

AETNA INC /PA/  
Form 10-Q  
October 29, 2015

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015  
or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-16095

Aetna Inc.  
(Exact name of registrant as specified in its charter)

Pennsylvania  
(State or other jurisdiction of incorporation or organization)  
151 Farmington Avenue, Hartford, CT  
(Address of principal executive offices)  
Registrant's telephone number, including area code:

23-2229683  
(I.R.S. Employer Identification No.)  
06156  
(Zip Code)  
(860) 273-0123

Former name, former address and former fiscal year, if changed since last report: N/A

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Accelerated filer ☐

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐

Yes ☐ No ☒

There were 348.7 million shares of the registrant’s voting common stock with a par value of \$.01 per share outstanding at September 30, 2015.

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Aetna Inc.  
Form 10-Q  
For the Quarterly Period Ended September 30, 2015

Unless the context otherwise requires, references to the terms “we”, “our” or “us” used throughout this Quarterly Report on Form 10-Q (except the Report of Independent Registered Public Accounting Firm on page 39), refer to Aetna Inc. (a Pennsylvania corporation) (“Aetna”) and its subsidiaries (collectively, the “Company”).

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## Part I. Financial Information

## Item 1. Financial Statements

Consolidated Statements of Income  
(Unaudited)

(Millions, except per common share data)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue:				
Health care premiums	\$12,834.8	\$12,588.4	\$38,711.4	\$36,916.2
Other premiums	543.5	538.8	1,627.5	1,652.1
Fees and other revenue <sup>(1)</sup>	1,394.5	1,337.7	4,278.5	3,876.0
Net investment income	213.3	234.6	693.6	707.1
Net realized capital (losses) gains	(33.1)	) 28.3	(23.0)	) 80.6
Total revenue	14,953.0	14,727.8	45,288.0	43,232.0
Benefits and expenses:				
Health care costs <sup>(2)</sup>	10,409.5	10,354.5	31,146.3	30,245.6
Current and future benefits	528.8	521.6	1,596.1	1,625.9
Operating expenses:				
Selling expenses	393.0	422.3	1,213.6	1,238.1
General and administrative expenses	2,437.3	2,292.4	7,235.2	6,528.2
Total operating expenses	2,830.3	2,714.7	8,448.8	7,766.3
Interest expense	96.4	80.6	253.7	247.5
Amortization of other acquired intangible assets	65.1	59.5	192.0	183.6
Loss on early extinguishment of long-term debt	—	—	—	91.9
Total benefits and expenses	13,930.1	13,730.9	41,636.9	40,160.8
Income before income taxes	1,022.9	996.9	3,651.1	3,071.2
Income taxes:				
Current	535.0	430.4	1,697.7	1,199.4
Deferred	(74.5)	) (32.3)	) (119.9)	) 56.4
Total income taxes	460.5	398.1	1,577.8	1,255.8
Net income including non-controlling interests	562.4	598.8	2,073.3	1,815.4
Less: Net income attributable to non-controlling interests	2.3	4.3	3.9	6.6
Net income attributable to Aetna	\$560.1	\$594.5	\$2,069.4	\$1,808.8
Earnings per common share:				
Basic	\$1.60	\$1.68	\$5.93	\$5.06
Diluted	\$1.59	\$1.67	\$5.87	\$5.01

Fees and other revenue include administrative services contract member co-payments and plan sponsor reimbursements related to our mail order and specialty pharmacy operations of \$31.0 million and \$83.6 million (net of pharmaceutical and processing costs of \$337.4 million and \$964.6 million) for the three and nine months ended September 30, 2015, respectively, and \$26.4 million and \$74.6 million (net of pharmaceutical and processing costs of \$323.4 million and \$914.3 million) for the three and nine months ended September 30, 2014, respectively.

(2)

Health care costs have been reduced by Insured member co-payments related to our mail order and specialty pharmacy operations of \$28.0 million and \$91.6 million for the three and nine months ended September 30, 2015, respectively, and \$25.9 million and \$83.8 million for the three and nine months ended September 30, 2014, respectively.

Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).

Page 1

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Consolidated Statements of Comprehensive Income  
(Unaudited)

(Millions)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income including non-controlling interests	\$562.4	\$598.8	\$2,073.3	\$1,815.4
Other comprehensive (loss) income, net of tax:				
Previously impaired debt securities: <sup>(1)</sup>				
Net unrealized losses				
\$(24.2), \$(6.9), \$(30.3) and \$(1.8) pretax	(15.7	) (4.5	) (19.7	) (1.2
Less: reclassification of (losses) gains to earnings				
\$(20.3), \$(2.8), \$(10.5) and \$.3 pretax	(13.2	) (1.8	) (6.8	) .2
Total previously impaired debt securities <sup>(1)</sup>	(2.5	) (2.7	) (12.9	) (1.4
All other securities:				
Net unrealized (losses) gains				
\$(42.3), \$(97.7), \$(353.1) and \$326.9 pretax	(27.5	) (63.5	) (229.5	) 212.5
Less: reclassification of (losses) gains to earnings				
\$(25.5), \$7.6, \$(64.9) and \$9.5 pretax	(16.6	) 5.0	(42.2	) 6.2
Total all other securities	(10.9	) (68.5	) (187.3	) 206.3
Foreign currency and derivatives:				
Net unrealized losses				
\$(61.1), \$(16.9), \$(55.7) and \$(55.4) pretax	(39.7	) (11.0	) (36.2	) (36.0
Less: reclassification of (losses) gains to earnings				
\$(1.5), \$(1.4), \$(4.4) and \$12.8 pretax	(1.0	) (.9	) (2.9	) 8.3
Total foreign currency and derivatives	(38.7	) (10.1	) (33.3	) (44.3
Pension and other postretirement employee benefit ("OPEB") plans:				
Less: amortization of net actuarial losses				
\$(16.0), \$(11.9), \$(48.1) and \$(35.7) pretax	(10.4	) (7.8	) (31.3	) (23.2
Less: amortization of prior service credit				
\$(1.1), \$1.1, \$3.1 and \$3.1 pretax	.7	.7	2.0	2.0
Total pension and OPEB plans	9.7	7.1	29.3	21.2
Other comprehensive (loss) income	(42.4	) (74.2	) (204.2	) 181.8
Comprehensive income including non-controlling interests	520.0	524.6	1,869.1	1,997.2
Less: Comprehensive income attributable to non-controlling interests	2.3	4.3	3.9	6.6
Comprehensive income attributable to Aetna	\$517.7	\$520.3	\$1,865.2	\$1,990.6

<sup>(1)</sup> Represents unrealized (losses) gains 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.

Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).

## Consolidated Balance Sheets

(Millions)	(Unaudited)	
	At September 30, 2015	At December 31, 2014
Assets:		
Current assets:		
Cash and cash equivalents	\$1,796.5	\$1,420.4
Investments	2,843.3	2,595.2
Premiums receivable, net	1,747.5	1,623.0
Other receivables, net	2,705.3	2,065.9
Accrued investment income	226.4	223.9
Collateral received under securities lending agreements	4.2	826.9
Income taxes receivable	—	372.7
Deferred income taxes	525.0	443.0
Other current assets	2,499.1	2,193.0
Total current assets	12,347.3	11,764.0
Long-term investments	22,067.9	22,193.9
Reinsurance recoverables	731.7	751.4
Goodwill	10,636.8	10,613.2
Other acquired intangible assets, net	1,751.6	1,948.3
Property and equipment, net	629.3	669.8
Other long-term assets	1,259.0	1,130.0
Separate Accounts assets	4,054.8	4,331.5
Total assets	\$53,478.4	\$53,402.1
Liabilities and shareholders' equity:		
Current liabilities:		
Health care costs payable	\$6,147.6	\$5,621.1
Future policy benefits	685.2	705.9
Unpaid claims	750.1	745.3
Unearned premiums	502.7	519.5
Policyholders' funds	2,228.1	1,984.5
Collateral payable under securities lending and repurchase agreements	4.2	1,028.6
Short-term debt	—	500.0
Current portion of long-term debt	—	229.3
Income taxes payable	25.0	—
Accrued expenses and other current liabilities	4,809.2	4,022.3
Total current liabilities	15,152.1	15,356.5
Future policy benefits	6,303.6	6,427.4
Unpaid claims	1,666.8	1,650.6
Policyholders' funds	934.8	1,163.2
Long-term debt, less current portion	7,834.0	7,852.0
Deferred income taxes	670.2	867.5
Other long-term liabilities	929.6	1,201.6
Separate Accounts liabilities	4,054.8	4,331.5
Total liabilities	37,545.9	38,850.3
Commitments and contingencies (Note 14)		

Shareholders' equity:

Common stock (\$.01 par value; 2.5 billion shares authorized and 348.7 million shares issued and outstanding in 2015; 2.6 billion shares authorized and 349.8 million shares issued and

outstanding in 2014) and additional paid-in capital	4,620.5	4,542.2	
Retained earnings	12,563.8	11,051.7	
Accumulated other comprehensive loss	(1,315.5	) (1,111.3	)
Total Aetna shareholders' equity	15,868.8	14,482.6	
Non-controlling interests	63.7	69.2	
Total equity	15,932.5	14,551.8	
Total liabilities and equity	\$53,478.4	\$53,402.1	

Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).



Consolidated Statements of Shareholders' Equity  
(Unaudited)

(Millions)	Number of Common Shares Outstanding	Attributable to Aetna Common		Accumulated Other Comprehensive Loss	Total Aetna Shareholders' Equity	Non-Control Interests	Total Equity
		Stock and Additional Paid-in Capital	Retained Earnings				
Nine Months Ended September 30, 2015							
Balance at December 31, 2014	349.8	\$4,542.2	\$11,051.7	\$ (1,111.3 )	\$14,482.6	\$ 69.2	\$14,551.8
Net income	—	—	2,069.4	—	2,069.4	3.9	2,073.3
Other decreases in non-controlling interest	—	—	—	—	—	(9.4 )	(9.4 )
Other comprehensive loss (Note 8)	—	—	—	(204.2 )	(204.2 )	—	(204.2 )
Common shares issued for benefit plans, including tax benefits, net of employee tax withholdings	1.9	78.4	—	—	78.4	—	78.4
Repurchases of common shares	(3.0 )	(.1 )	(296.2 )	—	(296.3 )	—	(296.3 )
Dividends declared	—	—	(261.1 )	—	(261.1 )	—	(261.1 )
Balance at September 30, 2015	348.7	\$4,620.5	\$12,563.8	\$ (1,315.5 )	\$15,868.8	\$ 63.7	\$15,932.5
Nine Months Ended September 30, 2014							
Balance at December 31, 2013	362.2	\$4,382.2	\$10,555.4	\$ (912.1 )	\$14,025.5	\$ 52.7	\$14,078.2
Net income	—	—	1,808.8	—	1,808.8	6.6	1,815.4
Other increases in non-controlling interest	—	—	—	—	—	1.9	1.9
Other comprehensive income (Note 8)	—	—	—	181.8	181.8	—	181.8
Common shares issued for benefit plans, including tax benefits, net of employee tax withholdings	2.5	119.3	—	—	119.3	—	119.3
Repurchases of common shares	(13.0 )	(.1 )	(974.9 )	—	(975.0 )	—	(975.0 )
Dividends declared	—	—	(239.2 )	—	(239.2 )	—	(239.2 )

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Balance at September 30, 2014	351.7	\$4,501.4	\$11,150.1	\$ (730.3	) \$14,921.2	\$ 61.2	\$14,982.4
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Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Cash Flows  
(Unaudited)

(Millions)	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income including non-controlling interests	\$2,073.3	\$1,815.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital losses (gains)	23.0	(80.6 )
Depreciation and amortization	499.0	467.7
Debt fair value amortization	(22.7 )	(42.9 )
Equity in earnings of affiliates, net	(34.1 )	(31.8 )
Stock-based compensation expense	138.5	124.2
Amortization of net investment premium	61.2	54.3
Loss on early extinguishment of long-term debt	—	91.9
Changes in assets and liabilities:		
Accrued investment income	(2.5 )	(6.6 )
Premiums due and other receivables	(681.6 )	(395.7 )
Income taxes	270.2	107.9
Other assets and other liabilities	95.9	194.0
Health care and insurance liabilities	337.0	784.0
Other, net	(1.6 )	(3.1 )
Net cash provided by operating activities	2,755.6	3,078.7
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	9,066.2	6,155.8
Cost of investments	(9,514.2 )	(6,946.3 )
Additions to property, equipment and software	(287.0 )	(261.1 )
Cash used for acquisitions, net of cash acquired	(20.6 )	(70.7 )
Other, net	—	10.0
Net cash used for investing activities	(755.6 )	(1,112.3 )
Cash flows from financing activities:		
Repayment of long-term debt	(228.8 )	(1,214.8 )
Issuance of long-term debt	—	741.9
Net (repayment) issuance of short-term debt	(500.0 )	75.0
Deposits and interest credited to investment contracts	3.1	3.4
Withdrawals from investment contracts	(38.6 )	(2.1 )
Common shares issued under benefit plans, net	(106.1 )	(36.0 )
Stock-based compensation tax benefits	39.1	25.7
Settlements from repurchase agreements	(201.7 )	—
Common shares repurchased	(296.3 )	(975.0 )
Dividends paid to shareholders	(261.5 )	(241.6 )
Collateral on interest rate swaps	(23.7 )	(49.9 )
(Distributions) contributions, non-controlling interests	(9.4 )	1.8
Net cash used for financing activities	(1,623.9 )	(1,671.6 )
Net increase in cash and cash equivalents	376.1	294.8
Cash and cash equivalents, beginning of period	1,420.4	1,412.3
Cash and cash equivalents, end of period	\$1,796.5	\$1,707.1
Supplemental cash flow information:		
Interest paid	\$213.0	\$260.2

Income taxes paid	1,268.1	1,122.2
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Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).

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Condensed Notes to Consolidated Financial Statements  
(Unaudited)

1. Organization

We conduct our operations in three business segments:

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 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 network in select geographies.

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.

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. Large Case Pensions also includes certain discontinued products (refer to Note 17 beginning on page 36 for additional information).

2. Summary of Significant Accounting Policies

Interim Financial Statements

These interim financial statements necessarily rely on estimates, including assumptions as to annualized tax rates. In the opinion of management, all adjustments necessary for a fair statement of results for the interim periods have been made. All such adjustments are of a normal, recurring nature. The accompanying unaudited consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes presented in our 2014 Annual Report on Form 10-K (our “2014 Annual Report”). Certain financial information that is normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), but that is not required for interim reporting purposes, has been condensed or omitted. We have omitted certain footnote disclosures that would substantially duplicate the disclosures in our 2014 Annual Report, unless the information contained in those disclosures materially changed and is required by GAAP. We evaluated subsequent events that occurred after September 30, 2015 through the date the financial statements were issued and determined there were no other items to disclose other than as disclosed in Notes 3, 7 and 11 beginning on pages 9, 17 and 26, respectively.

Reclassifications

Certain reclassifications were made to 2014 financial information to conform with the 2015 presentation.

Principles of Consolidation

The accompanying unaudited consolidated financial statements have been prepared in accordance with GAAP and include the accounts of Aetna and the subsidiaries we control. All significant intercompany balances have been eliminated in consolidation.



#### New Accounting Standards

##### Accounting for Investments in Qualified Affordable Housing Projects

Effective January 1, 2015, we were permitted to make an accounting policy election to adopt new accounting guidance relating to the recognition of amortization of investments in qualified affordable housing projects. The guidance sets forth a new method of measurement, referred to as the proportional amortization method, under which income and expense items related to qualified affordable housing projects would be recorded in the income taxes line item. We did not make the accounting policy election to adopt this new accounting guidance.

##### Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

Effective January 1, 2015, we adopted amended accounting guidance related to when an entity reports a discontinued operation in its financial position and operating results. The guidance clarifies that a discontinued operation is required to be reported if the disposal represents a significant shift that has (or will have) a major effect on an entity's operations and financial results when a component of an entity or a group of components of an entity are either classified as held for sale or are disposed of by sale. The amendments also require additional disclosures about discontinued operations. We had no discontinued operations during the three or nine months ended September 30, 2015.

##### Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures

Effective January 1, 2015, we adopted new accounting guidance related to the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. This guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings with other typical repurchase agreements, resulting in these transactions generally being accounted for as secured borrowings. The adoption of this new guidance had no impact on our financial position or operating results. The guidance also required additional disclosures about repurchase agreements and other similar transactions accounted for as secured borrowings, which we adopted effective April 1, 2015. Refer to Note 9 beginning on page 18 for additional information on these disclosures.

#### Future Application of Accounting Standards

##### Revenue from Contracts with Customers

Effective January 1, 2018, we will adopt new accounting guidance related to revenue recognition from contracts with customers. This new guidance removes most industry-specific revenue recognition requirements (insurance contracts are not covered by this guidance) and requires that an entity recognize revenue for the transfer of goods or services to a customer at an amount that reflects the consideration to which an entity expects to be entitled in exchange for the goods or services. The new guidance also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The new guidance allows an entity to adopt the standard either through a full retrospective approach or a modified retrospective approach with a cumulative effect adjustment to retained earnings. Early adoption of this new guidance is permitted as of January 1, 2017. We are still assessing the impact of this standard on our financial position and operating results in addition to evaluating the transition method we will use when we adopt this standard.

##### Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

Effective January 1, 2016, we will adopt new accounting guidance related to the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. This guidance clarifies that awards with these provisions should be treated as performance conditions that affect vesting, and do not impact the award's estimated grant-date fair value. Early adoption of this new guidance is permitted. The adoption of this new guidance will not have an impact on our financial position or operating results.

#### Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern

Effective December 31, 2016, we will adopt amended accounting guidance related to management's evaluation of whether there is substantial doubt about an entity's ability to continue as a going concern and the related disclosures. The adoption of this new guidance will not have a material impact on our financial position or operating results.



**Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity**

Effective January 1, 2016, we will adopt amended accounting guidance related to the approach used in determining whether the host contract in a hybrid financial instrument issued in the form of a share is more akin to debt or equity. Early adoption of this new guidance is permitted. The adoption of this new guidance is not expected to have a material impact on our financial position or operating results.

**Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items**

Effective January 1, 2016, we will adopt amended accounting guidance related to the presentation of extraordinary items. The amendment eliminates the concept of extraordinary items which represent events that are both unusual and infrequent. Presentation and disclosure of items that are unusual or infrequent will be retained, and will be expanded to include items that are both unusual and infrequent. The adoption of this new guidance is not expected to have a material impact on our financial position or operating results.

**Amendments to the Consolidation Analysis**

Effective January 1, 2016, we will adopt amended accounting guidance related to the evaluation of consolidation for certain legal entities. The amendment changes how a reporting entity assesses consolidation, including whether an entity is considered a variable interest entity, determination of the primary beneficiary and how related parties are considered in the analysis. Early adoption of this new guidance is permitted. The adoption of this new guidance is not expected to have a material impact on our financial position or operating results.

**Simplifying the Presentation of Debt Issuance Costs**

Effective January 1, 2016, we will adopt amended accounting guidance related to the financial statement presentation of all debt issuance costs, including those related to line-of-credit arrangements. The amendment requires debt issuance costs to be presented as a direct deduction from the carrying amount of our debt liability, consistent with the approach used for debt discounts. Entities also may make an accounting policy election to report debt issuance costs associated with line-of-credit arrangements as a direct deduction from the carrying amount of the debt liability or as an asset. Amortization of debt issuance costs will also be reported in the Statements of Income as interest expense, as opposed to general and administrative expenses. Early adoption of this new guidance is permitted. This new guidance must be applied on a full retrospective basis, with all prior periods restated for the new presentation. The adoption of this new guidance will require certain reclassifications in our financial statements and is not expected to have a material impact on our financial position or operating results.

**Customer's Accounting for Fees Paid in a Cloud Computing Arrangement**

Effective January 1, 2016, we will adopt amended accounting guidance related to the evaluation of fees paid by a customer in a cloud computing arrangement. The amendment provides additional guidance that aids in determining whether a cloud computing arrangement contains a software license. Arrangements that do not contain a software license must be accounted for as a service contract. If a software license is included in the cloud computing arrangement, the license element must be accounted for consistent with the acquisition of a software license. Early adoption of this new guidance is permitted. The adoption of this new guidance is not expected to have a material impact on our financial position or operating results.

**Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)**

Effective January 1, 2016, we will adopt amended accounting guidance related to the presentation of investments in certain entities that calculate net asset value per share. The amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Early adoption of this new guidance is permitted. This new guidance is applicable to certain of our investments that reside in our separate accounts and employee benefit plans. The adoption of this new guidance will

not have a material impact on our financial position or operating results.

#### Disclosures about Short-Duration Insurance Contracts

Effective December 31, 2016, we will adopt amended accounting guidance related to the disclosure of short-duration insurance contracts. The amendment requires insurance companies that issue short-duration contracts to include additional disclosures about those insurance liabilities, including disaggregation of certain disclosures, as appropriate. Early adoption of this new guidance is permitted. The adoption of this new guidance will not have a material impact on our financial position or operating results, however, the new guidance will require additional disclosure for our short-duration insurance liabilities that reside in our Health Care and Group Insurance segments.

#### Simplifying the Accounting for Measurement-Period Adjustments

Effective January 1, 2016, we will adopt amended accounting guidance related to the recognition of adjustments to provisional amounts that are identified during the measurement period in a business combination. The amended guidance eliminates the requirement to retrospectively account for measurement-period adjustments as part of a business combination and in turn recognize them in the period in which the adjustment was determined. The adoption of this new guidance is not expected to have a material impact on our financial position or operating results.

### 3. Proposed Acquisition

On July 2, 2015, we entered into a definitive agreement (as it may be amended, the "Merger Agreement") to acquire Humana Inc. ("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. Under the terms of the Merger Agreement, Humana stockholders will receive \$125.00 in cash and 0.8375 Aetna common shares for each Humana share.

On October 19, 2015, Aetna and Humana each obtained the approval of their respective shareholders necessary for our acquisition of Humana.

The Humana acquisition remains subject to customary closing conditions, including the expiration of the federal Hart-Scott-Rodino Antitrust Improvements Act of 1976 waiting period and approvals of state departments of insurance and other regulators, and therefore has not been reflected in these financial statements.

### 4. Earnings Per Common Share

Basic earnings per share ("EPS") is computed by dividing net income attributable to Aetna by the weighted average number of common shares outstanding during the reporting period. Diluted EPS is computed in a similar manner, except that the weighted average number of common shares outstanding is adjusted for the dilutive effects of our outstanding stock-based compensation awards, but only if the effect is dilutive.

The computations of basic and diluted EPS for the three and nine months ended September 30, 2015 and 2014 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions, except per common share data)	2015	2014	2015	2014
Net income attributable to Aetna	\$560.1	\$594.5	\$2,069.4	\$1,808.8
Weighted average shares used to compute basic EPS	349.2	353.2	349.2	357.2
Dilutive effect of outstanding stock-based compensation awards	3.3	3.6	3.3	3.5
Weighted average shares used to compute diluted EPS	352.5	356.8	352.5	360.7
Basic EPS	\$1.60	\$1.68	\$5.93	\$5.06
Diluted EPS	\$1.59	\$1.67	\$5.87	\$5.01



The stock-based compensation awards excluded from the calculation of diluted EPS for the three and nine months ended September 30, 2015 and 2014 are as follows:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Stock appreciation rights ("SARs" <sup>(1)</sup> )	.1	—	.7	.4
Other stock-based compensation awards <sup>(2)</sup>	.5	1.5	.8	1.3

(1) SARs are excluded from the calculation of diluted EPS if the exercise price is greater than the average market price of Aetna common shares during the period (i.e., the awards are anti-dilutive).

Performance stock units ("PSUs"), certain market stock units ("MSUs") with performance conditions, and  
(2) performance stock appreciation rights ("PSARs") are excluded from the calculation of diluted EPS if all necessary performance conditions have not been satisfied at the end of the reporting period.

All outstanding stock options were included in the calculation of diluted EPS for the three and nine months ended September 30, 2014. We no longer have any stock options outstanding as of September 30, 2015.

## 5. Operating Expenses

For the three and nine months ended September 30, 2015 and 2014, selling expenses (which include broker commissions, the variable component of our internal sales force compensation and premium taxes) and general and administrative expenses were as follows:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Selling expenses	\$393.0	\$422.3	\$1,213.6	\$1,238.1
General and administrative expenses:				
Salaries and related benefits	1,242.3	1,143.3	3,665.3	3,380.8
Other general and administrative expenses <sup>(1) (2)</sup>	1,195.0	1,149.1	3,569.9	3,147.4
Total general and administrative expenses <sup>(3)</sup>	2,437.3	2,292.4	7,235.2	6,528.2
Total operating expenses	\$2,830.3	\$2,714.7	\$8,448.8	\$7,766.3

- The three and nine months ended September 30, 2015 include estimated fees mandated by the ACA comprised primarily of the health insurer fee of \$209.7 million and \$642.2 million, respectively, and our estimated contribution to the funding of the ACA's reinsurance program of \$51.6 million and \$157.4 million, respectively.
- (1) The three and nine months ended September 30, 2014 include estimated fees mandated by the ACA comprised primarily of the health insurer fee of \$151.5 million and \$454.0 million, respectively, and our estimated contribution to the funding of the ACA's reinsurance program of \$80.5 million and \$251.6 million, respectively. In the year ended December 31, 2012, we recorded a charge of \$120.0 million pretax related to the settlement of purported class action litigation regarding our payment practices related to out-of-network health care providers. That charge included the estimated cost of legal fees of plaintiffs' counsel and the costs of administering the settlement.
- (2) In the nine months ended September 30, 2014, we exercised our right to terminate the settlement agreement. As a result, we released the reserve established in connection with the settlement agreement, net of amounts due to the settlement administrator, which reduced other general and administrative expenses by \$103.0 million pretax in the nine months ended September 30, 2014. Refer to Note 14 beginning on page 31 for additional information on the termination of the settlement agreement.
- (3) The three and nine months ended September 30, 2015 include \$44.0 million and \$120.3 million, respectively, of transaction and integration-related costs related to the acquisitions of Coventry Health Care, Inc. ("Coventry"), the InterGlobal group ("InterGlobal") and bswift LLC ("bswift") and the proposed acquisition of Humana. The three and

nine months ended September 30, 2014 include \$35.3 million and \$154.8 million, respectively, of transaction and integration-related costs related to the acquisitions of Coventry and InterGlobal.

Refer to the reconciliation of operating earnings to net income attributable to Aetna in Note 15 beginning on page 35 for additional information.

## 6. Investments

Total investments at September 30, 2015 and December 31, 2014 were as follows:

(Millions)	September 30, 2015			December 31, 2014		
	Current	Long-term	Total	Current	Long-term	Total
Debt and equity securities available for sale	\$2,698.6	\$18,825.4	\$21,524.0	\$2,463.8	\$18,977.9	\$21,441.7
Mortgage loans	133.9	1,455.8	1,589.7	124.2	1,438.0	1,562.2
Other investments	10.8	1,786.7	1,797.5	7.2	1,778.0	1,785.2
Total investments	\$2,843.3	\$22,067.9	\$24,911.2	\$2,595.2	\$22,193.9	\$24,789.1

At September 30, 2015, we did not have any repurchase agreements outstanding. At December 31, 2014, approximately \$202 million of investments were pledged as collateral under repurchase agreements. At September 30, 2015 and December 31, 2014, approximately \$4 million and \$798 million, respectively, of investments were pledged under securities lending agreements.

## Debt and Equity Securities

Debt and equity securities available for sale at September 30, 2015 and December 31, 2014 were as follows:

(Millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
Debt securities:				
U.S. government securities	\$1,731.8	\$93.0	\$(.4 )	\$1,824.4
States, municipalities and political subdivisions	4,710.1	226.8	(15.6 )	4,921.3
U.S. corporate securities	8,184.4	408.1	(118.3 )	8,474.2
Foreign securities	3,066.6	183.9	(54.9 )	3,195.6
Residential mortgage-backed securities	848.7	23.6	(3.0 )	869.3
Commercial mortgage-backed securities	1,260.7	31.3	(2.1 ) <sup>(1)</sup>	1,289.9
Other asset-backed securities	874.4	5.9	(11.5 ) <sup>(1)</sup>	868.8
Redeemable preferred securities	33.0	10.3	—	43.3
Total debt securities	20,709.7	982.9	(205.8 )	21,486.8
Equity securities	42.5	2.0	(7.3 )	37.2
Total debt and equity securities <sup>(2)</sup>	\$20,752.2	\$984.9	\$(213.1 )	\$21,524.0
December 31, 2014				
Debt securities:				
U.S. government securities	\$1,301.2	\$96.3	\$(.6 )	\$1,396.9
States, municipalities and political subdivisions	4,540.0	277.2	(7.8 )	4,809.4
U.S. corporate securities	8,033.2	606.8	(33.6 )	8,606.4
Foreign securities	3,343.6	267.0	(18.3 )	3,592.3
Residential mortgage-backed securities	902.7	28.9	(3.9 )	927.7
Commercial mortgage-backed securities	1,324.6	52.8	(1.6 ) <sup>(1)</sup>	1,375.8
Other asset-backed securities	644.7	5.8	(6.5 ) <sup>(1)</sup>	644.0
Redeemable preferred securities	56.8	12.5	—	69.3
Total debt securities	20,146.8	1,347.3	(72.3 )	21,421.8
Equity securities	23.3	.4	(3.8 )	19.9
Total debt and equity securities <sup>(2)</sup>	\$20,170.1	\$1,347.7	\$(76.1 )	\$21,441.7

At September 30, 2015 and December 31, 2014, we held securities for which we previously recognized \$11.9 million and \$18.6 million, respectively, of non-credit related impairments in accumulated other comprehensive loss. These securities had a net unrealized capital gain at September 30, 2015 and December 31, 2014 of \$2.4 million and \$3.6 million, respectively.

Investment risks associated with our experience-rated and discontinued products generally do not impact our operating results (refer to Note 17 beginning on page 36 for additional information on our accounting for discontinued products). At September 30, 2015, debt and equity securities with a fair value of approximately \$3.1 billion, gross unrealized capital gains of \$256.0 million and gross unrealized capital losses of \$58.8 million and, at December 31, 2014, debt and equity securities with a fair value of approximately \$3.6 billion, gross unrealized capital gains of \$391.3 million and gross unrealized capital losses of \$16.7 million were included in total debt and equity securities, but support our experience-rated and discontinued products. Changes in net unrealized capital gains (losses) on these securities are not reflected in accumulated other comprehensive income.



The fair value of debt securities at September 30, 2015 is shown below by contractual maturity. Actual maturities may differ from contractual maturities because securities may be restructured, called or prepaid.

(Millions)	Fair Value
Due to mature:	
Less than one year	\$1,320.9
One year through five years	6,076.1
After five years through ten years	5,527.1
Greater than ten years	5,534.7
Residential mortgage-backed securities	869.3
Commercial mortgage-backed securities	1,289.9
Other asset-backed securities	868.8
Total	\$21,486.8

#### Mortgage-Backed and Other Asset-Backed Securities

All of our residential mortgage-backed securities at September 30, 2015 were issued by the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation and carry agency guarantees and explicit or implicit guarantees by the U.S. Government. At September 30, 2015, our residential mortgage-backed securities had an average credit quality rating of AAA and a weighted average duration of 3.6 years.

Our commercial mortgage-backed securities have underlying loans that are dispersed throughout the United States. Significant market observable inputs used to value these securities include loss severity and probability of default. At September 30, 2015, these securities had an average credit quality rating of AA and a weighted average duration of 2.4 years.

Our other asset-backed securities have a variety of underlying collateral (e.g., automobile loans, credit card receivables, home equity loans and commercial loans). Significant market observable inputs used to value these securities include the unemployment rate, loss severity and probability of default. At September 30, 2015, these securities had an average credit quality rating of AA- and a weighted average duration of 1.2 years.

#### Unrealized Capital Losses and Net Realized Capital Gains (Losses)

When a debt or equity security is in an unrealized capital loss position, we monitor the duration and severity of the loss to determine if sufficient market recovery can occur within a reasonable period of time. We recognize an other-than-temporary impairment ("OTTI") when we intend to sell a debt security that is in an unrealized capital loss position or if we determine a credit-related loss on a debt or equity security has occurred.

Summarized below are the debt and equity securities we held at September 30, 2015 and December 31, 2014 that were in an unrealized capital loss position, aggregated by the length of time the investments have been in that position:

(Millions)	Less than 12 months		Greater than 12 months		Total <sup>(1)</sup>	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2015						
Debt securities:						
U.S. government securities	\$3.2	\$—	\$12.8	\$ .4	\$16.0	\$ .4
States, municipalities and political subdivisions	716.9	12.3	102.5	3.3	819.4	15.6
U.S. corporate securities	2,422.8	105.2	154.3	13.1	2,577.1	118.3
Foreign securities	875.4	46.2	80.2	8.7	955.6	54.9
Residential mortgage-backed securities	105.5	.7	92.7	2.3	198.2	3.0
Commercial mortgage-backed securities	221.8	1.8	23.3	.3	245.1	2.1
Other asset-backed securities	394.7	8.7	68.1	2.8	462.8	11.5
Total debt securities	4,740.3	174.9	533.9	30.9	5,274.2	205.8
Equity securities	20.8	6.4	1.3	.9	22.1	7.3
Total debt and equity securities <sup>(1)</sup>	\$4,761.1	\$181.3	\$535.2	\$31.8	\$5,296.3	\$213.1
December 31, 2014						
Debt securities:						
U.S. government securities	\$20.6	\$ .1	\$19.8	\$ .5	\$40.4	\$ .6
States, municipalities and political subdivisions	457.4	2.2	347.4	5.6	804.8	7.8
U.S. corporate securities	1,074.1	19.9	515.2	13.7	1,589.3	33.6
Foreign securities	540.0	12.8	148.0	5.5	688.0	18.3
Residential mortgage-backed securities	3.9	.1	166.9	3.8	170.8	3.9
Commercial mortgage-backed securities	181.5	.7	69.0	.9	250.5	1.6
Other asset-backed securities	373.1	6.1	21.3	.4	394.4	6.5
Redeemable preferred securities	3.0	—	—	—	3.0	—
Total debt securities	2,653.6	41.9	1,287.6	30.4	3,941.2	72.3
Equity securities	8.0	—	1.4	3.8	9.4	3.8
Total debt and equity securities <sup>(1)</sup>	\$2,661.6	\$41.9	\$1,289.0	\$34.2	\$3,950.6	\$76.1

At September 30, 2015 and December 31, 2014, debt and equity securities in an unrealized capital loss position of <sup>(1)</sup> \$58.8 million and \$16.7 million, respectively, and with related fair value of \$913.1 million and \$402.7 million, respectively, related to experience-rated and discontinued products.

We reviewed the securities in the tables above and concluded that these are performing assets generating investment income to support the needs of our business. In performing this review, we considered factors such as the quality of the investment security based on research performed by our internal credit analysts and external rating agencies and the prospects of realizing the carrying value of the security based on the investment's current prospects for recovery. At September 30, 2015, we did not intend to sell these securities, and we did not believe it was more likely than not that we would be required to sell these securities prior to anticipated recovery of their amortized cost basis.

The maturity dates for debt securities in an unrealized capital loss position at September 30, 2015 were as follows:

(Millions)	Supporting discontinued and experience-rated products		Supporting remaining products		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Due to mature:						
Less than one year	\$—	\$—	\$62.2	\$ .1	\$62.2	\$ .1
One year through five years	45.6	.7	1,042.8	16.2	1,088.4	16.9
After five years through ten years	360.2	16.1	1,359.3	55.4	1,719.5	71.5
Greater than ten years	455.6	37.4	1,042.4	63.3	1,498.0	100.7
Residential mortgage-backed securities	—	—	198.2	3.0	198.2	3.0
Commercial mortgage-backed securities	50.4	.7	194.7	1.4	245.1	2.1
Other asset-backed securities	—	—	462.8	11.5	462.8	11.5
Total	\$911.8	\$54.9	\$4,362.4	\$150.9	\$5,274.2	\$205.8

Net realized capital gains (losses) for the three and nine months ended September 30, 2015 and 2014, excluding amounts related to experience-rated contract holders and discontinued products, were as follows:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
OTTI losses on debt securities recognized in earnings	\$(21.0)	\$(3.0)	\$(31.0)	\$(3.3)
Net realized capital (losses) gains, excluding OTTI losses on debt securities	(12.1)	31.3	8.0	83.9
Net realized capital (losses) gains	\$(33.1)	\$28.3	\$(23.0)	\$80.6

The net realized capital losses for the three and nine months ended September 30, 2015 were primarily attributable to yield-related OTTI on debt securities. The net realized capital losses for the nine months ended September 30, 2015 were partially offset by gains from the sales of debt securities. The net realized capital gains for the three and nine months ended September 30, 2014 were primarily attributable to gains from the sales of debt securities. The net realized capital gains for the nine months ended September 30, 2014 were also attributable to gains from the sales of equity securities and the recognition of a gain on the termination of interest rate swaps during the first quarter of 2014.

We had no individually material realized capital losses on debt or equity securities that impacted our operating results during three or nine months ended September 30, 2015 or 2014.

Excluding amounts related to experience-rated and discontinued products, proceeds from the sale of debt securities and the related gross realized capital gains and losses for the three and nine months ended September 30, 2015 and 2014 were as follows:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Proceeds on sales	\$1,275.4	\$955.3	\$3,766.6	\$2,979.0
Gross realized capital gains	12.7	34.2	58.3	78.7
Gross realized capital losses	19.1	5.1	41.5	27.1



### Mortgage Loans

Our mortgage loans are collateralized by commercial real estate. During the three and nine months ended September 30, 2015 and 2014 we had the following activity in our mortgage loan portfolio:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
New mortgage loans	\$132.6	\$44.1	\$169.7	\$185.0
Mortgage loans fully repaid	37.1	17.3	96.1	73.9
Mortgage loans foreclosed	—	—	9.0	—

At September 30, 2015 and December 31, 2014, we had no material problem, restructured or potential problem mortgage loans. We also had no material impairment reserves on these loans at September 30, 2015 or December 31, 2014.

We assess our mortgage loans on a regular basis for credit impairments, and annually assign a credit quality indicator to each loan. Our credit quality indicator is internally developed and categorizes our portfolio on a scale from 1 to 7. Category 1 represents loans of superior quality, and Category 7 represents loans where collections are potentially at risk and may be reported as problem, restructured or potential problem loans. The vast majority of our mortgage loans fall into the Category 2 to 4 ratings. These ratings represent loans where credit risk is minimal to acceptable; however, these loans may display some susceptibility to economic changes. Categories 5 and 6 represent loans where credit risk is not substantial but these loans warrant management's close attention. These indicators are based upon several factors, including current loan to value ratios, property condition, market trends, creditworthiness of the borrower and deal structure. Based upon our most recent assessments at September 30, 2015 and December 31, 2014, our mortgage loans were given the following credit quality indicators:

(In Millions, except credit ratings indicator)	September 30, 2015	December 31, 2014
1	\$56.4	\$59.7
2 to 4	1,520.0	1,443.4
5 and 6	13.3	31.2
7	—	27.9
Total	\$1,589.7	\$1,562.2

### Variable Interest Entities

In determining whether to consolidate a variable interest entity ("VIE"), we consider several factors, including whether we have the power to direct activities, the obligation to absorb losses and the right to receive benefits that could potentially be significant to the VIE. We have relationships with certain real estate partnerships and one hedge fund partnership that are considered VIEs, but are not consolidated. We record the amount of our investment in these partnerships as long-term investments on our balance sheets and recognize our share of partnership income or losses in earnings. Our maximum exposure to loss as a result of our investment in these partnerships is our investment balance at September 30, 2015 and December 31, 2014 of approximately \$208 million and \$209 million, respectively, and the risk of recapture of tax credits related to the real estate partnerships previously recognized, which we do not consider significant. We do not have a future obligation to fund losses or debts on behalf of these investments; however, we may voluntarily contribute funds. The real estate partnerships construct, own and manage low-income housing developments and had total assets of approximately \$6.2 billion and \$5.7 billion at September 30, 2015 and December 31, 2014, respectively. The hedge fund partnership had total assets of approximately \$6.9 billion and \$7.1 billion at September 30, 2015 and December 31, 2014, respectively.



## Non-controlling (Minority) Interests

At September 30, 2015 and December 31, 2014, continuing business non-controlling interests were approximately \$64 million and \$69 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 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. Net income attributable to non-controlling interests was \$4.3 million and \$6.6 million for the three and nine months ended September 30, 2014, 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, 2015 and 2014 were as follows:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Debt securities	\$196.7	\$198.9	\$594.4	\$595.2
Mortgage loans	22.6	24.1	66.2	82.1
Other investments	4.7	22.5	67.2	57.9
Gross investment income	224.0	245.5	727.8	735.2
Investment expenses	(10.7)	(10.9)	(34.2)	(28.1)
Net investment income <sup>(1)</sup>	\$213.3	\$234.6	\$693.6	\$707.1

Net investment income includes \$50.3 million and \$191.7 million for the three and nine months ended September 30, 2015, respectively, and \$72.5 million and \$216.4 million for the three and nine months ended September 30, 2014, respectively, related to investments supporting our experience-rated and discontinued products.

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

We participate in certain public health insurance exchanges established pursuant to Health Care Reform ("Public Exchanges"). 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 certain risk management programs.

The net receivable (payable) related to the 3Rs risk management programs at September 30, 2015 and December 31, 2014 were as follows:

(Millions)	As of September 30, 2015			As of December 31, 2014		
	Reinsurance	Risk Adjustment	Risk Corridor	Reinsurance	Risk Adjustment	Risk Corridor
Current <sup>(1)</sup>	\$275.2	\$(517.8)	) \$13.5	\$337.6	\$(230.0)	) \$(9.6)
Long-term	—	—	(5.6)	—	—	—
Total net receivable (payable)	\$275.2	\$(517.8)	) \$7.9	\$337.6	\$(230.0)	) \$(9.6)

<sup>(1)</sup> As of September 30, 2015, \$26.4 million of Health Care Reform reinsurance receivables and \$27.3 million of Health Care Reform risk adjustment receivables each relate to the 2014 programs, with the remainder of the net balances related to the respective 2015 programs.

At December 31, 2014, we did not record any Health Care Reform risk corridor receivables because payments from HHS under this program were uncertain. In October 2015, HHS announced that 2014 Health Care Reform risk

corridor receivables would be funded at 12.6% to the extent HHS fully collects risk corridor payables. As a result, as of September 30, 2015, we recorded approximately \$15 million of Health Care Reform risk corridor receivables, which represents the portion of the 2014 health care reform risk corridor receivables that is considered collectible. We continue to believe that payments from HHS in excess of the prorated amount for the 2014 program year and for the 2015 program year are uncertain.



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

## 8. Other Comprehensive (Loss) Income

Shareholders' equity included the following activity in accumulated other comprehensive loss for the nine months ended September 30, 2015 and 2014:

(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, 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 )
Nine months ended September 30, 2014							
Balance at December 31, 2013	\$34.2	\$326.8	\$4	\$(1,293.8 )	\$20.3		\$(912.1 )
Other comprehensive income (loss) before reclassifications	(1.2 )	212.5	(36.0 )	—	—		175.3
Amounts reclassified from accumulated other comprehensive income	(.2 )	(2 ) (6.2 )	(2 ) (8.3 )	(3 ) 23.2	(4 ) (2.0 )	(4 )	6.5
Other comprehensive income (loss)	(1.4 )	206.3	(44.3 )	23.2	(2.0 )		181.8
Balance at September 30, 2014	\$32.8	\$533.1	\$(43.9 )	\$(1,270.6 )	\$18.3		\$(730.3 )

(1) Represents unrealized gains 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 and were not material during the nine months ended September 30, 2015 or 2014. Refer to Note 11 of Condensed Notes to Consolidated Financial Statements beginning on page 26 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 10 of Condensed Notes to Consolidated Financial Statements beginning on page 25 for additional information.

Refer to the Consolidated Statements of Comprehensive Income on page 2 for additional information regarding reclassifications out of accumulated other comprehensive income on a pretax basis.

## 9. Financial Instruments

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, 2015 or December 31, 2014.

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, 2015 or December 31, 2014. The total fair value of our broker quoted debt securities was approximately \$72 million at September 30, 2015 and \$126 million at December 31, 2014. 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 held. Our publicly-traded securities are classified in Level 1 because quoted prices are available for these securities in an active market. For privately-held 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.

Financial assets and liabilities measured at fair value on a recurring basis in our balance sheets at September 30, 2015 and December 31, 2014 were as follows:

(Millions)	Level 1	Level 2	Level 3	Total
September 30, 2015				
Assets:				
Debt securities:				
U.S. government securities	\$1,639.0	\$185.4	\$—	\$1,824.4
States, municipalities and political subdivisions	—	4,920.2	1.1	4,921.3
U.S. corporate securities	—	8,411.7	62.5	8,474.2
Foreign securities	—	3,168.6	27.0	3,195.6
Residential mortgage-backed securities	—	869.3	—	869.3
Commercial mortgage-backed securities	—	1,287.9	2.0	1,289.9
Other asset-backed securities	—	868.8	—	868.8
Redeemable preferred securities	—	39.2	4.1	43.3
Total debt securities	1,639.0	19,751.1	96.7	21,486.8
Equity securities	20.5	—	16.7	37.2
Derivatives	—	.9	—	.9
Total	\$1,659.5	\$19,752.0	\$113.4	\$21,524.9
Liabilities:				
Derivatives	\$—	\$102.7	\$—	\$102.7
December 31, 2014				
Assets:				
Debt securities:				
U.S. government securities	\$1,198.4	\$198.5	\$—	\$1,396.9
States, municipalities and political subdivisions	—	4,808.2	1.2	4,809.4
U.S. corporate securities	—	8,548.2	58.2	8,606.4
Foreign securities	—	3,560.7	31.6	3,592.3
Residential mortgage-backed securities	—	927.7	—	927.7
Commercial mortgage-backed securities	—	1,368.3	7.5	1,375.8
Other asset-backed securities	—	602.5	41.5	644.0
Redeemable preferred securities	—	65.2	4.1	69.3
Total debt securities	1,198.4	20,079.3	144.1	21,421.8
Equity securities	1.8	—	18.1	19.9
Derivatives	—	.3	—	.3
Total	\$1,200.2	\$20,079.6	\$162.2	\$21,442.0
Liabilities:				
Derivatives	\$—	\$53.4	\$—	\$53.4

There were no transfers between Levels 1 and 2 during the three or nine months ended September 30, 2015 or 2014. During the three and nine months ended September 30, 2015, we had gross transfers out of Level 3 of \$29.1 million and \$62.3 million, respectively, related to other asset-backed securities. During the three months ended September 30, 2015 there were no gross transfers into Level 3. During the nine months ended September 30, 2015, we had an immaterial amount of gross transfers into Level 3. During the three and nine months ended September 30, 2014, we had an immaterial amount of gross transfers into and out of Level 3.

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 credit worthiness 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 certain of our financial instruments at September 30, 2015 and December 31, 2014 were as follows:

(Millions)	Carrying Value	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
September 30, 2015					
Assets:					
Mortgage loans	\$1,589.7	\$—	\$—	\$1,651.8	\$1,651.8
Bank loans	191.6	—	180.1	8.9	189.0
Equity securities <sup>(1)</sup>	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	385.0	—	—	368.4	368.4
Long-term debt	7,834.0	—	8,290.7	—	8,290.7
December 31, 2014					
Assets:					
Mortgage loans	\$1,562.2	\$—	\$—	\$1,621.4	\$1,621.4
Bank loans	231.2	—	217.6	9.4	227.0
Equity securities <sup>(1)</sup>	34.9	N/A	N/A	N/A	N/A
Liabilities:					
Investment contract liabilities:					
With a fixed maturity	16.6	—	—	16.6	16.6
Without a fixed maturity	557.5	—	—	551.5	551.5
Long-term debt	8,081.3	—	8,764.8	—	8,764.8

(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 beginning on page 19. 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, 2015 and December 31, 2014 were as follows:

(Millions)	September 30, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt securities	\$761.9	\$2,348.1	\$4.1	\$3,114.1	\$876.0	\$2,495.0	\$2.9	\$3,373.9
Equity securities	169.6	5.0	—	174.6	173.3	5.7	—	179.0
Derivatives	—	(.7 )	—	(.7 )	—	.2	—	.2
Common/collective trusts	—	479.6	—	479.6	—	574.0	—	574.0
Total <sup>(1)</sup>	\$931.5	\$2,832.0	\$4.1	\$3,767.6	\$1,049.3	\$3,074.9	\$2.9	\$4,127.1

<sup>(1)</sup> Excludes \$287.2 million and \$204.4 million of cash and cash equivalents and other receivables at September 30, 2015 and December 31, 2014, respectively.

During the three and nine months ended September 30, 2015 and 2014, 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 as of September 30, 2015 and December 31, 2014 were as follows:

(Millions)	Gross Amounts of Recognized Assets <sup>(1)</sup>	Gross Amounts Not Offset in the Balance Sheets		Net Amount
		Financial Instruments	Cash Collateral Received	
September 30, 2015				
Derivatives	\$ .9	\$ 8.5	\$ —	\$ 9.4
Total	\$ .9	\$ 8.5	\$ —	\$ 9.4
December 31, 2014				
Derivatives	\$ .3	\$ 10.2	\$ —	\$ 10.5
Total	\$ .3	\$ 10.2	\$ —	\$ 10.5

<sup>(1)</sup> There were no amounts offset in our balance sheets at September 30, 2015 or December 31, 2014.



Financial liabilities, including derivative liabilities, subject to offsetting and enforceable master netting arrangements as of September 30, 2015 and December 31, 2014 were as follows:

(Millions)	Gross Amounts of Recognized Liabilities (1)	Gross Amounts Not Offset in the Balance Sheets		Net Amount
		Financial Instruments	Cash Collateral Paid	
September 30, 2015				
Derivatives	\$102.7	\$—	\$(72.7)	)\$30.0
Securities lending	4.2	(4.2)	)—	—
Total	\$106.9	\$(4.2)	\$(72.7)	)\$30.0
December 31, 2014				
Derivatives	\$53.4	\$.9	\$(49.0)	)\$5.3
Securities lending	826.9	(826.9)	)—	—
Repurchase agreements	201.7	—	—	201.7
Total	\$1,082.0	\$(826.0)	\$(49.0)	)\$207.0

(1) There were no amounts offset in our balance sheets at September 30, 2015 or December 31, 2014.

At September 30, 2015, we had an immaterial amount of investments pledged under our securities lending program, and all of our loans from our securities lending program were continuous. At September 30, 2015, we did not have any repurchase agreements outstanding.

In connection with our securities lending program, we have exposure to interest rate risk on the changes in the value of our investments pledged as collateral as well as credit risk of the borrowers. Risks associated with securities lending transactions are generally mitigated as we require borrowers to post cash collateral in an amount of 102% to 105% of the fair value of the loaned securities, and the fair value of the loaned securities is monitored on a daily basis, with additional collateral obtained or refunded as the fair value of the loaned securities fluctuates. In addition, we review and approve all borrowers and assign a dollar limit on the amount each borrower can have outstanding, and we monitor our exposure to each borrower daily.

## 10. 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, 2015 and 2014 were as follows:

(Millions)	Pension Plans				OPEB Plans			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Amortization of prior service credit	\$(.1)	) \$(.2)	) \$(.3)	) \$(.4)	) \$(1.0)	) \$(.9)	) \$(2.8)	) \$(2.7)
Interest cost	65.3	72.1	195.7	216.3	2.7	3.0	8.1	8.9
Expected return on plan assets	(104.8)	) (105.6)	) (314.3)	) (316.7)	) (.7)	) (.7)	) (2.2)	) (2.3)
Recognized net actuarial losses	15.3	11.7	46.1	35.0	.7	.2	2.0	.7
Net periodic benefit (income) cost	\$(24.3)	) \$(22.0)	) \$(72.8)	) \$(65.8)	) \$1.7	\$1.6	\$5.1	\$4.6

We do not expect to make a voluntary cash contribution to our tax-qualified noncontributory defined benefit pension plan in 2015.

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## 11. Debt

The carrying value of our long-term debt at September 30, 2015 and December 31, 2014 was as follows:

(Millions)	September 30, 2015	December 31, 2014
Senior notes, 6.125%, due 2015 <sup>(1)</sup>	\$—	\$229.3
Senior notes, 5.95%, due 2017	406.4	418.3
Senior notes, 1.75%, due 2017	249.5	249.2
Senior notes, 1.5%, due 2017	499.0	498.6
Senior notes, 2.2%, due 2019	374.7	374.7
Senior notes, 3.95%, due 2020	745.8	745.2
Senior notes, 5.45%, due 2021	678.3	688.6
Senior notes, 4.125%, due 2021	496.1	495.5
Senior notes, 2.75%, due 2022	988.0	986.8
Senior notes, 3.5%, due 2024	747.1	746.9
Senior notes, 6.625%, due 2036	769.9	769.8
Senior notes, 6.75%, due 2037	530.8	530.7
Senior notes, 4.5%, due 2042	481.3	480.8
Senior notes, 4.125%, due 2042	493.0	492.8
Senior notes, 4.75%, due 2044	374.1	374.1
Total long-term debt	7,834.0	8,081.3
Less current portion of long-term debt	—	229.3
Total long-term debt, less current portion	\$7,834.0	\$7,852.0

<sup>(1)</sup> The 6.125% senior notes were repaid in January 2015. These notes were classified as current in the consolidated balance sheet as of December 31, 2014.

At September 30, 2015, we did not have any commercial paper outstanding. At December 31, 2014, we had approximately \$500 million of commercial paper outstanding with a weighted-average interest rate of .30%.

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, 2015 was approximately \$829 million. At both September 30, 2015 and December 31, 2014, we did not have any outstanding borrowings from the FHLBB.

## Interest Rate Swaps

In September and October 2015, we entered into six interest rate swaps with an aggregate notional value of \$1.5 billion. 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 finance a portion of the purchase price of the proposed acquisition of Humana. Four of these interest rate swaps were outstanding at September 30, 2015, with a notional value of \$1.0 billion, and had a pretax fair value loss of approximately \$30 million, which was reflected net of tax in accumulated other comprehensive loss within shareholders' equity.

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 proposed acquisition of Humana 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 approximately \$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. There was no material ineffectiveness as a result of the effectiveness test completed upon de-designation.

#### 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, 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 proposed acquisition of Humana (the “Proposed 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 the purposes of determining compliance prior to the Closing Date (as defined below) with certain covenants to exclude debt incurred by us to finance the Proposed Acquisition, the other financing transactions related to the Proposed 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 Proposed Acquisition, the other financing transactions related to the Proposed 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 both 2013 and 2014, we extended the maturity date of the Facility by one year. On March 2, 2015, we extended the maturity date of the Facility by an additional year to 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, 2015. 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, 2015. There were no amounts outstanding under the Facility at any time during the nine months ended September 30, 2015 or 2014.

#### Bridge Credit Agreement

On July 30, 2015, we entered into a 364-day senior unsecured bridge credit agreement (the “Bridge Credit Agreement”) with a group of fifteen lenders. Under the Bridge Credit Agreement, we may borrow on an unsecured basis an aggregate principal amount of up to \$13.0 billion, to the extent that we have not received \$13.0 billion of net cash proceeds from issuing senior notes or from certain other transactions on or prior to the closing date of the Proposed Acquisition (the “Closing Date”). Any proceeds of the Bridge Credit Agreement are required to be used to fund the Proposed Acquisition and to pay fees and expenses in connection with the Proposed Acquisition. The lenders’ undrawn commitments under the Bridge Credit Agreement will be automatically and permanently reduced in an amount equal to, and we also will be required to make prepayments of any outstanding loans under the Bridge Credit Agreement with, the (i) net cash proceeds from the issuance of debt of Aetna or any of its subsidiaries, (ii) net cash proceeds from the issuance of equity of Aetna and (iii) net cash proceeds in excess of \$300 million we receive from non-ordinary course asset sales, in each case subject to certain exceptions. The lenders’ obligation to fund the loans

under the Bridge Credit Agreement is subject to the satisfaction of certain conditions, including the completion of the transactions contemplated by the Merger Agreement, the termination of Humana's Existing Credit Agreement and our having used commercially reasonable efforts to issue senior notes to provide funds to pay

for the cash portion of the consideration payable under the Merger Agreement, to pay Aetna's fees and expenses related to the proposed Humana acquisition and/or to refinance any loans made under the Bridge Credit Agreement. Any borrowings under the Bridge Credit Agreement mature 364 days after the Closing Date. The Bridge Credit 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 Bridge Credit Agreement). For the purposes of determining compliance prior to the Closing Date with certain covenants, total debt also excludes debt incurred by us to finance the Proposed Acquisition, the other financing transactions related to the Proposed 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 Proposed Acquisition, the other financing transactions related to the Proposed 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 Bridge Credit Agreement also contains a covenant limiting "Restricted Payments" (as defined in the Bridge Credit Agreement) by Aetna, subject to certain exceptions and baskets, including an exception permitting the payment of regular cash dividends.

Amounts outstanding under the Bridge Credit Agreement will bear interest, at our option, either (a) at the London Interbank Offered Rate ("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 1.25% per annum, respectively, and the minimum and maximum base rate margins are 0% and 0.25% per annum, respectively, provided, however, that the applicable margins will increase by 0.25% per annum on the 90th day following the Closing Date and by an additional 0.25% per annum each 90th day thereafter while loans remain outstanding under the Bridge Credit Agreement. We will also pay to each lender on each of the following dates a duration fee equal to the following applicable percentages of the aggregate principal amount of such lender's loans outstanding under the Bridge Credit Agreement on such date: (i) 90 days after the Closing Date, 0.50%; (ii) 180 days after the Closing Date, 0.75%; and (iii) 270 days after the Closing Date, 1.00%. We will also pay the lenders certain other fees. There were no amounts outstanding under the Bridge Credit Agreement at any time during the nine months ended September 30, 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, 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 Proposed Acquisition and to pay fees and expenses in connection with the Proposed 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 the purposes of determining compliance prior to the Closing Date with certain covenants, total debt also excludes debt incurred by us to finance the Proposed Acquisition, the other financing transactions related to the Proposed 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 Proposed Acquisition, the other financing transactions related to the Proposed 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.

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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, 2015.

## 12. 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. During the nine months ended September 30, 2015, we repurchased approximately 3 million shares of common stock at a cost of approximately \$296 million. We did not repurchase any shares of common stock during the three months ended September 30, 2015.

At September 30, 2015, 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.

As described above, from time to time we enter into accelerated share repurchase agreements with unrelated third party financial institutions. The number of shares repurchased under each agreement is based on the volume-weighted average price of our common stock during the purchase period. We completed the following accelerated share repurchase programs during the nine months ended September 30, 2015:

Trade Date:	Value of Repurchase Program (Millions)	Repurchase Period	Number of Shares Repurchased (Millions)
December 15, 2014	\$150.0	January and February 2015	1.6
March 2, 2015	100.0	April 2015	.9

During the nine months ended September 30, 2015 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 27, 2015	\$.25	April 9, 2015	April 24, 2015	\$87.1
May 15, 2015	.25	July 16, 2015	July 31, 2015	87.2
September 25, 2015	.25	October 15, 2015	October 30, 2015	87.2

Prior to completion of the proposed 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 proposed 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 March 2, 2015, approximately .3 million PSUs, 1.1 million restricted stock units (“RSUs”) and 1.9 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, 2015 and ends on December 31, 2017. The vesting period for the PSUs ends on March 2, 2018. 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 \$100.50 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 2015 and 2014 had an estimated fair market value of \$32.13 and \$22.68 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 2015 and 2014:

	2015	2014	
Expected term (in years)	6.48	5.72	
Volatility	33.4	% 35.8	%
Risk-free interest rate	1.81	% 1.74	%
Dividend yield	1.13	% 1.36	%
Initial price	\$100.50	\$72.26	

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 5-year and 10-year U.S. Treasury rates for each respective period. The dividend yield is based on our historical dividends in the 12 months prior to the grant date.

There were no material SARs, RSUs or PSUs granted during the three months ended September 30, 2015 or 2014.

### 13. Dividend Restrictions and Statutory Surplus

Under applicable regulatory requirements at September 30, 2015, the amount of dividends that may be paid through the end of 2015 by our insurance and HMO subsidiaries without prior approval by regulatory authorities was approximately \$849 million in the aggregate. There are no such regulatory restrictions on distributions from Aetna to its shareholders. Prior to completion of the proposed 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 Bridge Credit Agreement and Term Loan Agreement each contain 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 2015, our insurance and HMO subsidiaries paid approximately \$296 million of dividends to the Company.

The combined statutory capital and surplus of our insurance and HMO subsidiaries was \$9.7 billion and \$9.4 billion at September 30, 2015 and December 31, 2014, respectively.

#### 14. 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 Health Care Reform. 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. The state court’s 2012 order directed the Commissioner to develop a plan of rehabilitation. The Commissioner filed an initial rehabilitation plan in April 2013, and filed amended plans in August 2014 and October 2014. The state court began a hearing in July 2015, which has been adjourned until February 2016, to consider the Commissioner’s most recent proposed rehabilitation plan, which contemplates a partial liquidation of Penn Treaty. 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 the extent to which rehabilitation efforts may succeed, 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 in future reporting periods we may record a liability and expense relating to Penn Treaty or other insolvencies which could have a material adverse effect on our operating results, financial condition 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.

##### Litigation and Regulatory Proceedings

##### 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”).

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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 approximately \$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 \$67.0 million (\$103.0 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 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 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. During 2013, CMS selected certain of our Medicare Advantage contracts for contract year 2011 for audit, and during 2015, CMS selected certain of our Medicare Advantage contracts for contract year 2012 for 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 litigation related to the proposed acquisition of Humana, claims of or relating to bad faith, medical malpractice, non-compliance with state and federal regulatory regimes, marketing misconduct, failure to timely or appropriately pay or administer claims and benefits in our Health Care and Group Insurance businesses (including our post-payment audit and collection practices and reductions in payments to providers due to sequestration), provider network structure (including the use of performance-based networks and termination of provider contracts), provider directory accuracy, rescission of insurance coverage, improper disclosure of personal information, anticompetitive practices, 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, 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 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, and 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 legal 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 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, 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, 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, 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.

## 15. 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 segments for the three and nine months ended September 30, 2015 and 2014 were as follows:

(Millions)	Health Care	Group Insurance	Large Case Pensions	Corporate Financing	Total Company
Three Months Ended September 30, 2015					
Revenue from external customers	\$14,202.3	\$557.5	\$13.0	\$—	\$14,772.8
Operating earnings (loss) <sup>(1)</sup>	675.4	25.6	4.4	(36.8)	) 668.6
Three Months Ended September 30, 2014					
Revenue from external customers	\$13,898.4	\$559.5	\$7.0	\$—	\$14,464.9
Operating earnings (loss) <sup>(1)</sup>	625.6	47.9	4.9	(39.8)	) 638.6
Nine Months Ended September 30, 2015					
Revenue from external customers <sup>(2)</sup>	\$42,904.9	\$1,677.6	\$34.9	\$—	\$44,617.4
Operating earnings (loss) <sup>(1)</sup>	2,219.0	114.3	12.7	(111.0)	) 2,235.0
Nine Months Ended September 30, 2014					
Revenue from external customers	\$40,707.1	\$1,659.9	\$77.3	\$—	\$42,444.3
Operating earnings (loss) <sup>(1)</sup>	1,928.9	149.7	15.1	(123.1)	) 1,970.6

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 operating earnings <sup>(1)</sup> to net income attributable to Aetna for the three and nine months ended September 30, 2015 and 2014 was as follows:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating earnings <sup>(1)</sup>	\$668.6	\$638.6	\$2,235.0	\$1,970.6
Transaction and integration-related costs, net of tax	(44.4 )	(23.7 )	(96.5 )	(101.9 )
Litigation-related proceeds, net of tax	—	—	71.3	—
Loss on early extinguishment of long-term debt, net of tax	—	—	—	(59.7 )
Release of litigation-related reserve, net of tax	—	—	—	67.0
Amortization of other acquired intangible assets, net of tax	(42.3 )	(38.7 )	(124.8 )	(119.4 )
Net realized capital (losses) gains, net of tax	(21.8 )	18.3	(15.6 )	52.2
Net income attributable to Aetna	\$560.1	\$594.5	\$2,069.4	\$1,808.8

In addition to net realized capital gains and amortization of other acquired intangible assets, the following other <sup>(1)</sup> 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 of \$44.4 million (\$62.3 million pretax) and \$96.5 million (\$138.6 million pretax) during the three and nine months ended September 30, 2015, respectively, related to the acquisitions of Coventry, InterGlobal and bswift and the proposed acquisition of Humana, and transaction and integration-related costs of \$23.7 million (\$35.3 million pretax) and \$101.9 million (\$154.8 million pretax) during the three and nine months ended September 30, 2014, respectively, related to the acquisitions of Coventry and InterGlobal. 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, which are reflected in the GAAP Consolidated Statement of Income in interest expense.

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.

We incurred a loss on the early extinguishment of long-term debt of \$59.7 million (\$91.9 million pretax) during the nine months ended September 30, 2014 related to the redemption of our 6.0% senior notes due 2016.

We recorded a charge of \$78.0 million (\$120.0 million pretax) during the year ended December 31, 2012 related to the settlement of purported class action litigation regarding our payment practices related to out-of-network health care providers. That charge included the estimated cost of legal fees of plaintiffs' counsel and the costs of administering the settlement. During the nine months ended September 30, 2014, we exercised our right to terminate the settlement agreement. As a result, we released the reserve established in connection with the settlement agreement, net of amounts due to the settlement administrator, which reduced other general and administrative expenses by \$67.0 million (\$103.0 million pretax) in the nine months ended September 30, 2014. Refer to Note 14 beginning on page 31 for additional information on the termination of the settlement agreement.

## 16. Reinsurance

In January 2015, we entered into three-year reinsurance agreements with Vitality Re VI Limited, an unrelated insurer. The agreements allow us to reduce our required capital and provide \$200 million of collateralized excess of loss reinsurance coverage on a portion of Aetna's group Commercial Insured Health Care business. The Company's similar reinsurance agreements with Vitality Re III Limited expired in January 2015.

## 17. 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, 2015 and December 31, 2014, 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. The reserve at each of September 30, 2015 and December 31, 2014 reflects management's best estimate of anticipated future losses, and is included in future policy benefits on our balance sheet.

The activity in the reserve for anticipated future losses on discontinued products for the nine months ended September 30, 2015 and 2014 was as follows (pretax):

(Millions)	2015	2014
Reserve, beginning of period	\$1,014.7	\$979.5
Operating (losses) income	(2.1	) 3.2
Net realized capital gains	57.2	25.8
Reserve, end of period	\$1,069.8	\$1,008.5

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. During the nine months ended September 30, 2014, our discontinued products reflected operating income and net realized capital gains, primarily attributable to gains from the sale of debt securities. We evaluated these results against the expectations of future cash flows assumed in estimating the reserve for anticipated future losses and did not believe that an adjustment to the reserve was required at September 30, 2015 or 2014.

Assets and liabilities supporting discontinued products at September 30, 2015 and December 31, 2014 were as follows: <sup>(1)</sup>

(Millions)	2015	2014
Assets:		
Debt and equity securities available for sale	\$2,110.4	\$2,376.2
Mortgage loans	387.4	386.8
Other investments	679.0	662.2
Total investments	3,176.8	3,425.2
Other assets	82.0	112.9
Collateral received under securities lending agreements	—	200.7
Current and deferred income taxes	35.8	—
Receivable from continuing products <sup>(2)</sup>	592.9	566.5
Total assets	\$3,887.5	\$4,305.3
Liabilities:		
Future policy benefits	\$2,529.9	\$2,645.8
Reserve for anticipated future losses on discontinued products	1,069.8	1,014.7
Collateral payable under securities lending agreements	—	200.7
Current and deferred income taxes	—	27.9
Other liabilities <sup>(3)</sup>	287.8	416.2
Total liabilities	\$3,887.5	\$4,305.3

(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) 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.

(3) 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 \$89 million and \$269 million for the three and nine months ended September 30, 2015, respectively, and \$93 million and \$284 million for the three and nine months ended September 30, 2014, respectively. There were no material participant-directed withdrawals from our discontinued products during the three or nine months ended September 30, 2015 or 2014. 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, 2015, the related consolidated statements of income and comprehensive income for the three and nine month periods ended September 30, 2015 and 2014, and the related consolidated statements of shareholders' equity and cash flows for the nine month periods ended September 30, 2015 and 2014. 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, 2014, 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 27, 2015, 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, 2014, 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 29, 2015

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&amp;A")

## OVERVIEW

We are one of the nation's leading diversified health care benefits companies, serving an estimated 46.5 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, 2015 and December 31, 2014 and operating results for the three and nine months ended September 30, 2015 and 2014. 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 2014 Annual Report on Form 10-K (the "2014 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, 2015 and 2014:

(Millions, except where indicated)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Total revenue	\$14,953.0	\$14,727.8	\$45,288.0	\$43,232.0
Net income attributable to Aetna	560.1	594.5	2,069.4	1,808.8
Operating earnings <sup>(1)</sup>	668.6	638.6	2,235.0	1,970.6
Total medical membership (in thousands)			23,506	23,574
Cash flows from operations			2,755.6	3,078.7

Our discussion of operating results 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 accounting principles). Non-GAAP financial measures we disclose, such as operating earnings, should not be considered a substitute for, or superior to, <sup>(1)</sup> financial measures determined or calculated in accordance with GAAP. Refer to "Segment Results and Use of Non-GAAP Measures in this Document" beginning on page 42 for a discussion of non-GAAP measures. Refer to Note 15 of Condensed Notes to Consolidated Financial Statements beginning on page 35 for a reconciliation of our operating earnings to net income attributable to Aetna.

Our operating earnings increased for the three and nine months ended September 30, 2015 compared to the corresponding periods in 2014, primarily as a result of higher underwriting margins (calculated as premiums less health care costs) in our Health Care segment, partially offset by an increase in general and administrative expenses and lower underwriting margins (calculated as premiums less current and future benefits) in our Group Insurance segment.

Total revenue increased during the three and nine months ended September 30, 2015 compared to the corresponding periods in 2014 primarily due to higher Health Care premium yields as well as membership growth in our Government business, partially offset by membership losses in our group Commercial Insured products.

Total medical membership at September 30, 2015 decreased compared to September 30, 2014, primarily reflecting declines in our Commercial Insured products partially offset by growth in our Medicare, Medicaid and Commercial ASC products. Refer to “Health Care - Membership” beginning on page 46 for additional information on our medical membership.

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We continued to generate strong cash flows from operations in 2015 and 2014, generating \$3.2 billion and \$3.3 billion of cash flows from operations in our Health Care and Group Insurance businesses during the nine months ended September 30, 2015 and 2014, respectively. During 2015, these cash flows funded our ordinary course operating activities as well as the following:

- The payment of our portion of the health insurer fee of approximately \$856 million in the third quarter of 2015;
- The repayment of \$500 million of short-term debt;
- The payment of our 2014 Health Care Reform risk adjustment liability of approximately \$410 million;
- Repurchases of shares of our common stock of approximately \$296 million;
- The payment of cash dividends to shareholders of approximately \$261 million; and
- The repayment of the entire \$229 million aggregate principal amount of our 6.125% senior notes due January 2015.

Refer to “Liquidity and Capital Resources” beginning on page 52 and Note 12 of Condensed Notes to Consolidated Financial Statements on page 29 for additional information.

#### 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 Inc. (“Humana”) in a transaction valued at approximately \$37 billion. We expect the transaction to close in the second half of 2016 and to finance the cash portion of the purchase price through a combination of cash on hand and by issuing approximately \$16.2 billion of new debt, including senior notes, 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 our acquisition of Humana.

Refer to Notes 3 and 11 beginning on pages 9 and 26, respectively, and “Forward-Looking Information/Risk Factors” beginning on page 54 for additional information on the proposed acquisition of Humana.

#### Health Care Reform

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, “Health Care Reform” or “ACA”) has changed and will continue to make broad-based changes to the U.S. health care system which could significantly affect the U.S. economy and we expect will 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. Health Care Reform presents us with new business opportunities, but also with new financial and regulatory challenges. It is reasonably possible that Health Care Reform, in the aggregate, could have a material adverse effect on our business operations and financial results.

In September 2015, we paid approximately \$856 million representing our portion of the non tax-deductible health insurer fee. This fee is being recorded within operating expenses on a straight-line basis in our 2015 financial results. In aggregate, we expect our portion of the total fees, taxes and assessments imposed by Health Care Reform to be approximately \$1.1 billion in 2015.

In October 2015, HHS announced that 2014 Health Care Reform risk corridor receivables would be funded at 12.6% to the extent HHS fully collects risk corridor payables. Refer to Note 7 of Condensed Notes to Consolidated Financial Statements beginning on page 17 for additional information on the 2014 Health Care Reform risk corridor receivables.



On June 25, 2015, the U.S. Supreme Court issued a ruling which upheld the availability of federal tax credits and subsidies to individuals who purchase health insurance through public health insurance exchanges established by the federal government.

For additional information on Health Care Reform, refer to “MD&A-Overview-Health Care Reform,” “Regulatory Environment” and “Forward-Looking Information/Risk Factors” in our 2014 Annual Report.

#### Medicare Update

On April 6, 2015, the Centers for Medicare & Medicaid Services (“CMS”) issued its Final Notice detailing final 2016 Medicare Advantage benchmark payment rates (the “Final Notice”). We project the benchmark rates in the Final Notice will increase funding for our Medicare Advantage business by approximately 1% in 2016 compared to 2015.

Health Care Reform 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 2016 star ratings in October 2015. Our 2016 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 2017. Our enrollment weighted average 2016 and 2015 star ratings are 4.2 and 4.0, respectively. Based on our membership as of September 1, 2015, 87% of our Medicare Advantage members were in plans with 2016 star ratings of at least 4.0 stars, compared to 79% of our Medicare Advantage members being in plans with 2015 star ratings of at least 4.0 stars based on our membership at September 1, 2014.

#### Management Updates

Sharon A. Virag, Vice President, Controllor and Chief Accounting Officer, joined Aetna in June 2015 and succeeded Rajan Parmeswar when he left the company in July 2015.

On September 30, 2015, we announced the following changes:

• Joseph M. Zubretsky, Senior Executive Vice President, Healthagen, will be leaving Aetna effective March 3, 2016.

• Gary Loveman, Ph.D, will be joining Aetna as Executive Vice President and President of Healthagen®.

• Rick Jelinek will be joining Aetna as Executive Vice President, Humana Integration, responsible for the Aetna-Humana integration and Aetna’s enterprise strategy.

#### 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 15 of Condensed Notes to Consolidated Financial Statements beginning on page 35. 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).

Our discussion of operating results is based on operating earnings. Operating earnings 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 operating earnings to net income attributable to Aetna. 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 why 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 and an ASC basis and Healthagen® products and services, such as ACS, 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 represents our combined Medicare and Medicaid products). All other medical, dental and other Health Care products are referred to as Commercial. We refer to insurance products (where we assume all or a majority of the risk for medical and dental care costs) as "Insured" and administrative services contract products (where the plan sponsor assumes all or a majority of the risk for medical and dental care costs) as "ASC."

### Operating Summary for the Three and Nine Months Ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Millions)	2015	2014	2015	2014
Premiums:				
Commercial	\$7,166.8	\$7,268.9	\$21,608.6	\$21,279.0
Government	5,668.0	5,319.5	17,102.8	15,637.2
Total premiums	12,834.8	12,588.4	38,711.4	36,916.2
Fees and other revenue	1,367.5	1,310.0	4,193.5	3,790.9
Net investment income	101.5	93.4	301.9	269.0
Net realized capital (losses) gains	(23.0)	) 20.8	(22.3)	) 68.1
Total revenue	14,280.8	14,012.6	43,184.5	41,044.2
Health care costs	10,409.5	10,354.5	31,146.3	30,245.6
Operating expenses:				
Selling expenses	361.5	393.3	1,123.9	1,152.1
General and administrative expenses	2,372.4	2,223.8	7,038.5	6,331.7
Total operating expenses	2,733.9	2,617.1	8,162.4	7,483.8
Amortization of other acquired intangible assets	65.1	59.4	191.9	182.4
Total benefits and expenses	13,208.5	13,031.0	39,500.6	37,911.8
Income before income taxes	1,072.3	981.6	3,683.9	3,132.4
Income taxes	484.4	401.7	1,615.8	1,308.8
Net income including non-controlling interests	587.9	579.9	2,068.1	1,823.6
Less: Net income attributable to non-controlling interests	2.5	3.2	2.2	4.1
Net income attributable to Aetna	\$585.4	\$576.7	\$2,065.9	\$1,819.5





The table presented below reconciles net income attributable to Aetna to operating earnings <sup>(1)</sup> for the three and nine months ended September 30, 2015 and 2014:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income attributable to Aetna	\$585.4	\$576.7	\$2,065.9	\$1,819.5
Transaction and integration-related costs, net of tax	32.5	23.7	84.6	101.9
Litigation-related proceeds, net of tax	—	—	(71.3)	—
Release of litigation-related reserve, net of tax	—	—	—	(67.0)
Amortization of other acquired intangible assets, net of tax	42.3	38.6	124.7	118.6
Net realized capital losses (gains), net of tax	15.2	(13.4)	15.1	(44.1)
Operating earnings	\$675.4	\$625.6	\$2,219.0	\$1,928.9

In addition to net realized capital gains and losses and amortization of other acquired intangible assets, the <sup>(1)</sup> 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:

During the three and nine months ended September 30, 2015, we incurred transaction and integration-related costs related to the acquisitions of Coventry, InterGlobal and bswift and the proposed acquisition of Humana of \$44.4 million (\$62.3 million pretax) and \$96.5 million (\$138.6 million pretax), respectively, of which \$32.5 million (\$44.0 million pretax), and \$84.6 million (\$120.3 million pretax), respectively, were recorded in our Health Care segment. During the three and nine months ended September 30, 2014, we incurred transaction and integration-related costs related to the acquisitions of Coventry and InterGlobal of \$23.7 million (\$35.3 million pretax) and \$101.9 million (\$154.8 million pretax), respectively, all of which was recorded in our Health Care segment. 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 credit agreement, each entered into in connection with the proposed Humana acquisition, which are reflected in the GAAP Consolidated Statements of Income in interest expense.

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.

We recorded a charge of \$78.0 million (\$120.0 million pretax) during the year ended December 31, 2012 related to the settlement of purported class action litigation regarding our payment practices related to out-of-network health care providers. That charge included the estimated cost of legal fees of plaintiffs' counsel and the costs of administering the settlement. During the nine months ended September 30, 2014, we exercised our right to terminate the settlement agreement. As a result, we released the reserve established in connection with the settlement agreement, net of amounts due to the settlement administrator, which reduced other general and administrative expenses by \$67.0 million (\$103.0 million pretax) in the nine months ended September 30, 2014. Refer to Note 14 beginning on page 31 for additional information on the termination of the settlement agreement.

Operating earnings for the three and nine months ended September 30, 2015 increased when compared to the corresponding periods in 2014, primarily as a result of higher underwriting margins in our Government business, partially offset by an increase in general and administrative expenses. Refer to our discussion below for additional information on our general and administrative expenses.

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, 2015 and 2014, our MBRs by product were as follows:

Three Months Ended September 30,		Nine Months Ended September 30,	
2015	2014	2015	2014

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Commercial	80.7	%	81.0	%	80.0	%	79.6	%
Government	81.6	%	84.0	%	81.0	%	85.1	%
Total Health Care	81.1	%	82.3	%	80.5	%	81.9	%

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

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Commercial operating results for the three and nine months ended September 30, 2015 reflect a decrease in membership and a stable MBR from the corresponding periods in 2014.

Commercial premiums decreased approximately \$102 million for the three months ended September 30, 2015 compared to the corresponding period in 2014, primarily due to membership losses in our group Commercial Insured products partially offset by higher premium yields. Commercial premiums increased approximately \$330 million for the nine months ended September 30, 2015 compared to the corresponding period in 2014, primarily due to higher premium yields partially offset by membership losses in our group Commercial Insured products and an increase in net ACA risk adjustment payables recorded in 2015.

Our Commercial MBR was 80.7% and 80.0% for the three and nine months ended September 30, 2015, respectively, compared to 81.0% and 79.6% for the corresponding periods in 2014. The improvement in our Commercial MBR for the three months ended September 30, 2015 is primarily due to improved performance in our group Commercial products partially offset by performance in our ACA compliant products. The increase in our Commercial MBR for the nine months ended September 30, 2015 is primarily due to performance in our ACA compliant products partially offset by improved performance in our group Commercial products. We recorded approximately \$15 million and \$56 million of gross health care reform risk corridor receivables at September 30, 2015 and September 30, 2014, respectively. Refer to “Critical Accounting Estimates – Health Care Costs Payable” in our 2014 Annual Report for a discussion of Health Care Costs Payable at December 31, 2014.

Government operating results for the three and nine months ended September 30, 2015 reflect improved underwriting margins and an increase in membership from the corresponding periods in 2014.

Government premiums increased approximately \$349 million and \$1.5 billion for the three and nine months ended September 30, 2015, respectively, compared to the corresponding periods in 2014, primarily a result of membership growth in both our Medicare and Medicaid Insured products.

Our Government MBR was 81.6% and 81.0% for the three and nine months ended September 30, 2015, respectively, compared to 84.0% and 85.1% for the corresponding periods in 2014. The improvement in our Government MBR for both periods is primarily a result of actions impacting revenue and medical costs designed to solve for the gap between Medicare premiums and medical costs and other expenses. The improvement in our Government MBR for the nine months ended September 30, 2015 was also driven by increased favorable development of prior-years' health care cost estimates in 2015 and improved performance in our Medicaid business. In addition, in the three months ended September 30, 2015, we experienced additional favorable development of prior-years' health care cost estimates which resulted in contractual premium reductions under certain customer arrangements, including minimum medical loss ratio requirements in certain of our Government contracts.

#### Fees and Other Revenue

Health Care fees and other revenue increased approximately \$58 million and \$403 million for the three and nine months ended September 30, 2015, respectively, compared to the corresponding periods in 2014. Health Care fees and other revenue for the three months ended September 30, 2015 increased primarily a result of growth in our Commercial ASC membership and higher average fee yields. Health Care fees and other revenue for the nine months ended September 30, 2015 increased primarily as a result of higher average fee yields, the favorable impact of approximately \$110 million pretax of net litigation-related proceeds and growth in our Commercial ASC membership.

#### General and Administrative Expenses

General and administrative expenses increased approximately \$149 million and \$707 million for the three and nine months ended September 30, 2015, respectively, compared to the corresponding periods of 2014, primarily as a result of increased investment spend to support our growth initiatives. General and administrative expenses in the nine months ended September 30, 2014 also reflected the favorable impact of releasing a litigation-related reserve. Refer to Note 14 beginning on page 31 for additional information on the release of the litigation-related reserve.



## Income Taxes

Our effective tax rate for the three and nine months ended September 30, 2015 was 45.2 percent and 43.9 percent, respectively, compared to 40.9 percent and 41.8 percent for the three and nine months ended September 30, 2014. The increase in our effective tax rate reflects the impact of the ACA, primarily from the 2015 increase in the non-deductible health insurer fee.

## Membership

Health Care's membership at September 30, 2015 and 2014 was as follows:

	2015			2014		
(Thousands)	Insured	ASC	Total	Insured	ASC	Total
Medical:						
Commercial	5,889	13,614	19,503	6,401	13,492	19,893
Medicare Advantage	1,246	—	1,246	1,135	—	1,135
Medicare Supplement	534	—	534	448	—	448
Medicaid <sup>(1)</sup>	1,461	762	2,223	1,335	763	2,098
Total Medical Membership	9,130	14,376	23,506	9,319	14,255	23,574
Consumer-Directed Health Plans <sup>(2)</sup>			4,006			3,793
Dually-Eligible for Medicare and Medicaid <sup>(1)</sup>			28			9
Dental:						
Total Dental Membership	6,215	8,428	14,643	5,979	8,401	14,380 <sup>(3)</sup>
Pharmacy:						
Commercial			10,434			10,835
Medicare PDP (stand-alone)			1,443			1,590
Medicare Advantage PDP			861			750
Medicaid <sup>(1)</sup>			2,568			2,231
Total Pharmacy Benefit Management Services			15,306			15,406

<sup>(1)</sup> Medicaid membership includes members who are dually-eligible for both Medicare and Medicaid.

<sup>(2)</sup> Represents members in consumer-directed health plans who also are included in Commercial medical membership above.

Dental ASC membership at September 30, 2014 has been revised to reflect a reduction of approximately 1 million

<sup>(3)</sup> Dental ASC members, as applicable Medicaid ASC members did not have a Dental ASC product at such date. This revision did not affect our financial statements.

Total medical membership at September 30, 2015 decreased compared to September 30, 2014, primarily reflecting declines in our Commercial Insured products partially offset by growth in our Medicare, Medicaid and Commercial ASC products.

Total dental membership at September 30, 2015 increased compared to September 30, 2014, primarily reflecting growth in both our Insured and ASC Dental products.

Total pharmacy benefit management services membership decreased at September 30, 2015 compared to September 30, 2014, primarily reflecting declines in our Commercial and Medicare PDP (stand-alone) products partially offset by growth in our Medicaid and Medicare Advantage PDP products.

## 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, 2015 and 2014:

(Millions)	2015	2014
Health care costs payable, beginning of period	\$5,621.1	\$4,547.4
Less: reinsurance recoverables	5.8	8.5
Health care costs payable, beginning of period, net	5,615.3	4,538.9
Acquisition of businesses	—	29.2
Add: Components of incurred health care costs:		
Current year	31,915.3	30,794.7
Prior years	(769.0	) (549.2
Total incurred health care costs	31,146.3	30,245.5
Less: Claims paid		
Current year	26,062.7	25,385.7
Prior years	4,554.1	3,841.3
Total claims paid	30,616.8	29,227.0
Health care costs payable, end of period, net	6,144.8	5,586.6
Add: reinsurance recoverables	2.8	6.2
Health care costs payable, end of period	\$6,147.6	\$5,592.8

Our estimates of prior years' health care costs payable decreased by approximately \$769 million and \$549 million in the nine months ended September 30, 2015 and 2014, 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, 2015 and 2014:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Premiums:				
Life	\$299.6	\$312.6	\$911.3	\$932.1
Disability	221.9	210.4	655.1	616.5
Long-term care	11.2	11.0	33.2	33.2
Total premiums	532.7	534.0	1,599.6	1,581.8
Fees and other revenue	24.8	25.5	78.0	78.1
Net investment income	56.6	61.9	182.4	199.9
Net realized capital (losses) gains	(4.3)	) 7.3	5.4	11.5
Total revenue	609.8	628.7	1,865.4	1,871.3
Current and future benefits	466.8	444.4	1,372.7	1,336.4
Operating expenses:				
Selling expenses	31.5	29.0	89.7	86.0
General and administrative expenses	83.2	84.8	252.0	245.5
Total operating expenses	114.7	113.8	341.7	331.5
Amortization of other acquired intangible assets	—	.1	.1	1.2
Total benefits and expenses	581.5	558.3	1,714.5	1,669.1
Income before income taxes	28.3	70.4	150.9	202.2
Income taxes	5.5	17.8	33.2	45.8
Net income attributable to Aetna	\$22.8	\$52.6	\$117.7	\$156.4

The table presented below reconciles net income attributable to Aetna to operating earnings for the three and nine months ended September 30, 2015 and 2014:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income attributable to Aetna	\$22.8	\$52.6	\$117.7	\$156.4
Amortization of other acquired intangible assets, net of tax	—	.1	.1	.8
Net realized capital losses (gains), net of tax	2.8	(4.8)	) (3.5)	) (7.5)
Operating earnings	\$25.6	\$47.9	\$114.3	\$149.7

Operating earnings for the three and nine months ended September 30, 2015 decreased when compared to the corresponding periods in 2014, primarily due to lower underwriting margins in our life products. Operating earnings for the nine months ended September 30, 2015 also decreased as a result of lower net investment income which was partially offset by higher underwriting margins in our disability products.

The group benefit ratio, which represents current and future benefits divided by premiums, was 87.6% and 85.8% for the three and nine months ended September 30, 2015, respectively, and 83.2% and 84.5% for the three and nine months ended September 30, 2014, respectively. The increase in our group benefit ratio for both the three and nine months ended September 30, 2015 was primarily due to lower underwriting margins in our life products partially offset by higher 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, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,		
(Millions)	2015	2014	2015	2014	
Premiums	\$10.8	\$4.8	\$27.9	\$70.3	
Net investment income	55.2	79.3	209.3	238.2	
Other revenue	2.2	2.2	7.0	7.0	
Net realized capital (losses) gains	(5.8	) .2	(6.1	) 1.0	
Total revenue	62.4	86.5	238.1	316.5	
Current and future benefits	62.0	77.2	223.4	289.5	
General and administrative expenses	3.2	3.1	9.3	9.1	
Total benefits and expenses	65.2	80.3	232.7	298.6	
Income before income (benefits) taxes	(2.8	) 6.2	5.4	17.9	
Income (benefits) taxes	(3.2	) .1	(5.0	) (.3	)
Net income including non-controlling interests	.4	6.1	10.4	18.2	
Less: Net (loss) income attributable to non-controlling interests	(.2	) 1.1	1.7	2.5	
Net income attributable to Aetna	\$ .6	\$5.0	\$8.7	\$15.7	

The table presented below reconciles net income attributable to Aetna to operating earnings for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,		
(Millions)	2015	2014	2015	2014	
Net income attributable to Aetna	\$ .6	\$5.0	\$8.7	\$15.7	
Net realized capital losses (gains), net of tax	3.8	(.1	) 4.0	(.6	)
Operating earnings	\$4.4	\$4.9	\$12.7	\$15.1	

Total revenue decreased for the three and nine months ended September 30, 2015, when compared to the corresponding periods in 2014, primarily as a result of lower net investment income in 2015. Total revenue also decreased for the nine months ended September 30, 2015, when compared to the corresponding period in 2014, primarily as a result of the discontinuance of certain services under an existing customer contract during 2014, which also resulted in a corresponding reduction in current and future benefits during 2015.

## 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, 2015 and December 31,

2014, 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 17 of Condensed Notes to Consolidated Financial Statements beginning on page 36.

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. The current reserve reflects management's best estimate of anticipated future losses, and is included in future policy benefits on our balance sheet.

Refer to Note 17 of Condensed Notes to Consolidated Financial Statements beginning on page 36 for additional information on the activity in the reserve for anticipated future losses on discontinued products for the three and nine months ended September 30, 2015 and 2014.

## INVESTMENTS

Our investment portfolio supported the following products at September 30, 2015 and December 31, 2014:

(Millions)	September 30, 2015	December 31, 2014
Experience-rated products <sup>(1)</sup>	\$1,204.3	\$1,492.4
Discontinued products <sup>(1)</sup>	3,176.8	3,425.2
Remaining products	20,530.1	19,871.5
Total investments	\$24,911.2	\$24,789.1

- (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, 2015 and 2014 were as follows:

(Millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Scheduled contract maturities and benefit payments <sup>(1)</sup>	\$19.6	\$20.4	\$59.1	\$125.4
Contract holder withdrawals other than scheduled contract maturities and benefit payments	148.4	.7	194.5	3.7
Participant-directed withdrawals	.8	.3	1.9	2.5

- (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, 2015 and December 31, 2014, with approximately \$4.9 billion and \$4.6 billion rated AAA at September 30, 2015 and

December 31, 2014, respectively. The debt securities that were rated below investment grade (that is, having a credit quality rating below BBB-/Baa3) were \$1.4 billion at both September 30, 2015 and December 31, 2014 (of which 13% and 14% at September 30, 2015 and December 31, 2014, respectively, supported our experience-rated and discontinued products).

At September 30, 2015 and December 31, 2014, we held approximately \$966 million and \$811 million, respectively, of municipal debt securities that were guaranteed by third parties, representing approximately 4% and 3% of our total investments, respectively. These securities had an average credit quality rating of AA and AA- at September 30, 2015 and December 31, 2014, respectively, with the guarantee. These securities had an average credit quality rating of A+ and A- at September 30, 2015 and December 31, 2014, respectively, without the guarantee. We do not have any significant concentration of investments with third party guarantors (either direct or indirect).

At both September 30, 2015 and December 31, 2014, 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.

We generally classify our debt and equity securities as available for sale, and carry them at fair value on our balance sheet. Approximately 1% of our debt and equity securities at both September 30, 2015 and December 31, 2014 were valued using inputs that reflect our own assumptions (categorized as Level 3 inputs in accordance with GAAP). Refer to Note 9 of Condensed Notes to Consolidated Financial Statements beginning on page 18 for additional information on the methodologies and key assumptions we use to determine the fair value of investments.

Refer to Note 6 of Condensed Notes to Consolidated Financial Statements beginning on page 11 for details related to:

- Our investment portfolio balances at September 30, 2015 and December 31, 2014;
- 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 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 2014 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, 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.

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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. Based upon this analysis, there have been no material changes in our exposure to these risks since December 31, 2014. Refer to the MD&A in our 2014 Annual Report for a more complete discussion of risk management and market-sensitive instruments.

## 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 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 and shareholder dividends. 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, 2015 and 2014. 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 on page 5 for additional information.

(Millions)	2015	2014
Cash flows from operating activities		
Health Care and Group Insurance	\$3,207.0	\$3,300.1
Large Case Pensions	(451.4)	(221.4)
Net cash provided by operating activities	2,755.6	3,078.7
Cash flows from investing activities		
Health Care and Group Insurance	(1,272.9)	(1,455.7)
Large Case Pensions	517.3	343.4
Net cash used for investing activities	(755.6)	(1,112.3)
Net cash used for financing activities	(1,623.9)	(1,671.6)
Net increase in cash and cash equivalents	\$376.1	\$294.8

### Cash Flow Analysis

Cash flows provided by operating activities for Health Care and Group Insurance were approximately \$3.2 billion and \$3.3 billion for the nine months ended September 30, 2015 and 2014, respectively. The decrease in cash flows provided by operating activities for the nine months ended September 30, 2015 compared with the corresponding period in 2014 is primarily attributable to the payment of our 2014 Health Care Reform risk adjustment payable and an increase in the amount paid for the health insurer fee in September 2015, partially offset by the receipt of our 2014 Health Care Reform reinsurance recoverables and improved operating performance.



Cash flows used for investing activities were approximately \$756 million and \$1.1 billion for the nine months ended September 30, 2015 and 2014, respectively. The decrease in cash used for investing activities for the nine months ended September 30, 2015 compared with the corresponding period in 2014 is primarily attributable to lower net purchases of investments in 2015.

During the nine months ended September 30, 2015 and 2014, our cash flows used for financing activities reflect the repayment of debt, share repurchases and dividend payments. During the nine months ended September 30, 2014 our cash flows used for financing activities also reflect the issuance of long-term debt. Prior to the closing of the proposed acquisition of Humana, 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. Refer to Notes 11 and 12 of Condensed Notes to Consolidated Financial Statements on pages 26 and 29 for more information about debt issuances and repayments, share repurchases and dividend payments.

#### Long-Term Debt, Revolving Credit Facility, Bridge Credit Agreement and Term Loan Agreement

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. Additionally, in July 2015 and in connection with the proposed acquisition of Humana, we entered into a \$13.0 billion 364-day senior unsecured bridge credit agreement and a \$3.2 billion three-year term loan credit agreement. In addition, in July 2015, we amended our revolving credit facility to increase the commitments available 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 termination of Humana's existing credit agreement dated as of July 9, 2013. Refer to Note 11 of Condensed Notes to Consolidated Financial Statements beginning on page 26 for additional information on these transactions.

#### Interest Rate Swaps

During September and October 2015 we entered into six interest rate swaps with an aggregate notional value of \$1.5 billion. 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 finance a portion of the purchase price of the proposed acquisition of Humana. Refer to Note 11 of Condensed Notes to Consolidated Financial Statements beginning on page 26 for additional information on our outstanding interest rate swaps.

#### Other Liquidity Information

From time to time, we use short-term commercial paper borrowings, repurchase agreements and cash advances from the Federal Home Loan Bank of Boston ("FHLBB") to address timing differences between cash receipts and disbursements. At September 30, 2015, we did not have any commercial paper outstanding. At December 31, 2014, we had approximately \$500 million of commercial paper outstanding with a weighted-average interest rate of .30%. The maximum amount of commercial paper borrowings outstanding during the nine months ended September 30, 2015 was approximately \$1.3 billion.

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 33% at September 30, 2015. At the completion of the proposed acquisition of Humana, we project our debt to capital ratio will be approximately 46% as we expect to issue approximately \$16.2 billion of new debt, including senior notes, term loans and commercial paper, to partially finance the cash portion of the purchase price. Following the announcement of the proposed acquisition of Humana in July 2015, each of Standard & Poor's, A.M. Best, Fitch and Moody's placed certain of our debt, financial strength and other credit ratings under review for a possible downgrade. We project that our debt to capital ratio will decrease below 40% over the 24 months following the completion of the 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 approximately \$96 million and \$254 million for the three and nine months ended September 30, 2015, respectively, and approximately \$81 million and \$248 million for the three and nine months ended September 30, 2014, respectively.

Refer to Notes 11 and 12 of Condensed Notes to Consolidated Financial Statements on pages 26 and 29, respectively, for information on our FHLBB membership and our stock-based compensation awards granted during 2015, respectively.

#### CRITICAL ACCOUNTING ESTIMATES

Refer to “Critical Accounting Estimates” in our 2014 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

There were no material changes in the regulation of our business since December 31, 2014. Refer to the “Regulatory Environment” section in our 2014 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 has been provided in connection with the proposed acquisition of Humana, and supplements the Forward Looking Information/Risk Factors portion of our 2014 Annual Report. You should read that section of our 2014 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.

After completion of the Merger, we may fail to realize the anticipated benefits and cost savings of the Merger, which could adversely affect the value of our common shares.

The success of the transactions contemplated by the Merger Agreement, (collectively the “Merger”) will depend, in part, on our ability to realize the anticipated benefits and cost savings from combining the businesses of Aetna and Humana. Our ability to realize these anticipated benefits and cost savings is subject to certain risks including:

- Our ability to successfully combine the businesses of Aetna and Humana, including with respect to systems and technology integration;
- whether the combined businesses will perform as expected;
- the possibility that we paid more for Humana than the value we will derive from the acquisition;
- the reduction of our cash available for operations and other uses and the incurrence of indebtedness to finance the acquisition; and
- the assumption of known and unknown liabilities of Humana.

If we are not able to successfully combine the businesses of Aetna and Humana within the anticipated time frame, or at all, the anticipated cost savings and other benefits of the Merger may not be realized fully or at all or may take longer to realize than expected, the combined businesses may not perform as expected, and the value of our common shares may be adversely affected.

Aetna and Humana have operated and, until completion of the Merger, will continue to operate, independently, and there can be no assurances that their businesses can be integrated successfully. It is possible that the integration

process could result in the loss of key Aetna or Humana employees, the disruption of either or both company's ongoing businesses or in unexpected integration issues, higher than expected integration costs and an overall post-completion integration process that takes longer than originally anticipated. Specifically, issues that must be

addressed in integrating the operations of Humana and Aetna in order to realize the anticipated benefits of the Merger so the combined business performs as expected include, among other things:

- combining the companies' sales, claims and call operations, network administration and corporate functions;
- integrating the companies' technologies, products and services;
- identifying and eliminating redundant and underperforming operations and assets;
- harmonizing the companies' operating practices, employee development and compensation programs, internal controls and other policies, procedures and processes;
- addressing possible differences in business backgrounds, corporate cultures and management philosophies;
- consolidating the companies' corporate, administrative and information technology infrastructure;
- coordinating sales, distribution and marketing efforts;
- managing the movement of certain businesses and positions to different locations;
- maintaining existing agreements with customers, providers and vendors and avoiding delays in entering into new agreements with prospective customers, providers and vendors;
- coordinating geographically dispersed organizations; and
- consolidating offices of Humana and Aetna that are currently in or near the same location.

In addition, at times, the attention of certain members of either or both company's management and resources may be focused on completion of the Merger and the integration of the businesses of the two companies and diverted from day-to-day business operations, which may disrupt each company's ongoing business and the business of the combined company.

Aetna and Humana may have difficulty attracting, motivating and retaining executives and other key employees in light of the Merger.

Uncertainty about the effect of the Merger on Aetna and Humana employees may have an adverse effect on each of Aetna and Humana separately and consequently the combined business. This uncertainty may impair Aetna's and Humana's ability to attract, retain and motivate key personnel until the Merger is completed. Employee retention may be particularly challenging during the pendency of the Merger, as employees of Aetna and Humana may experience uncertainty about their future roles with the combined business. Additionally, Humana's officers and employees may hold shares of Humana common stock, as well as Humana stock options, Humana restricted stock units ("Humana RSUs") and Humana performance stock units ("Humana PSUs") that are subject to accelerated vesting on a change in control, and, if the Merger is completed, these officers and employees may be entitled to the consideration payable under the Merger Agreement in respect of such shares of Humana common stock, Humana RSUs, Humana PSUs and cash in respect of Humana stock options. These payouts could also make retention of these officers and employees more difficult. Additionally, pursuant to employment and/or change in control severance agreements with Humana, certain key employees of Humana are entitled to receive severance payments upon a termination without cause or a resignation for "good reason" following completion of the Merger. Under these agreements, a key Humana employee potentially could resign from his or her employment following specified circumstances set forth in his or her employment or change in control severance agreement, including an adverse change in his or her title, authority or responsibilities, compensation and benefits or primary office location. Furthermore, if key employees of Aetna or Humana depart or are at risk of departing, including because of issues relating to the uncertainty and difficulty of integration, financial security or a desire not to become employees of the combined business, we may have to incur significant costs in retaining such individuals or in identifying, hiring and retaining replacements for departing employees, and our ability to realize the anticipated benefits of the Merger may be adversely affected.

In order to complete the Merger, Aetna and Humana must obtain certain governmental authorizations, and if such authorizations are not granted or are granted with conditions that become applicable to the parties, completion of the Merger may be jeopardized or the anticipated benefits of the Merger could be reduced.

Completion of the Merger is conditioned upon the expiration or early termination of the waiting period relating to the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the “HSR Act”) and certain other applicable laws or regulations and the governmental authorizations required to complete the Merger



(the “Required Governmental Authorizations”) having been obtained and being in full force and effect. Although Aetna and Humana have agreed in the Merger Agreement to use their reasonable best efforts, subject to certain limitations, to make certain governmental filings or obtain the Required Governmental Authorizations, as the case may be, there can be no assurance that the relevant waiting periods will expire or authorizations will be obtained. In addition, the governmental authorities with or from which these authorizations are required have broad discretion in administering the governing regulations, and may take into account various facts and circumstances in their consideration of the Merger, including other pending consolidation in the managed care industry. As a condition to authorization of the Merger or related transactions, these governmental authorities may impose requirements, limitations or costs, require divestitures or place restrictions on the conduct of Aetna’s business after completion of the Merger. Under the terms of the Merger Agreement, Aetna is not required, and Humana is not permitted without the consent of Aetna, to take any actions or agree to any terms or conditions in connection with (i) the expiration or early termination of the waiting period relating to the Merger under the HSR Act, (ii) any other antitrust law or (iii) the Required Governmental Authorizations, in each case if such action, term or condition would have, or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on the financial condition, business or earnings before interest, taxes, depreciation and amortization of Aetna or Humana and its subsidiaries taken as a whole. However, notwithstanding the provisions of the Merger Agreement, either Aetna or Humana could become subject to terms or conditions in connection with such waiting periods, laws or other authorizations (whether because such term or condition does not rise to the specified level of materiality or we otherwise consent to its imposition) the imposition of which could adversely affect our ability to integrate Humana’s operations with our operations, reduce the anticipated benefits of the Merger or otherwise materially and adversely affect our business and results of operations after completion of the Merger.

Aetna’s and Humana’s business relationships may be subject to disruption due to uncertainty associated with the Merger.

Parties with which Aetna or Humana does business may experience uncertainty associated with the Merger, including with respect to current or future business relationships with us, Humana or the combined business. Aetna’s and Humana’s business relationships may be subject to disruption as customers, providers, vendors and others may attempt to negotiate changes in existing business relationships or consider entering into business relationships with parties other than Aetna, Humana or the combined business. These disruptions could have a material and adverse effect on the businesses, financial condition, results of operations or prospects of the combined business, including a material and adverse effect on our ability to realize the anticipated benefits of the Merger. The risk and adverse effect of such disruptions could be exacerbated by a delay in completion of the Merger or termination of the Merger Agreement.

The Merger Agreement contains provisions that will make it more difficult for us to pursue alternatives to the Merger. The Merger Agreement contains provisions that make it more difficult for Aetna to sell its business. These provisions include a general prohibition on us soliciting any acquisition proposal. Further, Humana generally has a right to match any acquisition proposal that may be made.

While we believe these provisions are reasonable and not preclusive of other offers, these restrictions might discourage a third party that has an interest in acquiring all or a significant part of Aetna from considering or proposing that acquisition. Furthermore, the termination fees described in the immediately following paragraph below may result in a potential competing acquirer proposing to pay a lower per-share price to acquire Aetna than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable by Aetna in certain circumstances.

Failure to complete the Merger could negatively impact the stock price and the future business and financial results of Aetna.

If the Merger is not completed for any reason, the ongoing business of Aetna may be adversely affected and, without realizing any of the benefits of having completed the Merger, Aetna would be subject to a number of risks, including the following:

- We may experience negative reactions from the financial markets, including negative impacts on our stock and bond prices, and from our customers, providers, vendors, regulators and employees;

- We may be required to pay Humana a termination fee of either \$1.691 billion or \$1 billion if the Merger Agreement is terminated under certain circumstances;

- We will be required to pay certain transaction expenses and other costs relating to the Merger, whether or not the Merger is completed;

the Merger Agreement places certain restrictions on the conduct of our business prior to completion of the Merger.

Such restrictions, the waiver of which is subject to the consent of Humana (in most cases, not to be unreasonably withheld, conditioned or delayed), may prevent us from making certain acquisitions, taking certain other specified actions or otherwise pursuing business opportunities during the pendency of the Merger that we would have made, taken or pursued if these restrictions were not in place; and

matters relating to the Merger (including integration planning) will require substantial commitments of time and resources by our management, which would otherwise have been devoted to day-to-day operations and other opportunities that may have been beneficial to us as an independent company.

There can be no assurance that the risks described above will not materialize. If any of those risks materialize, they may materially and adversely affect Aetna's businesses, financial condition, financial results and stock or bond prices.

In addition, Aetna could be subject to litigation related to any failure to complete the Merger or related to any enforcement proceeding to specifically enforce us to perform our obligations under the Merger Agreement. If the Merger is not completed, these risks may materialize and may materially and adversely affect Aetna's businesses, financial condition, financial results and stock or bond prices.

Lawsuits have been filed and other lawsuits may be filed against Humana, Aetna and their respective boards of directors challenging the Merger. An adverse ruling in any such lawsuit may prevent the Merger from being completed.

Beginning on July 9, 2015, three putative state court class action complaints have been filed by purported Humana stockholders (collectively, the "Humana Complaints") challenging the Merger, two in Kentucky and one in Delaware (collectively, the "Humana Merger Litigation"). The Humana Complaints generally allege, among other things, that the individual members of Humana's board of directors breached their fiduciary duties owed to Humana's stockholders by entering into the Merger Agreement, approving the Merger, and failing to take steps to maximize the value of Humana to its stockholders, and that Aetna and certain of its subsidiaries and, in the case of the Delaware complaint, Humana aided and abetted such breaches of fiduciary duties. Among other remedies, the Humana Complaints seek equitable relief rescinding the Merger Agreement and enjoining the defendants from completing the Merger as well as costs and attorneys' fees.

On October 9, 2015, Humana and the other defendants named in the Humana Complaints signed a memorandum of understanding (the "MOU") to settle the Humana Merger Litigation. Subject to court approval and further definitive documentation in a stipulation of settlement that will be subject to customary conditions, the MOU resolves the claims brought in the Humana Merger Litigation. There can be no assurance that the parties to the Humana Merger Litigation ultimately will enter into a stipulation of settlement or that a court will approve such settlement even if the parties were to enter into such stipulation. In such event, the proposed settlement contemplated by the MOU may be terminated. Following the signing of the MOU, the plaintiffs withdrew the Delaware state court complaint.

On September 3, 2015, a purported Aetna shareholder filed a putative class action and derivative complaint challenging the Merger in Pennsylvania state court (the “Aetna Complaint”). The Aetna Complaint generally

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alleges, among other things, that Aetna's board of directors (the "Aetna Board") breached its fiduciary duties by negotiating and entering into the Merger Agreement because the Merger overvalues Humana, the negotiation process leading to the Merger was flawed, the Merger represents an effort by the Aetna Board to avoid being acquired by another company, Aetna senior management preferred a transaction with Humana to a transaction with that other company given concerns over their post-transaction continued employment, and Aetna's registration statement in connection with the Merger omits certain material information. The Aetna Complaint generally seeks, among other things, declaratory and injunctive relief, preliminary injunctive relief prohibiting or delaying the defendants from consummating the Merger, other forms of equitable relief and unspecified amounts of damages. In addition, the Aetna Board has received demands from two purported Aetna shareholders (including the named plaintiff in the Aetna Complaint) to investigate and remedy potential or alleged breaches of fiduciary duties in connection with the Merger.

In response to these demands, and the subsequently filed Aetna Complaint, the Aetna Board, in accordance with Pennsylvania law and procedure, appointed a special litigation committee (the "SLC"), consisting of Edward J. Ludwig (Chairperson), Roger N. Farah, Ellen M. Hancock and Richard J. Harrington, to, among other things, investigate and evaluate such demands and the Aetna Complaint. The SLC has retained independent counsel to assist and advise it in connection with its investigation and evaluation. On October 4, 2015, the SLC and its counsel issued a 120-page report that reflected, among other things, the SLC's determination that pursuing the allegations in the shareholder demands and in the Aetna Complaint was not in the best interests of Aetna or its shareholders and a recommendation that Aetna pursue dismissal of the Aetna Complaint and not pursue any of the claims in the demands. The recommendation of the SLC was adopted unanimously by the non-management members of the Aetna Board, and a motion to dismiss the Aetna Complaint was filed on October 7, 2015. That motion is currently pending.

On October 2, 2015, the named plaintiff in the Aetna Complaint filed a petition seeking a preliminary injunction, expedited discovery, and a post-discovery injunction hearing. On October 14, 2015, the court issued an order denying the plaintiff's request for injunctive relief.

Additional lawsuits arising out of or relating to the Merger Agreement and/or the Merger may be filed in the future.

One of the conditions to completion of the Merger is the absence of any applicable law (including any order) being in effect that prohibits completion of the Merger. Accordingly, if a plaintiff is successful in obtaining an order prohibiting completion of the Merger, then such order may prevent the Merger from being completed, or from being completed within the expected timeframe.

Our indebtedness following completion of the Merger will be substantially greater than our indebtedness on a stand-alone basis and greater than the combined indebtedness of Aetna and Humana existing prior to the transaction. This increased level of indebtedness could adversely affect us, including by decreasing our business flexibility, and will increase our borrowing costs. Downgrades in our ratings could adversely affect our businesses, cash flows, financial condition and operating results.

Upon completion of the Merger, we expect to have incurred acquisition-related debt financing of approximately \$16.2 billion and assume Humana's existing indebtedness of approximately \$3.8 billion. Our substantially increased indebtedness and higher debt-to-equity ratio following completion of the Merger in comparison to that of Aetna prior to the Merger will have the effect, among other things, of reducing our flexibility to respond to changing business and economic conditions and will increase our borrowing costs. In addition, the amount of cash required to service our increased indebtedness levels and thus the demands on our cash resources will be greater than the amount of cash flows required to service the indebtedness of Aetna or Humana individually prior to the Merger. The increased levels of indebtedness could also reduce funds available for our investments in product development as well as capital expenditures, share repurchases and other activities and may create competitive disadvantages for us relative to other companies with lower debt levels.

In addition, our credit ratings impact the cost and availability of future borrowings, and accordingly our cost of capital. Our ratings reflect each rating organization's opinion of our financial strength, operating performance and

ability to meet our debt obligations or obligations to our insureds. Each of the ratings organizations reviews our ratings periodically, and there can be no assurance that our current ratings will be maintained in the future. Following the announcement of the proposed acquisition of Humana in July 2015, each of Standard & Poor's, A.M. Best, Fitch and Moody's placed certain of our debt, financial strength and other credit ratings under review for a possible downgrade. Downgrades in our ratings could adversely affect our businesses, cash flows, financial condition and operating results.

We will incur significant transaction and integration-related costs in connection with the Merger.

We expect to incur a number of non-recurring costs associated with the Merger and combining the operations of the two companies. We will incur significant transaction costs related to the Merger. We also will incur significant integration-related fees and costs related to formulating and implementing integration plans, including facilities and systems consolidation costs and employment-related costs. We continue to assess the magnitude of these costs, and additional unanticipated costs may be incurred in the Merger and the integration of the two companies' businesses. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, should allow us to offset integration-related costs over time, this net benefit may not be achieved in the near term, or at all.

The Merger may not be accretive, and may be dilutive, to our operating earnings per share, which may negatively affect the market price of our common shares.

We currently project that the Merger will be neutral to operating earnings per share during 2016, excluding transaction and integration-related costs. This projection is based on preliminary estimates that may materially change. In addition, future events and conditions could decrease or delay the accretion that is currently projected or could result in dilution, including adverse changes in market conditions, additional transaction and integration-related costs and other factors such as the failure to realize some or all of the anticipated benefits of the Merger. Any dilution of, or decrease or delay of any accretion to, our earnings per share could cause the price of our common shares to decline or grow at a reduced rate.

#### Risks relating to Humana.

Following completion of the Merger, Aetna will be subject to the risks described in (i) Part I, Item 1A in Humana's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on February 18, 2015, and (ii) Part II, Item 1A in Humana's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015, filed with the SEC on July 29, 2015, in each case, incorporated by reference into this Quarterly Report on Form 10-Q.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have not experienced any material changes in exposures to market risk since December 31, 2014. Refer to the information contained in the "Risk Management and Market-Sensitive Instruments" section of the MD&A beginning on page 51 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, 2015 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, 2015 were effective and 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. 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.

## Part II. Other Information

### Item 1. Legal Proceedings

The information contained in Note 14 of Condensed Notes to Consolidated Financial Statements, beginning on page 31 is incorporated herein by reference.

### Item 1A. Risk Factors

The information contained under the heading “Forward-Looking Information/Risk Factors” in the MD&A, beginning on page 54 is incorporated herein by reference.

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

During the three months ended September 30, 2015, we did not repurchase any shares of common stock. At September 30, 2015, 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. Prior to the closing of the proposed acquisition of Humana, 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 12 of Condensed Notes to Consolidated Financial Statements, beginning on page 29 is incorporated herein by reference.

### Item 4. Mine Safety Disclosures

Not Applicable.



Item 6. Exhibits

Exhibits to this Form 10-Q are as follows:

- 10 Material Contracts
- 10.1 Separation agreement dated October 6, 2015 between Aetna Inc. and Joseph M. Zubretsky.
- 11 Statements 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, beginning on page 9 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 29, 2015 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 Other Exhibits
- 99.1 Risk Factors of Humana, Inc., incorporated by reference to Exhibit 99.1 to Aetna Inc.'s Form 10-Q filed on August 4, 2015.
- 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.

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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 29, 2015

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
10	Material Contracts	
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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 29, 2015 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
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