensation administrative services and health information technology products and services, such as Accountable Care Solutions (“ACS”). Our customers include employer groups, individuals, college students, part-time and hourly workers, health plans, health care providers (“providers”), governmental units, government-sponsored plans, labor groups and expatriates. Our operations are conducted in three business segments: Health Care, Group Insurance and Large Case Pensions.

The following MD&A provides a review of our financial condition at September 30, 2016 and December 31, 2015 and operating results for the three and nine months ended September 30, 2016 and 2015. This Overview should be read in conjunction with the entire MD&A, which contains detailed information that is important to understanding our operating results and financial condition, the consolidated financial statements and other data presented in this Quarterly Report on Form 10-Q as well as the MD&A contained in our 2015 Annual Report on Form 10-K (the “2015 Annual Report”). This Overview is qualified in its entirety by the full MD&A.

Summarized Results for the Three and Nine Months Ended September 30, 2016 and 2015:

(Millions, except where indicated)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Total revenue	\$15,781.5	\$14,953.0	\$47,427.2	\$45,288.0
Net income attributable to Aetna	603.9	560.1	2,131.6	2,069.4
Operating earnings ⁽¹⁾	734.3	668.6	2,338.7	2,235.0
Total medical membership (in thousands)			23,121	23,506
Cash flows from operations			4,621.0	2,755.6

Our discussion of operating results for our reportable business segments is based on operating earnings, which is a non-GAAP measure of net income attributable to Aetna (the term “GAAP” refers to U.S. generally accepted ⁽¹⁾ accounting principles). Non-GAAP financial measures we disclose, such as operating earnings, should not be considered a substitute for, or superior to, financial measures determined or calculated in accordance with GAAP. Refer to “Segment Results and Use of Non-GAAP Measures in this Document” for a discussion of non-GAAP measures. Refer to Note 16 for a reconciliation of our operating earnings to net income attributable to Aetna.

Net income attributable to Aetna increased during the three and nine months ended September 30, 2016 compared to the corresponding periods in 2015 primarily due to the increase in operating earnings described below and net realized capital gains for the three and nine months ended September 30, 2016 compared with net realized capital losses for the three and nine months ended September 30, 2015, partially offset by an increase in transaction and integration-related costs in 2016. The increase for the nine months ended September 30, 2016 also reflects the favorable impact of the reduction of our reserve for anticipated future losses on discontinued products, largely offset by litigation-related proceeds recorded during the nine months ended September 30, 2015.

Operating earnings increased during the three and nine months ended September 30, 2016 compared to the corresponding periods in 2015 primarily due to higher fees and other revenue in our Health Care segment and lower

general and administrative expenses. The increase for the nine months ended September 30, 2016 was partially offset by lower underwriting margins in our Health Care segment.

Total revenue increased during the three and nine months ended September 30, 2016 compared to the corresponding periods in 2015 primarily due to higher Health Care premium yields and membership growth in our Government business, partially offset by membership losses in our Commercial Insured products.

Total medical membership at September 30, 2016 decreased compared to September 30, 2015, primarily reflecting declines in our Commercial business, partially offset by growth in our Government business. Refer to “Health Care - Membership” for additional information on our medical membership.

We continued to generate strong cash flows from operations in 2016 and 2015, generating \$4.8 billion and \$3.2 billion of cash flows from operations in our Health Care and Group Insurance businesses during the nine months ended September 30, 2016 and 2015, respectively. During 2016, these cash flows funded our ordinary course operating activities, increased cash and cash equivalents in preparation for our proposed acquisition of Humana Inc. (“Humana”) and paid cash dividends to shareholders of \$263 million.

Refer to “Liquidity and Capital Resources” and Note 13 for additional information.

2016 Outlook Update

During the remainder of 2016, we project our operating results to be impacted by lower than previously projected underwriting margins in our ACA compliant products, offset by continued strong performance in our core Health Care businesses, particularly in our Government business, and continued execution of our expense management initiatives.

In September 2016, we announced a voluntary early retirement program (the “Program”). Under the terms of the Program, eligible employees can elect early retirement during the month of October. We expect to record an expense associated with the Program in the fourth quarter of 2016.

2017 Outlook

In August 2016, we announced that we will reduce our participation on the individual public health insurance exchanges established pursuant to the ACA (“Public Exchanges”) to 242 counties for the 2017 plan year from the 778 counties we serve in the 2016 plan year. We will maintain an on-Public Exchange presence for the 2017 plan year in Delaware, Iowa, Nebraska and Virginia. The counties we plan to serve in 2017 represented approximately 20% of our individual Public Exchange membership at September 30, 2016. The projected full year 2016 premium revenue for our individual Public Exchange products in the counties we will no longer serve in the 2017 plan year is approximately \$2.7 billion. We have modified our off-Public Exchange product options for 2017 in the vast majority of counties where we offered individual Public Exchange products in 2016, which may adversely affect 2017 membership and premium in those counties.

In 2017, we project the following challenges will impact our standalone revenue:

- The reduction in our individual Public Exchange footprint and modification of our off-Public Exchange products discussed above;
- The projected impact of the suspension of the ACA’s non tax-deductible health insurer fee (the “HIF”);
- The projected impact of known Medicaid contract losses; and
- The projected impact of our continued strategy to improve margins in our ACA compliant small group products.

We also see the following opportunities in 2017:

- The projected continued above industry growth in our individual Medicare Advantage products;
- The projection that our reduced individual Public Exchange footprint will improve the financial performance of these products in 2017 as compared to 2016; and
- The projection for improved financial performance in our ACA compliant small group products in 2017 as compared to 2016.

Proposed Acquisition of Humana Inc.

On July 2, 2015, we entered into a definitive agreement (as it may be amended, the "Merger Agreement") to acquire Humana in a transaction valued at approximately \$37 billion, based on the closing price of Aetna common shares on July 2, 2015, including the assumption of Humana debt and Humana cash and cash equivalents. We expect to finance the cash portion of the purchase price of our proposed acquisition of Humana (the "Humana Acquisition") through a combination of cash on hand (including the net proceeds of the 2016 Humana-related senior notes described below) and by issuing \$3.2 billion of additional debt, including term loans and commercial paper. We made customary representations, warranties and covenants in the Merger Agreement, including, among others, a covenant, subject to certain exceptions, to conduct our business in the ordinary course between the execution of the Merger Agreement and the closing of the transaction.

On October 19, 2015, Aetna and Humana each obtained the approval of their respective shareholders necessary for the Humana Acquisition. On June 24, 2016, in accordance with the terms of the Merger Agreement, each of Aetna and Humana delivered a written notice to the other that such party had elected to extend the "End Date" (as defined in the Merger Agreement) from June 30, 2016 to December 31, 2016.

In June 2016, we issued \$13.0 billion of senior notes to partially fund the Humana acquisition (collectively, the "2016 Humana-related senior notes"). If the Humana Acquisition has not been completed by December 31, 2016 (or such later date to which the "End Date" under the Merger Agreement is extended by agreement between us and Humana) or if, prior to such date, the Merger Agreement is terminated, we must redeem \$10.2 billion aggregate principal amount of certain of the 2016 Humana-related senior notes at a redemption price equal to 101% of the aggregate principal amount of those notes plus accrued and unpaid interest and recognize the entire unamortized portion of the related cash flow hedge losses, debt issuance costs and debt issuance discounts in our net income upon such redemption.

On July 21, 2016, the U.S. Department of Justice (the "DOJ") and certain state attorneys general filed a civil complaint in the U.S. District Court for the District of Columbia against us and Humana charging that the Humana Acquisition would violate Section 7 of the Clayton Antitrust Act, and seeking a permanent injunction to prevent Aetna from acquiring Humana (the "DOJ litigation"). The trial in the DOJ litigation is scheduled to begin during December 2016 and the trial court decision in the DOJ litigation is expected in January 2017. We plan to vigorously defend the Humana Acquisition.

As of October 26, 2016, we had obtained 90% of the state change of control regulatory approvals necessary to close the Humana Acquisition.

In order to address the DOJ's perceived competitive concerns regarding Medicare Advantage, on August 2, 2016, we entered into a definitive agreement (as it may be amended, the "Aetna APA") to sell for cash to Molina Healthcare, Inc. ("Molina") certain of our Medicare Advantage assets. Also on August 2, 2016, Humana entered into a substantially identical definitive agreement (as it may be amended, the "Humana APA") to sell for cash to Molina certain of Humana's Medicare Advantage assets. The sale price under the Aetna APA is approximately \$76 million, based on the estimated membership in the plans that are involved in the transaction. We believe that taken together the divestitures contemplated by the Aetna APA and the Humana APA should address the DOJ's perceived competitive concerns regarding Medicare Advantage.

We made customary representations, warranties and covenants in the Aetna APA, including, among others, a covenant, subject to certain exceptions, to conduct our business that is involved in the transactions in the ordinary course between the execution of the Aetna APA and the closing of the transactions. In connection with the transactions contemplated by the Aetna APA, we expect to provide Molina with certain administrative services related to the Medicare Advantage plans that are involved in our divestiture transaction for a transition period following the closing. The transactions contemplated by the Aetna APA and the Humana APA remain subject to the completion of

the Humana Acquisition, the resolution of the DOJ litigation, CMS approvals and actions, and customary closing conditions, including approvals of state departments of insurance and other regulators.

The Humana Acquisition remains subject to resolution of the DOJ litigation and customary closing conditions, including approvals of state departments of insurance and other regulators, and, depending upon the resolution of the DOJ litigation, the completion of the transactions contemplated by the Aetna APA and the Humana APA. Given the uncertainty associated with the timing and resolution of the DOJ litigation and the time necessary to close the transactions contemplated by each of the Aetna APA and the Humana APA, we cannot predict when the Humana Acquisition may close. Neither the Humana Acquisition nor the transactions contemplated by the Aetna APA have been reflected in this Quarterly Report on Form 10-Q.

Refer to Notes 3, 6 and 12, respectively, and “Forward-Looking Information/Risk Factors” for additional information on the Humana Acquisition.

Health Care Reform

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (as amended collectively, the “ACA”) has changed and will continue to make broad-based changes to the U.S. health care system. We expect the ACA and changes to the ACA to continue to significantly impact our business operations and financial results, including our pricing, our medical benefit ratios (“MBRs”) and the geographies in which our products are available. The ACA presents us with business opportunities, but also with financial and regulatory challenges. Most of the key components of the ACA 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 our financial results. Certain components of the ACA will continue to be phased in until 2020.

We continue to expect the 2017 suspension of the ACA’s non tax-deductible HIF to adversely affect our 2016 operating earnings, revenues and medical benefit ratios as this change is reflected in reduced premiums for 2016 medical customer renewals that have member months in 2017. In addition, there is some uncertainty whether we will be able to include all of our portion of the industry-wide \$14.3 billion 2018 HIF in our premium rates beginning with 2017 medical customer renewals that have member months in 2018, particularly following the HIF suspension for 2017.

In September 2016, we paid \$837 million representing our portion of the non tax-deductible 2016 HIF. This fee is being recorded within operating expenses on a straight-line basis in our 2016 financial results. In aggregate, we expect our portion of the total fees, taxes and assessments imposed by the ACA to be approximately \$1 billion in 2016.

In May 2016, the U.S. District Court for the District of Columbia ruled that the U.S. Department of Health and Human Services does not have the authority to make payments under the ACA’s Cost Sharing Subsidy program. Implementation of this decision has been stayed pending appeal. Also, in May 2016, final regulations relating to the ACA’s non-discrimination requirements were issued.

It is reasonably possible that the ACA and/or changes to the ACA, in the aggregate, could continue to have a significant adverse effect on our business operations and financial results.

For additional information on the ACA, refer to “MD&A-Overview-Health Care Reform,” “MD&A-Outlook for 2016,” “Regulatory Environment” and “Forward-Looking Information/Risk Factors” in our 2015 Annual Report.

Medicare Update

On April 5, 2016, the Centers for Medicare & Medicaid Services (“CMS”) issued its Final Notice detailing final 2017 Medicare Advantage benchmark payment rates (the “Final Notice”). The Final Notice provides for rate cuts to the employer group waiver program that will begin in 2017 and be fully phased in for 2018 as well as adverse changes to the risk adjustment mechanism for dual eligible beneficiaries and the Medicare Advantage star rating program. Overall, we project the benchmark rates in the Final Notice will decrease funding for our Medicare Advantage business by less than 1 percent in 2017 compared to 2016.

The ACA ties a portion of each Medicare Advantage plan’s reimbursement to the plan’s “star ratings.” Beginning in 2015, plans must have a star rating of four or higher (out of five) to qualify for bonus payments. CMS released our 2017 star ratings in October 2016. Our 2017 star ratings will be used to determine which of our Medicare Advantage plans have ratings of four stars or higher and qualify for bonus payments in 2018. Based on our membership at September 1, 2016, 91% of our Medicare Advantage members were in plans with 2017 star ratings of at least 4.0 stars, compared to 87% of our Medicare Advantage members being in plans with 2016 star ratings of at least 4.0 stars based on our membership at September 1, 2015.

Management Update

Thomas J. Sabatino, Jr., Executive Vice President and General Counsel, joined Aetna in April 2016 and succeeded William J. Casazza who will continue to serve as a strategic advisor to Aetna in connection with the Humana Acquisition. Mr. Casazza has decided to retire upon the close of the Humana Acquisition.

Segment Results and Use of Non-GAAP Measures in this Document

The following discussion of operating results is presented based on our reportable segments in accordance with the accounting guidance for segment reporting and is consistent with our segment disclosure included in Note 16. Our operations are conducted in three business segments: Health Care, Group Insurance and Large Case Pensions. Our Corporate Financing segment is not a business segment; it is added to our business segments to reconcile our segment reporting to our consolidated results. The Corporate Financing segment includes interest expense on our outstanding debt and the financing components of our pension and other postretirement employee benefit plans (“OPEB”) expense (the service cost and prior service cost components of this expense are allocated to our business segments).

Operating earnings discussed in this quarterly report exclude from net income attributable to Aetna reported in accordance with GAAP net realized capital gains or losses, amortization of other acquired intangible assets and other items, if any, that neither relate to the ordinary course of our business nor reflect our underlying business performance. Although the excluded items may recur, we believe excluding them from net income attributable to Aetna to arrive at operating earnings provides a more useful comparison of our underlying business performance from period to period. Net realized capital gains and losses arise from various types of transactions, primarily in the course of managing a portfolio of assets that support the payment of liabilities. Amortization of other acquired intangible assets relates to our acquisition activities, including Coventry Health Care, Inc. (“Coventry”), the InterGlobal Group (“InterGlobal”) and bswift LLC (“bswift”). These transactions and amortization do not directly relate to the underwriting or servicing of products for our customers and are not directly related to the core performance of our business operations. Operating earnings is the measure reported to our Chief Executive Officer for purposes of assessing financial performance and making operating decisions, such as the allocation of resources among our business segments. In each business segment discussion in this MD&A, we provide a table that reconciles net income attributable to Aetna to operating earnings. Each table details the net realized capital gains or losses, amortization of other acquired intangible assets and any other items excluded from net income attributable to Aetna, and the footnotes to each table describe the nature of each other item and the reason we believe it is appropriate to exclude that item from net income attributable to Aetna. Non-GAAP financial measures we disclose, such as operating earnings, should not be considered a substitute for, or superior to, financial measures determined or calculated in accordance with GAAP.

HEALTH CARE

Health Care consists of medical, pharmacy benefit management services, dental, behavioral health and vision plans offered on both an Insured basis (where we assume all or a majority of the risk for medical and dental care costs) and an employer-funded basis (where the plan sponsor under an administrative services contract (“ASC”) assumes all or a majority of this risk) and emerging businesses products and services, such as Accountable Care Solutions, that complement and enhance our medical products. We also offer Medicare and Medicaid products and services and other medical products, such as medical management and data analytics services, medical stop loss insurance, workers’ compensation administrative services and products that provide access to our provider networks in select geographies. We separately track premiums and health care costs for Government businesses (which represent our combined Medicare and Medicaid products). All other medical, dental and other Health Care products are referred to as Commercial.

Operating Summary for the Three and Nine Months Ended September 30, 2016 and 2015:

(Millions)	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Premiums:				
Commercial	\$6,952.0	\$7,166.8	\$20,967.0	\$21,608.6
Government	6,572.8	5,668.0	19,656.3	17,102.8
Total premiums	13,524.8	12,834.8	40,623.3	38,711.4
Fees and other revenue	1,425.1	1,367.5	4,309.3	4,193.5
Net investment income	113.7	101.5	344.4	301.9
Net realized capital gains (losses)	26.1	(23.0)	50.5	(22.3)
Total revenue	15,089.7	14,280.8	45,327.5	43,184.5
Health care costs	11,091.8	10,409.5	33,171.6	31,146.3
Operating expenses:				
Selling expenses	376.7	361.5	1,150.0	1,123.9
General and administrative expenses	2,345.1	2,372.4	7,003.9	7,038.5
Total operating expenses	2,721.8	2,733.9	8,153.9	8,162.4
Amortization of other acquired intangible assets	61.3	65.1	186.8	191.9
Total benefits and expenses	13,874.9	13,208.5	41,512.3	39,500.6
Income before income taxes	1,214.8	1,072.3	3,815.2	3,683.9
Income taxes	533.4	484.4	1,650.2	1,615.8
Net income including non-controlling interests	681.4	587.9	2,165.0	2,068.1
Less: Net (loss) income attributable to non-controlling interests	(6.5)	2.5	(2.7)	2.2
Net income attributable to Aetna for Health Care	\$687.9	\$585.4	\$2,167.7	\$2,065.9

The table presented below reconciles net income attributable to Aetna to operating earnings ⁽¹⁾ for our Health Care segment for the three and nine months ended September 30, 2016 and 2015:

(Millions)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income attributable to Aetna for Health Care	\$687.9	\$585.4	\$2,167.7	\$2,065.9
Transaction and integration-related costs	54.3	44.0	156.0	120.3
Litigation-related proceeds	—	—	—	(109.6)
Amortization of other acquired intangible assets	61.3	65.1	186.8	191.9
Net realized capital (gains) losses	(26.1)	23.0	(50.5)	22.3
Income tax benefit	(24.9)	(42.1)	(94.2)	(71.8)
Operating earnings for Health Care	\$752.5	\$675.4	\$2,365.8	\$2,219.0

Operating earnings excludes net realized capital gains and losses, amortization of other acquired intangible assets, the other items described in the reconciliation in Note 16 and the related income tax expense or benefit. Of the total ⁽¹⁾ transaction and integration-related costs described in the reconciliation in Note 16, \$54.3 million and \$156.0 million were recorded in the Health Care segment in the three and nine months ended September 30, 2016, respectively, and \$44.0 million and \$120.3 million were recorded in the Health Care segment in the three and nine months ended September 30, 2015, respectively.

Net income attributable to Aetna for Health Care increased for both the three and nine months ended September 30, 2016 compared to the corresponding period in 2015, primarily as a result of the increase in operating earnings described below and net realized capital gains for the three and nine months ended September 30, 2016 compared with net realized capital losses for the three and nine months ended September 30, 2015. The increase for the nine months ended September 30, 2016 was partially offset by litigation-related proceeds recorded during the nine months ended September 30, 2015.

Operating earnings increased for the three and nine months ended September 30, 2016 compared to the corresponding periods in 2015, primarily due to higher underwriting margins in our Government business, higher fees and other revenue primarily due to higher average fee yields and lower general and administrative expenses. The increase for both periods was partially offset by lower underwriting margins in our Commercial business, primarily in our small group and individual Commercial products.

We calculate our medical benefit ratio (“MBR”) by dividing health care costs by health care premiums. For the three and nine months ended September 30, 2016 and 2015, our MBRs by product were:

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Commercial	83.8 %	80.7 %	81.7 %	80.0 %
Government	80.1 %	81.6 %	81.6 %	81.0 %
Total Health Care	82.0 %	81.1 %	81.7 %	80.5 %

Refer to our discussion of Commercial and Government results below for an explanation of the changes in our premiums and MBRs.

Commercial operating results for the three and nine months ended September 30, 2016 reflect a decline in membership and lower underwriting margins compared to the corresponding periods in 2015.

Commercial premiums decreased \$215 million and \$642 million for the three and nine months ended September 30, 2016, respectively, compared to the corresponding periods in 2015. The decrease during the three and nine months ended September 30, 2016 is primarily due to membership losses in our Commercial Insured products, partially offset by higher premium yields.

Our Commercial MBR increased 310 and 170 basis points for the three and nine months ended September 30, 2016, respectively, compared to the corresponding periods in 2015. The increase in our Commercial MBR for both the three and nine months ended September 30, 2016 is primarily due to higher medical costs in our ACA compliant products, including \$20 million and \$85 million premium deficiency reserves recorded during the three and nine months ended September 30, 2016, respectively, related to anticipated future losses for the 2016 coverage year in our individual Commercial products. The increase for the nine months ended September 30, 2016 is also driven by performance in our middle market Commercial products, substantially offset by a favorable update to the ACA risk adjustment estimate for our small group Commercial products in 2016 compared to the corresponding period in 2015.

Government operating results for the three and nine months ended September 30, 2016 reflect an increase in membership and higher underwriting margins compared to the corresponding periods in 2015.

Government premiums increased \$905 million and approximately \$2.6 billion for the three and nine months ended September 30, 2016, respectively, compared to the corresponding periods in 2015. The increase during the three and nine months ended September 30, 2016 is primarily as a result of membership growth in our Government business.

Our Government MBR decreased 150 basis points for the three months ended September 30, 2016 and increased 60 basis points for the nine months ended September 30, 2016, compared to the corresponding periods in 2015. The decrease in our Government MBR for the three months ended September 30, 2016 is primarily due to improved performance in our Medicare products. The increase in our Government MBR for the nine months ended September 30, 2016 is primarily due to lower favorable development of prior-period health care cost estimates in 2016.

Fees and Other Revenue

Health Care fees and other revenue increased \$58 million and \$116 million for the three and nine months ended September 30, 2016, respectively, compared to the corresponding periods in 2015. The increase during the three and nine months ended September 30, 2016 is primarily due to higher average fee yields in 2016. The increase during the nine months ended September 30, 2016 is partially offset by the nine months ended September 30, 2015 reflecting the impact of litigation-related proceeds.

Income Taxes

Our effective tax rate was 43.9 percent and 45.2 percent for the three months ended September 30, 2016 and 2015, respectively. The decrease in our effective tax rate was primarily driven by an increase in pretax earnings for the three months ended September 30, 2016 compared with 2015, while the non-deductible HIF remained relatively flat. Our effective tax rate remained relatively flat at 43.3 percent and 43.9 percent for the nine months ended September 30, 2016 and 2015, respectively.

Membership

Health Care's membership at September 30, 2016 and 2015 was:

(Thousands)	2016			2015		
	Insured	ASC	Total	Insured	ASC	Total
Medical:						
Commercial	5,596	13,064	18,660	5,889	13,614	19,503
Medicare Advantage	1,364	—	1,364	1,246	—	1,246
Medicare Supplement	667	—	667	534	—	534
Medicaid	1,629	801	2,430	1,461	762	2,223
Total Medical Membership	9,256	13,865	23,121	9,130	14,376	23,506
Dental:						
Total Dental Membership	5,940	8,393	14,333	6,215	8,428	14,643
Pharmacy:						
Commercial			9,610			10,434
Medicare PDP (stand-alone)			2,031			1,443
Medicare Advantage PDP			952			861
Medicaid			2,719			2,568
Total Pharmacy Benefit Management Services Membership			15,312			15,306

Total medical membership at September 30, 2016 decreased compared to September 30, 2015, primarily reflecting declines in our Commercial business, partially offset by growth in our Government Insured business.

Total dental membership at September 30, 2016 decreased compared to September 30, 2015, primarily reflecting declines in our Insured dental products.

Total pharmacy benefit management services membership remained relatively flat at September 30, 2016 compared to September 30, 2015, primarily reflecting growth in our Government business, substantially offset by declines in our Commercial business.

Health Care Costs Payable

The following table shows the components of the change in health care costs payable during the nine months ended September 30, 2016 and 2015:

(Millions)	2016	2015
Health care costs payable, beginning of period	\$6,305.7	\$5,621.1
Less: reinsurance recoverables	4.1	5.8
Health care costs payable, beginning of period, net	6,301.6	5,615.3
Add: Components of incurred health care costs:		
Current year	33,803.9	31,915.3
Prior years	(717.3)	(769.0)
Total incurred health care costs ⁽¹⁾	33,086.6	31,146.3
Less: Claims paid		
Current year	27,381.2	26,062.7
Prior years	5,221.6	4,554.1
Total claims paid	32,602.8	30,616.8
Health care costs payable, end of period, net	6,785.4	6,144.8
Add: premium deficiency reserve	85.0	—
Add: reinsurance recoverables	2.7	2.8
Health care costs payable, end of period	\$6,873.1	\$6,147.6

Total incurred health care costs exclude from the table above \$85 million related to the premium deficiency reserve ⁽¹⁾ recorded during the nine months ended September 30, 2016 for the 2016 coverage year on our individual Commercial products.

Our estimates of prior years' health care costs payable decreased by \$717 million and \$769 million in the nine months ended September 30, 2016 and 2015, respectively, resulting from claims being settled for amounts less than originally estimated, primarily due to lower health care cost trends than we assumed in establishing our health care costs payable in the prior years. This development does not directly correspond to an increase in our current year operating results as these reductions were offset by estimated current period health care costs when we established our estimate of current year health care costs payable.

GROUP INSURANCE

Group Insurance primarily includes group life insurance and group disability products. Group life insurance products are offered on an Insured basis. Group disability products are offered to employers on both an Insured and an ASC basis. Group Insurance also includes long-term care products that were offered primarily on an Insured basis. We no longer solicit or accept new long-term care customers.

Operating Summary for the Three and Nine Months Ended September 30, 2016 and 2015:

(Millions)	Three Months		Nine Months	
	Ended		Ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Premiums:				
Life	\$284.3	\$299.6	\$855.5	\$911.3
Disability	240.9	221.9	715.4	655.1
Long-term care	10.8	11.2	32.7	33.2
Total premiums	536.0	532.7	1,603.6	1,599.6
Fees and other revenue	27.7	24.8	79.5	78.0
Net investment income	52.4	56.6	171.9	182.4
Net realized capital gains (losses)	5.2	(4.3)	25.4	5.4
Total revenue	621.3	609.8	1,880.4	1,865.4
Current and future benefits	473.9	466.8	1,394.5	1,372.7
Operating expenses:				
Selling expenses	31.9	31.5	95.4	89.7
General and administrative expenses	88.3	83.2	261.6	252.0
Total operating expenses	120.2	114.7	357.0	341.7
Amortization of other acquired intangible assets	.1	—	.2	.1
Total benefits and expenses	594.2	581.5	1,751.7	1,714.5
Income before income taxes	27.1	28.3	128.7	150.9
Income taxes	4.7	5.5	22.0	33.2
Net income attributable to Aetna for Group Insurance	\$22.4	\$22.8	\$106.7	\$117.7

The table presented below reconciles net income attributable to Aetna to operating earnings ⁽¹⁾ for the three and nine months ended September 30, 2016 and 2015 for our Group Insurance segment:

(Millions)	Three Months		Nine Months	
	Ended		Ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Net income attributable to Aetna for Group Insurance	\$22.4	\$22.8	\$106.7	\$117.7
Amortization of other acquired intangible assets	.1	—	.2	.1
Net realized capital (gains) losses	(5.2)	4.3	(25.4)	(5.4)
Income tax expense (benefit)	1.8	(1.5)	8.8	1.9
Operating earnings for Group Insurance	\$19.1	\$25.6	\$90.3	\$114.3

(1) Operating earnings excludes net realized capital gains, amortization of other acquired intangible assets and the related income tax expense or benefit.

Net income attributable to Aetna for Group Insurance for the three months ended September 30, 2016 decreased slightly compared to 2015 primarily due to the decrease in operating earnings described below, substantially offset by net realized capital gains for the three months ended September 30, 2016 compared with net realized capital losses for the three months ended September 30, 2015. Net income attributable to Aetna for Group Insurance for the nine months ended September 30, 2016 decreased by \$11 million when compared to 2015 primarily due to the decrease in operating earnings described below, partially offset by an increase in net realized capital gains.

Operating earnings for the three and nine months ended September 30, 2016 decreased by \$7 million and \$24 million when compared to the corresponding periods in 2015, respectively. The decrease during the three months ended September 30, 2016 is primarily due to higher operating expenses and lower net investment income. The decrease during the nine months ended September 30, 2016 is primarily due to lower underwriting margins primarily in our disability products and higher operating expenses.

We calculate our group benefit ratio by dividing current and future benefits by total premiums. Our group benefit ratios were:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Group benefit ratio	88.4 %	87.6 %	87.0 %	85.8 %

Our group benefit ratio increased 80 and 120 basis points for the three and nine months ended September 30, 2016 compared to the corresponding periods in 2015, respectively, primarily due to lower underwriting margins in our disability products.

LARGE CASE PENSIONS

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. The Large Case Pensions segment includes certain discontinued products.

Operating Summary for the Three and Nine Months Ended September 30, 2016 and 2015:

(Millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Premiums	\$12.5	\$10.8	\$32.2	\$27.9
Net investment income	52.3	55.2	170.8	209.3
Other revenue	2.2	2.2	6.7	7.0
Net realized capital gains (losses)	3.5	(5.8)	9.6	(6.1)
Total revenue	70.5	62.4	219.3	238.1
Current and future benefits	61.0	62.0	194.8	223.4
General and administrative expenses	3.1	3.2	9.5	9.3
Reduction of reserve for anticipated future losses on discontinued products	—	—	(128.5)	—
Total benefits and expenses	64.1	65.2	75.8	232.7
Income (loss) before income tax (benefit) expense	6.4	(2.8)	143.5	5.4
Income tax (benefit) expense	(.6)	(3.2)	45.5	(5.0)
Net income including non-controlling interests	7.0	.4	98.0	10.4
Less: Net (loss) income attributable to non-controlling interests	(.2)	(.2)	(.8)	1.7
Net income attributable to Aetna for Large Case Pensions	\$7.2	\$.6	\$98.8	\$8.7

The table presented below reconciles net income attributable to Aetna to operating earnings ⁽¹⁾ for the three and nine months ended September 30, 2016 and 2015 for our Large Case Pensions segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2016	2015	2016	2015
Net income attributable to Aetna for Large Case Pensions	\$7.2	\$.6	\$98.8	\$8.7
Reduction of reserve for anticipated future losses on discontinued products	—	—	(128.5)	—
Net realized capital (gains) losses	(3.5)	5.8	(9.6)	6.1
Income tax expense (benefit)	1.3	(2.0)	48.4	(2.1)
Operating earnings for Large Case Pensions	\$5.0	\$4.4	\$9.1	\$12.7

⁽¹⁾ Operating earnings excludes net realized capital gains and losses, the other items described ⁽¹⁾ in the reconciliation in Note 16 and the related income tax expense or benefit.

Total revenue for the three months ended September 30, 2016 increased by \$8 million compared to the corresponding period in 2015, primarily as a result of net realized capital gains for the three months ended September 30, 2016 compared with net realized capital losses for the three months ended September 30, 2015. Total revenue for the nine months ended September 30, 2016 decreased by \$19 million compared to the corresponding period in 2015, primarily as a result of lower net investment income, partially offset by net realized capital gains for the nine months ended September 30, 2016 compared with net realized capital losses for the nine months ended September 30, 2015.

Net income attributable to Aetna for Large Case Pensions for the three and nine months ended September 30, 2016 increased by \$7 million and \$90 million when compared to the corresponding periods in 2015, respectively. The increase during the three months ended September 30, 2016 primarily reflects net realized capital gains for the three months ended September 30, 2016 compared with net realized capital losses for the three months ended September 30, 2015. The increase during the nine months ended September 30, 2016 is primarily due to the reduction of our reserve for anticipated future losses on discontinued products, which was primarily due to favorable retirement experience as well as favorable investment performance compared to assumptions we previously made in estimating the reserve.

Discontinued Products

Prior to 1993, we sold single-premium annuities (“SPAs”) and guaranteed investment contracts (“GICs”), primarily to employer sponsored pension plans. In 1993, we discontinued selling these products to Large Case Pensions customers, and now we refer to these products as discontinued products.

We discontinued selling these products because they were generating losses for us, and we projected that they would continue to generate losses over their life (which is currently greater than 30 years for SPAs); so we established a reserve for anticipated future losses at the time of discontinuance. At both September 30, 2016 and December 31, 2015, our remaining GIC liability was not material. We provide additional information on the reserve for anticipated future losses, including key assumptions and other important information, in Note 18.

The operating summary for Large Case Pensions above includes revenues and expenses related to our discontinued products, with the exception of net realized capital gains and losses which are recorded as part of current and future benefits. Since we established a reserve for anticipated future losses on discontinued products, as long as our expected future losses remain consistent with prior projections, the results of our discontinued products are applied against the reserve and do not impact net income attributable to Aetna. If actual or expected future losses are greater than we currently estimate, we may increase the reserve, which could adversely impact net income attributable to

Aetna. If actual or expected future losses are less than we currently estimate, we may decrease the reserve, which could favorably impact net income attributable to Aetna. In those cases, we disclose such adjustment separately in the operating summary. Management reviews the adequacy of the discontinued products reserve quarterly. As a result of this review, we released \$84 million (\$129 million pretax) of the reserve in the nine months ended September 30, 2016. This reserve release was primarily due to favorable retirement experience as well as

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favorable investment performance compared to assumptions we previously made in estimating the reserve. The current reserve reflects management's best estimate of anticipated future losses, and is included in future policy benefits on our balance sheets.

Refer to Note 18 for additional information on the activity in the reserve for anticipated future losses on discontinued products during the three and nine months ended September 30, 2016 and 2015.

INVESTMENTS

Our investment portfolio supported the following products at September 30, 2016 and December 31, 2015:

(Millions)	September 30, December 31,	
	2016	2015
Experience-rated products ⁽¹⁾	\$ 1,175.2	\$ 1,156.7
Discontinued products ⁽¹⁾	3,119.1	3,059.1
Remaining products	21,444.0	20,463.8
Total investments	\$ 25,738.3	\$ 24,679.6

⁽¹⁾ Investment risks associated with our experience-rated and discontinued products generally do not impact our operating results.

The risks associated with investments supporting experience-rated pension and annuity products in our Large Case Pensions business are assumed by the contract holders and not by us (subject to, among other things, certain minimum guarantees). Assets supporting experience-rated products may be subject to contract holder or participant withdrawals. Experience-rated contract holder and participant-directed withdrawals for the three and nine months ended September 30, 2016 and 2015 were as follows:

(Millions)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Scheduled contract maturities and benefit payments ⁽¹⁾	\$18.0	\$19.6	\$53.8	\$59.1
Contract holder withdrawals other than scheduled contract maturities and benefit payments	1.7	148.4	11.6	194.5
Participant-directed withdrawals	—	.8	1.0	1.9

⁽¹⁾ Includes payments made upon contract maturity and other amounts distributed in accordance with contract schedules.

Debt and Equity Securities

The debt securities in our investment portfolio had an average credit quality rating of A at both September 30, 2016 and December 31, 2015, with approximately \$5.5 billion and \$5.0 billion rated AAA at September 30, 2016 and December 31, 2015, respectively. The debt securities that were rated below investment grade (that is, having a credit quality rating below BBB-/Baa3) were \$1.7 billion and \$1.4 billion at September 30, 2016 and December 31, 2015, respectively (of which 13% at both September 30, 2016 and December 31, 2015, supported our experience-rated and discontinued products).

At September 30, 2016 and December 31, 2015, we held \$923 million and \$956 million, respectively, of municipal debt securities that were guaranteed by third parties, representing 4% of our total investments at each date. These securities had an average credit quality rating of AA at both September 30, 2016 and December 31, 2015, with the

guarantee. These securities had an average credit quality rating of A at both September 30, 2016 and December 31, 2015, without the guarantee. We do not have any significant concentration of investments with third party guarantors (either direct or indirect).

At both September 30, 2016 and December 31, 2015, less than 1% of our investment portfolio was comprised of investments that were either European sovereign, agency, or local government debt of countries which, in our judgment based on an analysis of market-yields, are experiencing economic, fiscal or political strains such that the likelihood of default may be higher than if those factors did not exist.

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Additionally, at September 30, 2016 and December 31, 2015, less than 7% of our investment portfolio was comprised of investments that have exposure to the oil and gas industry, respectively, with more than half that amount comprised of investment grade rated debt securities. These exposures are experiencing varied degrees of financial strains in the current depressed oil and gas price environment, and the likelihood of our portfolio incurring realized capital losses on these exposures may increase if such depressed prices persist and/or decline further.

We generally classify our debt and equity securities as available for sale, and carry them at fair value on our balance sheets. At both September 30, 2016 and December 31, 2015, 1% of our debt and equity securities were valued using inputs that reflect our own assumptions (categorized as Level 3 inputs in accordance with GAAP). Refer to Note 10 for additional information on the methodologies and key assumptions we use to determine the fair value of investments.

Refer to Note 7 for details related to:

- Our investment portfolio balances at September 30, 2016 and December 31, 2015;
- Gross unrealized capital gains and losses by major security type;
- Debt securities with unrealized capital losses (including the amounts related to experience-rated and discontinued products);
- Our net realized capital gains and losses; and
- Our mortgage loan portfolio.

We regularly review our debt securities to determine if a decline in fair value below the carrying value is other-than-temporary. If we determine a decline in fair value is other-than-temporary, we will write down the carrying value of the security. The amount of the credit-related impairment is included in our operating results, and the non-credit related component is included in other comprehensive income unless we intend to sell the security or it is more likely than not that we will be required to sell the debt security prior to its anticipated recovery of its amortized cost basis. Accounting for other-than-temporary impairment (“OTTI”) of our debt securities is considered a critical accounting estimate. Refer to “Critical Accounting Estimates - Other-Than-Temporary Impairment of Debt Securities” in our 2015 Annual Report for additional information.

Risk Management and Market-Sensitive Instruments

We manage interest rate risk by seeking to maintain a tight match between the durations of our assets and liabilities when appropriate. We manage credit risk by seeking to maintain high average credit quality ratings and diversified sector exposure within our debt securities portfolio. In connection with our investment and risk management objectives, we also use derivative financial instruments whose market value is at least partially determined by, among other things, levels of or changes in interest rates (short-term or long-term), duration, prepayment rates, equity markets or credit ratings/spreads. Our use of these derivatives is generally limited to hedging risk and has principally consisted of using interest rate swaps, treasury rate locks, forward contracts, futures contracts, warrants, put options and credit default swaps. These instruments, viewed separately, subject us to varying degrees of interest rate, equity price and credit risk. However, when used for hedging, we expect these instruments to reduce overall risk.

We regularly evaluate our risk from market-sensitive instruments by examining, among other things, levels of or changes in interest rates (short-term or long-term), duration, prepayment rates, equity markets or credit ratings/spreads. We also regularly evaluate the appropriateness of investments relative to our management-approved investment guidelines (and operate within those guidelines) and the business objectives of our portfolios.

On a quarterly basis, we review the impact of hypothetical net losses in our investment portfolio on our consolidated near-term financial position, operating results and cash flows assuming the occurrence of certain reasonably possible changes in near-term market rates and prices. Interest rate changes (whether resulting from changes in treasury yields

or credit spreads or other factors) represent the most material risk exposure category for us. In June 2016, we issued \$13 billion of 2016 Humana-related senior notes and invested the net proceeds in highly rated money market fund investments. We have estimated the impact on the fair value of our market sensitive

investments and our long term debt obligations based on the net present value of cash flows using a representative set of likely future interest rate scenarios. The assumptions used were as follows: an immediate increase of 100 basis points in interest rates (which we believe represents a moderately adverse scenario and is approximately equal to the historical annual volatility of interest rate movements for our intermediate-term available-for-sale debt securities) and an immediate decrease of 15% in prices for domestic equity securities.

Assuming an immediate 100 basis point increase in interest rates and immediate decrease of 15% in the prices for domestic equity securities, the theoretical decline in the fair values of our market sensitive instruments at September 30, 2016 is as follows:

The fair value of our long-term debt would decline by \$1.1 billion (\$1.7 billion pretax). Changes in the fair value of our long-term debt do not impact our financial position or operating results.

The theoretical reduction in the fair value of our investment securities partially offset by the theoretical reduction in the fair value of our interest rate sensitive liabilities would result in a net decline in fair value of \$329 million (\$506 million pretax) related to our non-experience-rated products. Reductions in the fair value of our investment securities would be reflected as an unrealized loss in equity, as we classify these securities as available for sale. We do not record our liabilities at fair value.

Based on our overall exposure to interest rate risk and equity price risk, we believe that these changes in market rates and prices would not materially affect our consolidated near-term financial position, operating results or cash flows at September 30, 2016.

Refer to the MD&A in our 2015 Annual Report for information about certain operational risks.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

We meet our operating cash requirements by maintaining liquidity in our investment portfolio, using overall cash flows from premiums, fees and other revenue, deposits and income received on investments, issuing commercial paper, taking cash advances from the Federal Home Loan Bank of Boston ("FHLBB") and entering into repurchase agreements from time to time. We monitor the duration of our investment portfolio of highly marketable debt securities and mortgage loans, and execute purchases and sales of these investments with the objective of having adequate funds available to satisfy our maturing liabilities. Overall cash flows are used primarily for claim and benefit payments, operating expenses, share and debt repurchases, repayment of debt, acquisitions, contract withdrawals, shareholder dividends and to increase cash and cash equivalents in anticipation of the Humana Acquisition. We have committed short-term borrowing capacity of \$2.0 billion through a revolving credit facility agreement that expires in March 2020.

Presented below is a condensed statement of cash flows for the nine months ended September 30, 2016 and 2015. We present net cash flows used for operating activities and net cash flows provided by investing activities separately for our Large Case Pensions segment because changes in the insurance reserves for the Large Case Pensions segment (which are reported as cash used for operating activities) are funded from the sale of investments (which are reported as cash provided by investing activities). Refer to the Consolidated Statements of Cash Flows for additional information.

(Millions)	Nine Months Ended	
	2016	2015
Cash flows from operating activities		
Health Care and Group Insurance	\$4,806.8	\$3,207.0
Large Case Pensions	(185.8)	(451.4)
Net cash provided by operating activities	4,621.0	2,755.6
Cash flows from investing activities		
Health Care and Group Insurance	(513.7)	(1,272.9)
Large Case Pensions	187.8	517.3
Net cash used for investing activities	(325.9)	(755.6)
Net cash provided by (used for) financing activities	12,246.8	(1,623.9)
Net increase in cash and cash equivalents	\$16,541.9	\$376.1

Cash Flow Analysis

Cash flows provided by operating activities for Health Care and Group Insurance were approximately \$4.8 billion and \$3.2 billion for the nine months ended September 30, 2016 and 2015, respectively. The increase in cash flows provided by operating activities for the nine months ended September 30, 2016 compared with the corresponding period in 2015 is primarily attributable to the timing of Medicare premium receipts, as we received an advanced payment associated with October 2016 in September 2016.

Cash flows used for investing activities were \$326 million and \$756 million for the nine months ended September 30, 2016 and 2015, respectively. The decrease in cash flows used for investing activities for the nine months ended September 30, 2016 compared with the corresponding period in 2015 is primarily attributable to lower net purchases of investments.

During the nine months ended September 30, 2016, cash flows provided by financing activities reflect the issuance of the 2016 Humana-related senior notes, net payments on interest rate derivatives and dividends paid to shareholders. During the nine months ended September 30, 2015, cash flows used for financing activities reflect the repayment of debt, share repurchases, settlements from repurchase agreements and dividends paid to shareholders. Refer to Note 13 for more information about dividends paid to shareholders.

Humana-Related Senior Notes; Long-Term Debt, Revolving Credit Facility; Bridge Credit Agreement; and Term Loan Agreement

In June 2016, we issued \$13 billion of 2016 Humana-related senior notes. Additionally, in connection with the closing of the 2016 Humana-related senior notes, we terminated the Bridge Credit Agreement effective June 9, 2016. Significant portions of the 2016 Humana-related senior notes are subject to mandatory redemption if the Humana Acquisition does not close. The approximately \$13 billion of net proceeds related to the issuance of the 2016 Humana-related senior notes were invested in highly rated money market fund investments classified as cash and cash equivalents on our balance sheets.

In support of our capital management goals, during 2015 we repaid maturing long-term debt and extended the maturity date of our revolving credit facility.

Refer to Notes 3, 6 and 12 for additional information on these transactions.

Cash Flow Hedges

Prior to issuing the 2016 Humana-related senior notes, we entered into various interest rate swaps and treasury rate locks that were designated as cash flow hedges against interest rate exposure related to the forecasted future issuance

of fixed-rate debt to be primarily used to finance a portion of the purchase price of the Humana Acquisition. We terminated these hedges in conjunction with the issuance of the 2016 Humana-related senior notes

and paid an aggregate of \$348 million to the hedge counterparties upon termination of these interest rate swaps and treasury rate locks.

Refer to Note 12 for additional information on these transactions.

Other Liquidity Information

From time to time, we use short-term commercial paper borrowings, repurchase agreements and cash advances from the FHLBB to address timing differences between cash receipts and disbursements. At both September 30, 2016 and December 31, 2015, we did not have any commercial paper outstanding. There were no commercial paper borrowings during the nine months ended September 30, 2016.

Our debt to capital ratio (calculated as the sum of all short- and long-term debt outstanding (“total debt”) divided by the sum of total Aetna shareholders’ equity plus total debt) was approximately 53% at September 30, 2016. At the completion of the Humana Acquisition, we currently project our debt to capital ratio will be approximately 46% as we issued \$13 billion of 2016 Humana-related senior notes and expect to issue an additional \$3.2 billion of debt, including term loans and commercial paper, to partially finance the cash portion of the purchase price. Following the announcement of the Humana Acquisition in July 2015, each of Standard & Poor’s Rating Services, A.M. Best, Fitch Ratings and Moody’s Investors Service placed certain of our debt, financial strength and other credit ratings under review for a possible downgrade. Following the issuance of the 2016 Humana-related senior notes, each of Standard & Poor’s Rating Services, A.M. Best and Moody’s Investors Service downgraded certain of our debt, financial strength and other credit ratings by one notch. Fitch Ratings is expected to take similar actions upon the completion of the Humana Acquisition. We currently project that our debt to capital ratio will decrease below 40% over the 24 months following the completion of the Humana Acquisition. We continually monitor existing and alternative financing sources to support our capital and liquidity needs, including, but not limited to, debt issuance, preferred or common stock issuance, reinsurance and pledging or selling of assets.

Interest expense was \$189 million and \$415 million for the three and nine months ended September 30, 2016, respectively, and \$98 million and \$257 million for the three and nine months ended September 30, 2015, respectively. The increase in interest expense during 2016 compared to 2015 reflects financing activity associated with the Humana Acquisition.

Refer to Notes 12 and 13 for information on our FHLBB membership and our stock-based compensation awards granted during 2016, respectively.

Contractual Obligations

The following table summarizes certain estimated future obligations by period under certain of our contractual agreements at September 30, 2016. The table below does not include all future obligations by period; it only includes those future obligations that have changed materially from those presented in our 2015 Annual Report as a result of the issuance of the 2016 Humana-related senior notes. We believe that funds from future operating cash flows, together with cash, investments and other funds available under the Facility and the Term Loan Agreement; from the FHLBB; and from public or private financing sources, will be sufficient to meet our existing commitments as well as our liquidity needs associated with future operations, including our strategic growth initiatives.

(Millions)	2016	2017-2018	2019-2020	Thereafter	Total
Long-term debt obligations, including interest	\$ 530.3	\$ 4,006.2	\$ 4,030.3	\$ 22,573.5	\$ 31,140.3

CRITICAL ACCOUNTING ESTIMATES

Refer to “Critical Accounting Estimates” in our 2015 Annual Report for information on accounting policies that we consider critical in preparing our consolidated financial statements. These policies include significant estimates we make using information available at the time the estimates are made. However, these estimates could change materially if different information or assumptions were used, and these estimates may not ultimately reflect the actual amounts that occur.

REGULATORY ENVIRONMENT

Except as described in the “Health Care Reform” section of the MD&A, there were no material changes in the regulation of our business since December 31, 2015. Refer to the “Regulatory Environment” section in our 2015 Annual Report for information on the regulation of our business.

FORWARD-LOOKING INFORMATION/RISK FACTORS

Certain information in this MD&A is forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to uncertainties that are outside our control and could cause actual future results to differ materially from those statements. You should not place undue reliance on forward-looking statements, and we disclaim any intention or obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

The following information updates and supplements the Forward Looking Information/Risk Factors section of our 2015 Annual Report. You should read that section of our 2015 Annual Report and the information below carefully because each of them contains a discussion of important risk factors that could adversely affect our business as well as the market price for our common stock.

Department of Justice Litigation

On July 21, 2016, the DOJ filed the DOJ litigation. The trial in the DOJ litigation is scheduled to begin during December 2016, and the trial court decision in the DOJ litigation is expected in January 2017. The DOJ litigation could delay the completion of the Humana Acquisition for a significant period of time. The DOJ litigation also substantially increases the risk that the Humana Acquisition will not be completed.

Among other things, if we are unable to complete the Humana Acquisition, we will have incurred substantial expenses and diverted significant management time and resources from our ongoing business, which would otherwise have been devoted to day-to-day operations and other opportunities that may have been beneficial to an independent company. In addition, we would be required to pay Humana a regulatory termination fee of \$1 billion if both (x) the Merger Agreement is terminated under any of the following circumstances:

• by Humana or Aetna because the Humana Acquisition has not been completed on or before December 31, 2016, unless that date is extended by Aetna and Humana (the “Termination Date”);

• by Humana or Aetna because there is in effect any applicable law or final and non-appealable order in respect of certain regulatory matters in the U.S. or any of its territories that prohibits the completion of the Humana Acquisition; or

• by Humana because (i) there is in effect any order in respect of certain regulatory matters that prohibits completion of the Humana Acquisition, which order has not become final and non-appealable, (ii) within 30 days after the order taking effect, Aetna has not instituted appropriate proceedings seeking to have the order terminated and (iii) Aetna’s failure to institute appropriate proceedings has not been cured within 10 days following notice to Aetna from Humana

of Humana's intent to terminate the Merger Agreement;

and (y) at the time the Merger Agreement is terminated, all of the conditions to Aetna's and its subsidiary's obligations to complete the Humana Acquisition are satisfied other than (i) the required regulatory approvals condition and (ii) the condition requiring the absence of any applicable law or order being in effect in the U.S. or

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any of its territories that prohibits the completion of the Humana Acquisition (but only if that condition is not satisfied solely due to any applicable law or final and non-appealable order in respect of certain regulatory matters).

There can be no assurance that the Humana Acquisition will be completed. Even if the Humana Acquisition is completed, a delay in completing the Humana Acquisition could cause us not to realize some or all of the benefits we expect to achieve from the transaction.

If the Humana Acquisition has not been completed by the Termination Date or if, prior to such date, the Merger Agreement is terminated, we must redeem \$10.2 billion aggregate principal amount of certain of the 2016 Humana-related senior notes at a redemption price equal to 101% of the aggregate principal amount of those notes plus accrued and unpaid interest and recognize the entire unamortized portion of the related cash flow hedge losses, debt issuance costs and debt issuance discounts in our net income upon such redemption.

For more information on the risks associated with any delay in, or the failure of, the completion of the Humana Acquisition, see the risk factors under the heading “Certain Risks Related to the Proposed Acquisition of Humana” in the Forward Looking Information/Risk Factors section of our 2015 Annual Report.

Aetna APA/Humana APA

Although we do not believe divestitures should be required to complete the Humana Acquisition, on August 2, 2016, we entered into the Aetna APA and Humana entered into the Humana APA in order to address the DOJ’s perceived competitive concerns regarding Medicare Advantage. Depending upon the resolution of the DOJ litigation, we may be required to close the transactions contemplated by the Aetna APA, and Humana may be required to close the transactions contemplated by the Humana APA, in order for us to complete the Humana Acquisition.

The closings of the transactions contemplated by the Aetna APA and the Humana APA are subject to the completion of the Humana Acquisition and the resolution of the DOJ litigation, as well as separate closing conditions included in each of the Aetna APA and the Humana APA, including CMS approval of the novation to Molina of each of the contracts to be divested under each of the Aetna APA and the Humana APA, and customary closing conditions, including approvals of state departments of insurance and other regulators. As a result, the time necessary to close the transactions contemplated by each of the Aetna APA and the Humana APA is uncertain.

Any requirement that we close the transactions contemplated by the Aetna APA and/or that Humana close the transactions contemplated by the Humana APA in order for us to complete the Humana Acquisition could delay the completion of the Humana Acquisition for a significant period of time beyond any resolution of the DOJ litigation, could extend the completion of the Humana Acquisition beyond December 31, 2016, and may increase the risk that the Humana Acquisition will not be completed.

For more information on the risks associated with any delay in, or the failure of, the completion of the Humana Acquisition, see the risk factors under the heading “Certain Risks Related to the Proposed Acquisition of Humana” in the Forward Looking Information/Risk Factors section of our 2015 Annual Report.

Unanticipated increases in our Public Exchange and other individual Commercial product and/or our ACA compliant small group Commercial product health care benefit costs could adversely affect our operating results. We project that our individual Commercial products, including our Public Exchange products, will not be profitable in 2016. There can be no assurance that our pricing or other actions will improve the profitability of our individual Commercial products, including our Public Exchange products, or our ACA compliant small group Commercial products in 2017.

Unanticipated increases in our Public Exchange and other individual Commercial product and/or our ACA compliant small group Commercial product health care benefit costs could adversely affect our operating results. We project that

our individual Commercial products, including our Public Exchange products, will not be profitable in 2016. We have set 2017 premium rates for our individual Commercial products, including our Public Exchange products, and our ACA compliant small group Commercial products based on our projections, including as to the

health status and quantity of individual and small group Commercial product membership and utilization of medical and/or other covered services by individual and small group Commercial product members. In addition, the ACA's risk management programs will provide us with less protection in 2017 than 2016. The 2017 marketplace for individual Commercial products also may be less stable than in 2016 because, among other things, other health plans have changed or stopped offering their Public Exchange products in the states we expect to serve in 2017. There can be no assurance that our pricing or other actions will improve the profitability of our individual Commercial products, including our Public Exchange products, or our ACA compliant small group Commercial products in 2017.

For more information on certain pricing and health care benefits cost risks in our Insurance Exchange products, see the risk factor "Our ability to anticipate and detect medical cost trends and achieve appropriate pricing on Insurance Exchanges could adversely affect our operating results. There can be no assurance that the future health care benefit costs of our Insurance Exchange products will not exceed our projections" in the Forward Looking Information/Risk Factors section of our 2015 Annual Report.

Risks Relating to Humana.

Following completion of the Humana Acquisition, Aetna will be subject to the risks described in (i) Part I, Item 1A of Humana's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 18, 2016, and incorporated by reference into our 2015 Annual Report; and (ii) Part II, Item 1A of Humana's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed with the SEC on August 3, 2016, incorporated by reference into this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In June 2016, we issued \$13 billion of 2016 Humana-related senior notes and invested the net proceeds in highly rated money market fund investments. Based on our overall exposure to interest rate risk and equity price risk, we believe that our assumed changes in market rates and prices would not materially affect our consolidated near-term financial position, operating results or cash flows at September 30, 2016. Refer to the information contained in the "Risk Management and Market-Sensitive Instruments" section of the MD&A for a discussion of our exposures to market risk.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures, which are designed to ensure that information that we are required to disclose in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

An evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2016 was conducted under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as of September 30, 2016 were designed to ensure that material information relating to Aetna Inc. and its consolidated subsidiaries would be made known to the Chief Executive Officer and Chief Financial Officer by others within those entities, particularly during the periods when periodic reports under the Exchange Act are being prepared and were effective. Refer to the Certifications by our Chief Executive Officer and Chief Financial Officer filed as Exhibits 31.1 and 31.2 to this report.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting identified in connection with the evaluation of such control that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

The information contained in Note 15 of Condensed Notes to Consolidated Financial Statements, is incorporated herein by reference.

Item 1A. Risk Factors

The information contained under the heading “Forward-Looking Information/Risk Factors” in the MD&A, is incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended September 30, 2016, we did not repurchase any shares of common stock. At September 30, 2016, we had remaining authorization to repurchase an aggregate of up to approximately \$1.1 billion of common stock under our November 21, 2014 and February 28, 2014 programs. Prior to the closing of the Humana Acquisition, our ability to repurchase shares of common stock will be limited. We expect to suspend our share repurchase programs for approximately six months following the closing of the transaction.

The information contained in Note 13 of Condensed Notes to Consolidated Financial Statements is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 6. Exhibits

Exhibits to this Form 10-Q are as follows:

- 11 Statement re: computation of per share earnings
- 11.1 “Computation of per share earnings” is incorporated herein by reference to Note 4 of Condensed Notes to Consolidated Financial Statements, in this Form 10-Q.
- 12 Statements re: computation of ratios
- 12.1 Computation of ratio of earnings to fixed charges.
- 15 Letter re: unaudited interim financial information
- 15.1 Letter from KPMG LLP acknowledging awareness of the use of a report dated October 27, 2016 related to their review of interim financial information.
- 31 Rule 13a-14(a)/15d-14(a) Certifications
- 31.1 Certification.
- 31.2 Certification.
- 32 Section 1350 Certifications
- 32.1 Certification.
- 32.2 Certification.
- 99 Additional Exhibits
- 99.1 Risk Factors of Humana Inc.
- 101 XBRL Documents
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase.
- 101.LAB XBRL Taxonomy Extension Label Linkbase.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase.

* Management contract or compensatory plan or arrangement.

Explanation of Responses:

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Aetna Inc.
Registrant

Date: October 27, 2016 By/s/ Sharon A. Virag
Sharon A. Virag
Vice President, Controller and
Chief Accounting Officer

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INDEX TO EXHIBITS

Exhibit Number	Description	Filing Method
12	Statements re: computation of ratios	
12.1	Computation of ratio of earnings to fixed charges.	Electronic
15	Letter re: unaudited interim financial information	
15.1	Letter from KPMG LLP acknowledging awareness of the use of a report dated October 27, 2016 related to their review of interim financial information.	Electronic
31	Rule 13a-14(a)/15d-14(a) Certifications	
31.1	Certification.	Electronic
31.2	Certification.	Electronic
32	Section 1350 Certifications	
32.1	Certification.	Electronic
32.2	Certification.	Electronic
99	Additional Exhibits	
99.1	Risk Factors of Humana Inc.	Electronic
101	XBRL Documents	
101.INS	XBRL Instance Document.	Electronic
101.SCH	XBRL Taxonomy Extension Schema.	Electronic
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.	Electronic
101.DEF	XBRL Taxonomy Extension Definition Linkbase.	Electronic
101.LAB	XBRL Taxonomy Extension Label Linkbase.	Electronic
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.	Electronic