CIGNA CORP
Form 10-Q
July 29, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

OR

O 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 1-08323

Cigna Corporation

(Exact name of registrant as specified in its charter)

Delaware	**06-1059331**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
900 Cottage Grove Road Bloomfield, Connecticut	**06002**

(Address of principal executive offices) *(Zip Code)*

(860) 226-6000

Registrant s telephone number, including area code

(860) 226-6741

Registrant s facsimile number, including area code

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark		**YES**		**NO**
• 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.		R		o
• 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).		R		o

• whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer R	Accelerated filer o	Non-accelerated filer o	Smaller Reporting Company o

• whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).		o		R

As of July 15, 2016, 256,570,151 shares of the issuer s common stock were outstanding.

Table of Contents

Cigna Corporation

INDEX

PART I	**FINANCIAL INFORMATION**	**Page**
Item 1.	Financial Statements (Unaudited)	
	Consolidated Statements of Income	1
	Consolidated Statements of Comprehensive Income	2
	Consolidated Balance Sheets	3
	Consolidated Statements of Changes in Total Equity	4
	Consolidated Statements of Cash Flows	6
	Notes to the Consolidated Financial Statements	7
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	42
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	63
Item 4.	Controls and Procedures	64
PART II	**OTHER INFORMATION**	
Item 1.	Legal Proceedings	65
Item 1.A.	Risk Factors	66
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	67
Item 4.	Mine Safety Disclosures	67
Item 6.	Exhibits	68
SIGNATURE		69
INDEX TO EXHIBITS		E-1

As used herein, Cigna or the Company refers to one or more of Cigna Corporation and its consolidated subsidiaries.

Table of Contents

Part I. *FINANCIAL INFORMATION*

Item 1. *FINANCIAL STATEMENTS*

Cigna Corporation

Consolidated Statements of Income

	Unaudited Three Months Ended June 30,		Unaudited Six Months Ended June 30,	
(In millions, except per share amounts)	**2016**	**2015**	**2016**	**2015**
Revenues				
Premiums	$ 7,654	$ 7,432	$ 15,400	$ 14,834
Fees and other revenues	1,197	1,117	2,398	2,255
Net investment income	294	297	566	573
Mail order pharmacy revenues	748	625	1,445	1,203
Realized investment gains (losses):				
Other than temporary impairments on debt securities	(3)	(10)	(30)	(15)
Other realized investment gains, net	70	31	65	109
Net realized investment gains	67	21	35	94
Total revenues	**9,960**	9,492	**19,844**	18,959
Benefits and Expenses				
Global Health Care medical costs	4,777	4,577	9,538	9,181
Other benefit expenses	1,414	1,199	2,782	2,468
Mail order pharmacy costs	630	529	1,204	1,021

Other operating expenses	2,289	2,212	4,610	4,416
Amortization of other acquired intangible assets, net	37	39	78	83
Total benefits and expenses	**9,147**	8,556	**18,212**	17,169
Income before Income Taxes	**813**	936	**1,632**	1,790
Income taxes (benefits):				
Current	338	375	632	683
Deferred	(28)	(23)	(17)	(8)
Total income taxes	**310**	352	**615**	675
Net Income	503	584	1,017	1,115
Less: Net (Loss) Attributable to Noncontrolling Interests	(7)	(4)	(12)	(6)
Shareholders Net Income	**$ 510**	$ 588	**$ 1,029**	$ 1,121
Shareholders Net Income Per Share:				
Basic	$ 2.00	$ 2.30	$ 4.03	$ 4.38
Diluted	$ 1.97	$ 2.26	$ 3.97	$ 4.30
Dividends Declared Per Share	$ -	$ -	$ 0.04	$ 0.04

The accompanying Notes to the Consolidated Financial Statements (unaudited) are an integral part of these statements.

Table of Contents

Cigna Corporation

Consolidated Statements of Comprehensive Income

(In millions)	Unaudited Three Months Ended June 30, 2016	2015	Unaudited Six Months Ended June 30, 2016	2015
Shareholders net income	$ 510	$ 588	$ 1,029	$ 1,121
Shareholders other comprehensive income (loss):				
Net unrealized appreciation (depreciation), securities	177	(234)	350	(146)
Net unrealized appreciation (depreciation), derivatives	(1)	5	(4)	12
Net translation of foreign currencies	(40)	18	41	(86)
Postretirement benefits liability adjustment	8	20	19	31
Shareholders other comprehensive income (loss)	**144**	(191)	**406**	(189)
Shareholders comprehensive income	654	397	1,435	932
Comprehensive income (loss) attributable to noncontrolling interests:				
Net (loss) attributable to redeemable noncontrolling interests	(2)	(1)	(3)	(1)
Net (loss) attributable to other noncontrolling interests	(5)	(3)	(9)	(5)
Other comprehensive income (loss) attributable to redeemable noncontrolling interests	(1)	(3)	2	(12)
Total comprehensive income	**$ 646**	$ 390	**$ 1,425**	$ 914

The accompanying Notes to the Consolidated Financial Statements (unaudited) are an integral part of these statements.

Table of Contents

Cigna Corporation

Consolidated Balance Sheets

(In millions, except per share amounts)	Unaudited As of June 30, 2016	As of December 31, 2015
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost, $18,745; $18,456)	$ 20,538	$ 19,455
Equity securities, at fair value (cost, $184; $190)	181	190
Commercial mortgage loans	1,814	1,864
Policy loans	1,442	1,419
Other long-term investments	1,419	1,404
Short-term investments	469	381
Total investments	25,863	24,713
Cash and cash equivalents	2,454	1,968
Premiums, accounts and notes receivable, net	4,329	3,694
Reinsurance recoverables	6,705	6,813
Deferred policy acquisition costs	1,785	1,659
Property and equipment	1,556	1,534
Deferred tax assets, net	210	379
Goodwill	6,017	6,019
Other assets, including other intangibles	2,617	2,476
Separate account assets	7,970	7,833
Total assets	**$ 59,506**	$ 57,088
Liabilities		
Contractholder deposit funds	$ 8,464	$ 8,443
Future policy benefits	9,953	9,479
Unpaid claims and claim expenses	4,831	4,574
Global Health Care medical costs payable	2,577	2,355
Unearned premiums	618	629
Total insurance and contractholder liabilities	26,443	25,480
Accounts payable, accrued expenses and other liabilities	6,569	6,493
Short-term debt	300	149
Long-term debt	4,789	5,020
Separate account liabilities	7,970	7,833
Total liabilities	**46,071**	44,975
Contingencies Note 16		
Redeemable noncontrolling interests	71	69
Shareholders Equity		
Common stock (par value per share, $0.25; shares issued, 296; authorized, 600)	74	74
Additional paid-in capital	2,879	2,859
Accumulated other comprehensive loss	(844)	(1,250)
Retained earnings	13,046	12,121
Less treasury stock, at cost	(1,799)	(1,769)
Total shareholders equity	13,356	12,035
Noncontrolling interests	8	9
Total equity	13,364	12,044
Total liabilities and equity	$ 59,506	$ 57,088

Shareholders Equity Per Share	**$ 52.06**	$ 46.91

The accompanying Notes to the Consolidated Financial Statements (unaudited) are an integral part of these statements.

Table of Contents

Cigna Corporation

Consolidated Statements of Changes in Total Equity

Unaudited **For the three months ended June 30, 2016** *(In millions)*	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Treasury Stock**	**Shareholders Equity**	**Non-controlling Interests**	**Total Equity**	**Redeemable Non-controlling Interests**
Balance at April 1, 2016	$ 74	$ 2,874	$ (988)	$ 12,541	$ (1,826)	$ 12,675	$ 9	$ 12,684	$ 73
Effect of issuing stock for employee benefit plans		10		(5)	27	32		32	
Other comprehensive income (loss)			144			144		144	(1)
Net income (loss)				510		510	(5)	505	(2)
Other transactions impacting noncontrolling interests		(5)				(5)	4	(1)	1
Balance at June 30, 2016	**$ 74**	**$ 2,879**	**$ (844)**	**$ 13,046**	**$ (1,799)**	**$ 13,356**	**$ 8**	**$ 13,364**	**$ 71**

For the three months ended June 30, 2015 *(In millions)*	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Treasury Stock**	**Shareholders Equity**	**Non-controlling Interests**	**Total Equity**	**Redeemable Non-controlling Interests**
Balance at April 1, 2015	$ 74	$ 2,823	$ (934)	$ 10,635	$ (1,656)	$ 10,942	$ 16	$ 10,958	$ 83
Effect of issuing stock for employee benefit plans		14		(45)	84	53		53	
Other comprehensive (loss)			(191)			(191)		(191)	(3)
Net income (loss)				588		588	(3)	585	(1)
Repurchase of common stock					(100)	(100)		(100)	
Other transactions impacting noncontrolling interests		(2)				(2)		(2)	(3)
Balance at June 30, 2015	$ 74	$ 2,835	$ (1,125)	$ 11,178	$ (1,672)	$ 11,290	$ 13	$ 11,303	$ 76

The accompanying Notes to the Consolidated Financial Statements (unaudited) are an integral part of these statements.

Table of Contents

Cigna Corporation

Consolidated Statements of Changes in Total Equity

Unaudited **For the six months ended June 30, 2016** *(In millions)*	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Treasury Stock**	**Shareholders Equity**	**Non-controlling Interests**	**Total Equity**	**Redeemable Non-controlling Interests**
Balance at January 1, 2016	$ 74	$ 2,859	$ (1,250)	$ 12,121	$ (1,769)	$ 12,035	$ 9	$ 12,044	$ 69
Effect of issuing stock for employee benefit plans		31		(94)	80	17		17	
Other comprehensive income			406			406		406	2
Net income (loss)				1,029		1,029	(9)	1,020	(3)
Common dividends declared (per share: $0.04)				(10)		(10)		(10)	
Repurchase of common stock					(110)	(110)		(110)	
Other transactions impacting noncontrolling interests		(11)				(11)	8	(3)	3
Balance at June 30, 2016	**$ 74**	**$ 2,879**	**$ (844)**	**$ 13,046**	**$ (1,799)**	**$ 13,356**	**$ 8**	**$ 13,364**	**$ 71**

For the six months ended June 30, 2015 *(In millions)*	**Common Stock**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Treasury Stock**	**Shareholders Equity**	**Non-controlling Interests**	**Total Equity**	**Redeemable Non-controlling Interests**
Balance at January 1, 2015	$ 74	$ 2,769	$ (936)	$ 10,289	$ (1,422)	$ 10,774	$ 15	$ 10,789	$ 90
Effect of issuing stock for employee benefit plans		69		(222)	268	115		115	
Other comprehensive (loss)			(189)			(189)		(189)	(12)
Net income (loss)				1,121		1,121	(5)	1,116	(1)
Common dividends declared (per share: $0.04)				(10)		(10)		(10)	
Repurchase of common stock					(518)	(518)		(518)	
Other transactions impacting noncontrolling interests		(3)				(3)	3	-	(1)
Balance at June 30, 2015	$ 74	$ 2,835	$ (1,125)	$ 11,178	$ (1,672)	$ 11,290	$ 13	$ 11,303	$ 76

The accompanying Notes to the Consolidated Financial Statements (unaudited) are an integral part of these statements.

Table of Contents

Cigna Corporation

Consolidated Statements of Cash Flows

(In millions)	Unaudited Six Months Ended June 30, 2016	2015
Cash Flows from Operating Activities		
Net income	**$ 1,017**	$ 1,115
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	310	302
Realized investment (gains)	(35)	(94)
Deferred income taxes	(17)	(8)
Net changes in assets and liabilities, net of non-operating effects:		
Premiums, accounts and notes receivable	(520)	(1,007)
Reinsurance recoverables	(4)	(53)
Deferred policy acquisition costs	(123)	(112)
Other assets	(83)	41
Insurance liabilities	607	542
Accounts payable, accrued expenses and other liabilities	(58)	216
Current income taxes	54	117
Loss on extinguishment of debt	-	100
Other, net (1)	48	24
Net cash provided by operating activities (1)	**1,196**	1,183
Cash Flows from Investing Activities		
Proceeds from investments sold:		
Fixed maturities and equity securities	712	1,177
Investment maturities and repayments:		
Fixed maturities and equity securities	738	691
Commercial mortgage loans	69	341
Other sales, maturities and repayments (primarily short-term and other long-term investments)	356	714
Investments purchased or originated:		
Fixed maturities and equity securities	(1,701)	(1,813)
Commercial mortgage loans	(16)	(312)
Other (primarily short-term and other long-term investments)	(401)	(541)
Property and equipment purchases	(254)	(246)
Acquisitions, net of cash acquired	(4)	(107)
Net cash used in investing activities	**(501)**	(96)
Cash Flows from Financing Activities		
Deposits and interest credited to contractholder deposit funds	779	769
Withdrawals and benefit payments from contractholder deposit funds	(703)	(733)
Net change in short-term debt	(111)	(10)
Net proceeds on issuance of long-term debt	-	894
Repayment of long-term debt	-	(938)
Repurchase of common stock	(139)	(536)
Issuance of common stock	14	128
Other, net (1)	(63)	(94)
Net cash (used in) financing activities (1)	**(223)**	(520)
Effect of foreign currency rate changes on cash and cash equivalents	14	(18)
Net increase in cash and cash equivalents	486	549
Cash and cash equivalents, January 1,	1,968	1,420
Cash and cash equivalents, June 30,	**$ 2,454**	$ 1,969
Supplemental Disclosure of Cash Information:		

Income taxes paid, net of refunds	**$**	579	$	519
Interest paid	**$**	122	$	122

(1) As required by the adoption of ASU 2016-09, the Company retrospectively reclassified $74 million of cash payments from operating to financing activities for the six months ended June 30, 2015. These payments were related to employee tax obligations associated with stock compensation. The comparable amount reported in financing activities for the six months ended June 30, 2016 was $68 million. See Note 2 for further discussion.

The accompanying Notes to the Consolidated Financial Statements (unaudited) are an integral part of these statements.

Table of Contents

CIGNA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Basis of Presentation and Significant Events

Basis of Presentation

Cigna Corporation, together with its subsidiaries (either individually or collectively referred to as Cigna, the Company, we, our or us) is a g health services organization dedicated to a mission of helping individuals improve their health, well-being and sense of security. To execute on our mission, Cigna s strategy is to Go Deep , Go Global and Go Individual with a differentiated set of medical, dental, disability, life and accident insurance and related products and services offered by our insurance and other subsidiaries. The majority of these products are offered through employers and other groups (e.g. governmental and non-governmental organizations, unions and associations). Cigna also offers commercial health and dental insurance, Medicare and Medicaid products and health, life and accident insurance coverages to individuals in the U.S. and selected international markets. In addition to its ongoing operations described above, Cigna also has certain run-off operations.

The Consolidated Financial Statements include the accounts of Cigna Corporation and its subsidiaries. Intercompany transactions and accounts have been eliminated in consolidation. These Consolidated Financial Statements were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Amounts recorded in the Consolidated Financial Statements necessarily reflect management s estimates and assumptions about medical costs, investment valuation, interest rates and other factors. Significant estimates are discussed throughout these Notes; however, actual results could differ from those estimates. The impact of a change in estimate is generally included in earnings in the period of adjustment. Certain reclassifications have been made to prior year amounts to conform to the current presentation. See Note 2 for further discussion.

These interim Consolidated Financial Statements are unaudited but include all adjustments (including normal recurring adjustments) necessary, in the opinion of management, for a fair statement of financial position and results of operations for the periods reported. The interim Consolidated Financial Statements and Notes should be read in conjunction with the Consolidated Financial Statements and Notes included in the Company s 2015 Form 10-K. The preparation of interim Consolidated Financial Statements necessarily relies heavily on estimates. This and certain other factors, including the seasonal nature of portions of the health care and related benefits business as well as competitive and other market conditions, call for caution in estimating full year results based on interim results of operations.

Note 2 Recent Accounting Pronouncements

The Company s 2015 Form 10-K includes discussion of significant recent accounting pronouncements that either have impacted or may impact our financial statements in the future. The following issuances of, and changes in, accounting pronouncements that apply to the Company have occurred since the Company filed its 2015 Form 10-K.

Recently Adopted Accounting Guidance

Improvements to Employee Share-Based Payment Accounting (Accounting Standards Update (ASU) 2016-09). In March 2016, the Financial Accounting Standards Board (FASB) issued new guidance that changes the accounting for certain aspects of share-based payments to employees. The new guidance requires excess tax benefits or deficiencies to be recorded in the income statement when the awards vest or are settled, requires cash flows related to the excess tax benefits to be classified as an operating activity in the statement of cash flows, permits repurchasing more than was previously allowed of an employee s shares for tax withholding purposes without triggering liability accounting, clarifies that all cash payments made on an employee s behalf for withheld shares are to be presented as a financing activity in the statement of cash flows, and provides an accounting policy election to account for forfeitures as they occur. In addition, the new guidance changes the calculation of common stock equivalents for earnings per share purposes. The new standard is required to be adopted as of January 1, 2017.

As permitted, the Company elected to early adopt the new guidance effective January 1, 2016. Adopting this new guidance resulted in $23 million of tax benefits recorded in net income (in Corporate) during the six months ended June 30, 2016 that previously would have been reported in additional paid-in capital. The change in the calculation of common stock equivalents added approximately one million weighted average shares for the diluted earnings per share calculations for the six months ended June 30, 2016. The Company applied these provisions prospectively.

Table of Contents

The Company retrospectively applied the provisions of the new guidance related to the presentation of employee taxes paid for withheld shares and reclassified $74 million of tax withholding from operating to financing activities in its Consolidated Statement of Cash Flows for the six months ended June 30, 2015. For the six months ended June 30, 2016, the Company reflected $68 million of tax withholding in financing activities. The ability under the new guidance to repurchase more employee shares for tax withholding purposes had no impact on the Company s financial statements. The Company elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period.

Amendments to the Consolidation Analysis (ASU 2015-02). The Company adopted this new consolidation guidance effective January 1, 2016 with no material effect on its financial statements. Among other provisions, the guidance defines limited partnerships as variable interest entities unless substantive kick-out rights or participating rights exist. See Note 10 for additional disclosures about various real estate and security limited partnerships that are newly identified as variable interest entities for which the Company is not the primary beneficiary.

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07). This amendment removed the requirement to categorize all investments for which fair value is measured using the practical expedient of net asset value (NAV) per share within the fair value hierarchy. The Company adopted this new guidance effective January 1, 2016. Upon adoption, the Company began to separately disclose certain separate account investments and provided comparable prior period disclosure. See Note 7 for this separate disclosure information.

Recently Issued Accounting Guidance Not Yet Adopted

Revenue from Contracts with Customers (ASU 2014-09). The FASB issued three new ASUs in 2016 further clarifying the broader revenue guidance:

- Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (ASU 2016-08) that clarifies the definition of principals and agents.

- Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing (ASU 2016-10) that clarifies guidance and adds examples to help companies properly identify performance obligations. This ASU also illustrates when a license provides a customer with a right to use (point in time) versus a right to access (over time) benefit.

- Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients (ASU 2016-12) that clarifies certain aspects of the previously-issued guidance, including the objective of the collectability criterion in the new revenue model.

These clarifications, together with the broader revenue recognition guidance within ASU 2014-09, are required to be adopted beginning January 1, 2018. The Company continues to monitor developing implementation guidance and evaluate these new requirements for its non-insurance customer contracts to determine its method and timing of implementation and any resulting estimated effects on its financial statements.

Financial Instruments Credit Losses (ASU 2016-13). In June 2016, the FASB issued this new standard that introduces a new approach to estimate credit losses on certain types of financial instruments based on expected losses. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The ASU will be effective January 1, 2020, and early adoption is permitted on January 1, 2019. The Company is evaluating the impact of this new standard on its financial statements and disclosures.

Note 3 Mergers and Acquisitions

Proposed Merger

On July 23, 2015, the Company entered into a merger agreement with Anthem, Inc. (Anthem) and Anthem Merger Sub Corp. (Merger Sub), a direct wholly-owned subsidiary of Anthem.

On July 21, 2016, the U.S. Department of Justice (DOJ) announced that it is challenging the proposed merger. Given the nature of the concerns raised by the DOJ and the states who joined, Cigna stepped back and evaluated its options under the merger agreement. As part of this evaluation, the Company sought to understand the various and significant concerns that were raised. Management will continue to fulfill its contractual obligations and to defend itself relative to the DOJ. In light of the DOJ s decision, Cigna does not believe the transaction will close in 2016 and the earliest it could close is 2017, if at all.

Table of Contents

The merger agreement provides (a) for the merger of the Company and Merger Sub, with the Company continuing as the surviving corporation and (b) if certain tax opinions are delivered, immediately following the completion of the initial merger, for the surviving corporation to be merged with and into Anthem, with Anthem continuing as the surviving corporation (collectively, the merger). Subject to certain terms, conditions, and customary operating covenants, each share of Cigna common stock issued and outstanding immediately prior to the effective time of the merger would be converted into the right to receive (a) $103.40 in cash, without interest, and (b) 0.5152 of a share of Anthem common stock. The closing price of Anthem common stock on July 28, 2016 was $132.90.

At special shareholders meetings held in December 2015, Cigna shareholders approved the merger and Anthem shareholders approved the issuance of shares of Anthem common stock in connection with the merger. Completing the merger remains subject to certain customary conditions, including the receipt of certain necessary governmental and regulatory approvals and the absence of a legal restraint prohibiting the merger. Completing the merger is not subject to a financing condition.

If the merger agreement is terminated under certain circumstances, Anthem will be required to pay Cigna a termination fee of $1.85 billion. Anthem s obligation to pay the termination fee arises if the merger agreement is terminated because: (1) a governmental entity, such as the Department of Justice or a state Department of Insurance, has prevented the merger for regulatory reasons and that decision is final and non-appealable; or (2) the merger has not closed by January 31, 2017 (subject to extension to April 30, 2017 under certain circumstances) only because all necessary regulatory approvals have not been received.

The merger agreement contains customary covenants, including covenants that Cigna conduct its business in the ordinary course during the period between entering into the merger agreement and closing. In addition, Cigna s ability to take certain actions prior to closing without Anthem s consent is subject to certain limitations. These limitations relate to, among other matters, the payment of dividends, capital expenditures, the payment or retirement of indebtedness or the incurrence of new indebtedness, settlement of material claims or proceedings, mergers or acquisitions, and certain employment-related matters.

The Company incurred $34 million pre-tax ($26 million after-tax) for the three months and $74 million pre-tax ($62 million after-tax) for the six months ended June 30, 2016 in costs directly related to the proposed merger. These costs primarily consisted of fees for legal, advisory and other professional services.

Note 4 Earnings Per Share (EPS)

Basic and diluted earnings per share were computed as follows:

(Shares in thousands, dollars in millions, except per share amounts)	Basic	Effect of Dilution	Diluted
Three Months Ended June 30,			
2016			
Shareholders net income	$ 510		$ 510

Shares:			
Weighted average	255,381		255,381
Common stock equivalents		4,119	4,119
Total shares	255,381	4,119	259,500
EPS	**$ 2.00**	**$ (0.03)**	**$ 1.97**
2015			
Shareholders net income	$ 588		$ 588
Shares:			
Weighted average	255,730		255,730
Common stock equivalents		4,367	4,367
Total shares	255,730	4,367	260,097
EPS	$ 2.30	$ (0.04)	$ 2.26

Table of Contents

(Shares in thousands, dollars in millions, except per share amounts)	Basic	Effect of Dilution	Diluted
Six Months Ended June 30,			
2016			
Shareholders net income	$ 1,029		$ 1,029
Shares:			
Weighted average	255,101		255,101
Common stock equivalents		4,372	4,372
Total shares	255,101	4,372	259,473
EPS	**$ 4.03**	**$ (0.06)**	**$ 3.97**
2015			
Shareholders net income	$ 1,121		$ 1,121
Shares:			
Weighted average	256,215		256,215
Common stock equivalents		4,453	4,453
Total shares	256,215	4,453	260,668
EPS	$ 4.38	$ (0.08)	$ 4.30

The following outstanding employee stock options were not included in the computation of diluted earnings per share for the three months and six months ended June 30, 2016 and 2015 because their effect was anti-dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2016**	**2015**	**2016**	**2015**
Anti-dilutive options	**2.6**	-	**2.0**	0.7

The Company held 39,587,801 shares of common stock in Treasury as of June 30, 2016, and 38,694,585 shares as of June 30, 2015.

Note 5 Global Health Care Medical Costs Payable

Medical costs payable for the Global Health Care segment reflects estimates of the ultimate cost of claims that have been incurred but not yet reported, those that have been reported but not yet paid (reported claims in process), and other medical care expenses and services payable that are primarily comprised of accruals for incentives and other amounts payable to health care professionals and facilities, as follows:

(In millions)	June 30, 2016	December 31, 2015
Incurred but not yet reported	$ 1,956	$ 1,757
Reported claims in process	423	470
Physician incentives and other medical care expenses and services payable	198	128
Global Health Care medical costs payable	**$ 2,577**	$ 2,355

Table of Contents

Activity in medical costs payable was as follows:

	For the period ended	
(In millions)	**June 30, 2016**	**December 31, 2015**
Balance at January 1,	$ 2,355	$ 2,180
Less: Reinsurance and other amounts recoverable	243	252
Balance at January 1, net	2,112	1,928
Current year	9,621	18,564
Prior years	(83)	(210)
Total incurred	9,538	18,354
Paid costs related to:		
Current year	7,580	16,588
Prior years	1,701	1,582
Total paid	9,281	18,170
Ending Balance, net	2,369	2,112
Add: Reinsurance and other amounts recoverable	208	243
Ending Balance	**$ 2,577**	$ 2,355

Reinsurance and other amounts recoverable includes amounts due from reinsurers and policyholders to cover incurred but not reported and pending claims for minimum premium products and certain administrative services only business where the right of offset does not exist. See Note 6 for additional information on reinsurance. For the six months ended June 30, 2016, actual experience differed from the Company s key assumptions resulting in favorable incurred costs related to prior years medical costs payable of $83 million, or 0.4% of the current year incurred costs as reported for the year ended December 31, 2015. Of the favorability, actual completion factors accounted for 0.3%, and actual medical cost trend resulted in 0.1%.

For the year ended December 31, 2015, actual experience differed from the Company s key assumptions, resulting in favorable incurred costs related to prior years medical costs payable of $210 million, or 1.3% of the current year incurred costs as reported for the year ended December 31, 2014. Actual completion factors accounted for 0.4% of favorability, while actual medical cost trend resulted in 0.7%. The remaining 0.2% was related to an increase in the 2014 reinsurance reimbursement rate from the Centers for Medicare and Medicaid Services (CMS) under The Patient Protection and Affordable Care Act (Health Care Reform).

The impact of prior year development on shareholders net income for the six months ended June 30, 2016 was not significant compared with $44 million for the six months ended June 30, 2015. The favorable effect of prior year development in a given period primarily reflects lower than expected utilization of medical services. Incurred costs related to prior years in the table above do not directly correspond to an increase or decrease to shareholders net income. The primary reason for the difference is that decreases to prior year incurred costs pertaining to the portion of the liability established for moderately adverse conditions are not considered as impacting shareholders net income if they are offset by increases in the current year provision for moderately adverse conditions. The determination of liabilities for Global Health Care medical costs payable requires the Company to make critical accounting estimates. See Note 2(N) to the Consolidated Financial Statements in the Company s 2015 Form 10-K for further information about the assumptions and estimates used to establish this liability.

Note 6 Reinsurance

The Company s insurance subsidiaries enter into agreements with other insurance companies to assume and cede reinsurance. Reinsurance is ceded primarily to limit losses from large exposures and to permit recovery of a portion of direct or assumed losses. Reinsurance is also used in acquisition and disposition transactions when the underwriting company is not being acquired. Reinsurance does not relieve the originating insurer of liability. The Company regularly evaluates the financial condition of its reinsurers and monitors concentrations of its credit risk.

Table of Contents

Effective Exit of GMDB and GMIB Business

In 2013, the Company entered into an agreement with Berkshire Hathaway Life Insurance Company of Nebraska (Berkshire) to effectively exit the guaranteed minimum death benefit (GMDB) and guaranteed minimum income benefit (GMIB) businesses via a reinsurance transaction. Berkshire reinsured 100% of the Company s future claim payments in these businesses, net of other reinsurance arrangements existing at that time. The Berkshire reinsurance agreement is subject to an overall limit with approximately $3.6 billion remaining.

Because this effective exit was accomplished via a reinsurance contract, the amounts related to the reinsured GMDB and GMIB contracts cannot be netted, so the gross assets and liabilities must continue to be measured and reported. The following disclosures provide further context for the methods and assumptions used to determine GMDB assets and liabilities.

GMDB

The Company estimates this liability with an internal model based on its experience and future expectations over an extended period, consistent with the long-term nature of this product. Because the product is premium deficient, the Company records increases to the reserve if it is inadequate based on the model. As a result of the reinsurance transaction, reserve increases have a corresponding increase in the recorded reinsurance recoverable, provided the increased recoverable remains within the overall Berkshire limit (including the GMIB assets).

Activity in the future policy benefit reserve for the GMDB business was as follows:

	For the period ended	
(In millions)	**June 30, 2016**	**December 31, 2015**
Balance at January 1	$ 1,252	$ 1,270
Add: Unpaid claims	18	16
Less: Reinsurance and other amounts recoverable	1,164	1,186
[redacted]	106	[redacted]
Add: Incurred benefits	4	3
Less: Paid benefits	(2)	(3)
Ending balance, net	112	106
Less: Unpaid claims	21	18
Add: Reinsurance and other amounts recoverable	1,195	1,164
Ending balance	**$ 1,286**	$ 1,252

Benefits paid and incurred are net of ceded amounts. The ending net retained reserve covers ongoing administrative expenses, as well as the minor claims exposure retained by the Company.

The table below presents the account value, net amount at risk and number of underlying contractholders for guarantees assumed by the Company in the event of death. The net amount at risk is the amount that the Company would have to pay if all contractholders died as of the specified date. Unless the Berkshire limit is exceeded, the Company should be reimbursed in full for these payments.

(Dollars in millions, excludes impact of reinsurance ceded)	**June 30, 2016**	**December 31, 2015**
Account value	$ 10,662	$ 11,355
Net amount at risk	$ 2,745	$ 2,870
Number of contractholders	299,000	324,000

Table of Contents

Effects of Reinsurance

In the Company s Consolidated Statements of Income, premiums were reported net of amounts ceded to reinsurers and Global Health Care medical costs and other benefit expenses were reported net of reinsurance recoveries in the following amounts:

(In millions)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Ceded premiums				
Individual life insurance and annuity business sold	$ 40	$ 42	$ 81	$ 83
Other	73	104	168	193
Total	**$ 113**	$ 146	**$ 249**	$ 276
Reinsurance recoveries				
Individual life insurance and annuity business sold	$ 66	$ 61	$ 134	$ 147
Other	105	127	201	200
Total	**$ 171**	$ 188	**$ 335**	$ 347

Reinsurance Recoverables

Components of the Company s reinsurance recoverables are presented below:

(In millions)

Line of Business	Reinsurer(s)	June 30, 2016	December 31, 2015	Collateral and Other Terms at June 30, 2016
GMDB	Berkshire	$ 1,149	$ 1,123	100% secured by assets in a trust.
	Other	46	41	99% secured by assets in a trust or letter of credit.
Individual Life and Annuity (sold in 1998)	Lincoln National Life and Lincoln Life & Annuity of New York	3,625	3,705	Both companies ratings are sufficient to avoid triggering a contractual obligation to fully secure the outstanding balance.
Retirement Benefits Business (sold in 2004)	Prudential Retirement Insurance and Annuity	962	995	100% secured by assets in a trust.
Supplemental Benefits Business (2012 acquisition)	Great American Life	306	315	100% secured by assets in a trust.
Global Health Care, Global Supplemental Benefits, Group Disability and Life	Various	538	553	Recoverables arising in the ordinary course of business from approximately 80 reinsurers, including the U.S. Government. Excluding the recoverable from the U.S. Government of approximately $120 million, current balances

				range from less than $1 million up to $95 million, with 17% secured by assets in trusts or letters of credit.
Other run-off reinsurance	Various	79	81	100% of this balance is secured by assets in trusts.
Total reinsurance recoverables		**$ 6,705**	$ 6,813	

Over 90% of the Company s reinsurance recoverables were from companies that were rated A or higher by Standard & Poor s at June 30, 2016. The Company reviews its reinsurance arrangements and establishes reserves against the recoverables if recovery is not considered probable. As of June 30, 2016, the Company s recoverables were net of a reserve of approximately $4 million. The Company bears the risk of loss if its reinsurers and retrocessionaires do not meet or are unable to meet their reinsurance obligations to the Company.

Table of Contents

Note 7 Fair Value Measurements

The Company carries certain financial instruments at fair value in the financial statements including fixed maturities, equity securities, short-term investments and derivatives. Other financial instruments are measured at fair value under certain conditions, such as when impaired.

Fair value is defined as the price at which an asset could be exchanged in an orderly transaction between market participants at the balance sheet date. A liability s fair value is defined as the amount that would be paid to transfer the liability to a market participant, not the amount that would be paid to settle the liability with the creditor.

The Company s financial assets and liabilities carried at fair value have been classified based upon a hierarchy defined by GAAP. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset s or a liability s classification is based on the lowest level of input that is significant to its measurement. For example, a financial asset or liability carried at fair value would be classified in Level 3 if unobservable inputs were significant to the instrument s fair value, even though the measurement may be derived using inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

The Company estimates fair values using prices from third parties or internal pricing methods. Fair value estimates received from third-party pricing services are based on reported trade activity and quoted market prices when available, and other market information that a market participant may use to estimate fair value. The internal pricing methods are performed by the Company s investment professionals and generally involve using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality, as well as other qualitative factors. In instances where there is little or no market activity for the same or similar instruments, fair value is estimated using methods, models and assumptions that the Company believes a hypothetical market participant would use to determine a current transaction price. These valuation techniques involve some level of estimation and judgment that becomes significant with increasingly complex instruments or pricing models.

The Company is responsible for determining fair value, as well as designating the appropriate level within the fair value hierarchy, based on the significance of unobservable inputs. The Company reviews methodologies, processes and controls of third-party pricing services and compares prices on a test basis to those obtained from other external pricing sources or internal estimates. The Company performs ongoing analyses of both prices received from third-party pricing services and those developed internally to determine that they represent appropriate estimates of fair value. The controls executed by the Company include evaluating changes in prices and monitoring for potentially stale valuations. The Company also performs sample testing of sales values to confirm the accuracy of prior fair value estimates. The minimal exceptions identified during these processes indicate that adjustments to prices are infrequent and do not significantly impact valuations. Annually, we conduct an on-site visit of the most significant pricing service to review their processes, methodologies and controls. This on-site review includes a walk-through of inputs of a sample of securities held across various asset types to validate the documented pricing process.

Financial Assets and Financial Liabilities Carried at Fair Value

The following tables provide information as of June 30, 2016 and December 31, 2015 about the Company s financial assets and liabilities carried at fair value. Separate account assets that are also recorded at fair value on the Company s Consolidated Balance Sheets are reported separately under the heading separate account assets as gains and losses related to these assets generally accrue directly to policyholders.

Table of Contents

(In millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
June 30, 2016				
Financial assets at fair value:				
Fixed maturities:				
Federal government and agency	$ 183	$ 568	$ -	$ 751
State and local government	-	1,576	-	1,576
Foreign government	-	2,264	6	2,270
Corporate	-	14,961	451	15,412
Mortgage-backed	-	38	-	38
Other asset-backed	-	275	216	491
Total fixed maturities (1)	**183**	**19,682**	**673**	**20,538**
Equity securities	2	109	70	181
Subtotal	**185**	**19,791**	**743**	**20,719**
Short-term investments	-	469	-	469
GMIB assets (2)	-	-	975	975
Other derivative assets (3)	-	11	-	11
Total financial assets at fair value, excluding separate accounts	**$ 185**	**$ 20,271**	**$ 1,718**	**$ 22,174**
Financial liabilities at fair value:				
GMIB liabilities	$ -	$ -	$ 947	$ 947
Other derivative liabilities	-	2	-	2
Total financial liabilities at fair value	**$ -**	**$ 2**	**$ 947**	**$ 949**
December 31, 2015				
Financial assets at fair value:				
Fixed maturities:				
Federal government and agency	$ 251	$ 528	$ -	$ 779
State and local government	-	1,641	-	1,641
Foreign government	-	2,010	4	2,014
Corporate	-	14,122	326	14,448
Mortgage-backed	-	48	1	49
Other asset-backed	-	198	326	524
Total fixed maturities (1)	251	18,547	657	19,455
Equity securities	32	89	69	190
Subtotal	283	18,636	726	19,645
Short-term investments	-	381	-	381
GMIB assets (2)	-	-	907	907
Other derivative assets (3)	-	16	-	16
Total financial assets at fair value, excluding separate accounts	$ 283	$ 19,033	$ 1,633	$ 20,949
Financial liabilities at fair value:				
GMIB liabilities	$ -	$ -	$ 885	$ 885
Total financial liabilities at fair value	$ -	$ -	$ 885	$ 885

(1) Fixed maturities included $734 million as of June 30, 2016 and $483 million as of December 31, 2015 of net appreciation required to adjust future policy benefits for the run-off settlement annuity business including $28 million as of June 30, 2016 and $30 million as of December 31, 2015 of appreciation for securities classified in Level 3. See Note 8 for additional information.

(2) The GMIB assets represent retrocessional contracts in place from three external reinsurers that cover the exposures on these contracts.

(3) Other derivative assets included $10 million as of June 30, 2016 and $15 million as of December 31, 2015 of interest rate and foreign currency swaps qualifying as cash flow hedges and $1 million as of June 30, 2016 and December 31, 2015 of interest rate and foreign currency swaps qualifying as fair value hedges. See Note 9 for additional information.

Level 1 Financial Assets

Inputs for instruments classified in Level 1 include unadjusted quoted prices for identical assets in active markets accessible at the measurement date. Active markets provide pricing data for trades occurring at least weekly and include exchanges and dealer markets.

Table of Contents

Assets in Level 1 include actively-traded U.S. government bonds and exchange-listed equity securities. Given the narrow definition of Level 1 and the Company s investment asset strategy to maximize investment returns, a relatively small portion of the Company s investment assets are classified in this category.

Level 2 Financial Assets and Financial Liabilities

Inputs for instruments classified in Level 2 include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are market observable or can be corroborated by market data for the term of the instrument. Such other inputs include market interest rates and volatilities, spreads and yield curves. An instrument is classified in Level 2 if the Company determines that unobservable inputs are insignificant.

Fixed maturities and equity securities. Approximately 95% of the Company s investments in fixed maturities and equity securities are classified in Level 2 including most public and private corporate debt and equity securities, federal agency and municipal bonds, non-government mortgage-backed securities and preferred stocks. Because many fixed maturities do not trade daily, third-party pricing services and internal methods often use recent trades of securities with similar features and characteristics. When recent trades are not available, pricing models are used to determine these prices. These models calculate fair values by discounting future cash flows at estimated market interest rates. Such market rates are derived by calculating the appropriate spreads over comparable U.S. Treasury securities, based on the credit quality, industry and structure of the asset. Typical inputs and assumptions to pricing models include, but are not limited to, a combination of benchmark yields, reported trades, issuer spreads, liquidity, benchmark securities, bids, offers, reference data, and industry and economic events. For mortgage-backed securities, inputs and assumptions may also include characteristics of the issuer, collateral attributes, prepayment speeds and credit rating.

Nearly all of these instruments are valued using recent trades or pricing models. Less than 1% of the fair value of investments classified in Level 2 represents foreign bonds that are valued using a single unadjusted market-observable input derived by averaging multiple broker-dealer quotes, consistent with local market practice.

Short-term investments are carried at fair value which approximates cost. On a regular basis, the Company compares market prices for these securities to recorded amounts to validate that current carrying amounts approximate exit prices. The short-term nature of the investments and corroboration of the reported amounts over the holding period support their classification in Level 2.

Other derivatives classified in Level 2 represent over-the-counter instruments such as interest rate and foreign currency swap contracts. Fair values for these instruments are determined using market observable inputs including forward currency and interest rate curves and widely published market observable indices. Credit risk related to the counterparty and the Company is considered when estimating the fair values of these derivatives. However, the Company is largely protected by collateral arrangements with counterparties and determined that no adjustment for

credit risk was required as of June 30, 2016 or December 31, 2015. Level 2 also includes exchange-traded interest rate swap contracts. Credit risk related to the clearinghouse counterparty and the Company is considered minimal when estimating the fair values of these derivatives because of upfront margin deposits and daily settlement requirements. The nature and use of these other derivatives are described in Note 9.

Level 3 Financial Assets and Financial Liabilities

Certain inputs for instruments classified in Level 3 are unobservable (supported by little or no market activity) and significant to their resulting fair value measurement. Unobservable inputs reflect the Company s best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The Company classifies certain newly issued, privately-placed, complex or illiquid securities, as well as assets and liabilities relating to GMIB, in Level 3. Approximately 4% of fixed maturities and equity securities are priced using significant unobservable inputs and classified in this category.

Table of Contents

Fair values of other asset and mortgage-backed securities, corporate and government fixed maturities are primarily determined using pricing models that incorporate the specific characteristics of each asset and related assumptions including the investment type and structure, credit quality, industry and maturity date in comparison to current market indices, spreads and liquidity of assets with similar characteristics. For other asset and mortgage-backed securities, inputs and assumptions for pricing may also include collateral attributes and prepayment speeds. Recent trades in the subject security or similar securities are assessed when available, and the Company may also review published research in its evaluation, as well as the issuer s financial statements.

Quantitative Information about Unobservable Inputs

The following tables summarize the fair value and significant unobservable inputs used in pricing the following securities that were developed directly by the Company as of June 30, 2016 and December 31, 2015. The range and weighted average basis point amounts (bps) for fixed maturity spreads (adjustment to discount rates) and price-to-earnings multiples for equity investments reflect the Company s best estimates of the unobservable adjustments a market participant would make to calculate these fair values.

Other asset and mortgage-backed securities. The significant unobservable inputs used to value the following other asset and mortgage-backed securities are liquidity and weighting of credit spreads. When there is limited trading activity for the security, an adjustment for liquidity is made as of the measurement date that considers current market conditions, issuer circumstances and complexity of the security structure. An adjustment to weight credit spreads is needed to value a more complex bond structure with multiple underlying collateral and no standard market valuation technique. The weighting of credit spreads is primarily based on the underlying collateral s characteristics and their proportional cash flows supporting the bond obligations. The resulting wide range of unobservable adjustments in the table below is due to the varying liquidity and quality of the underlying collateral, ranging from high credit quality to below investment grade.

Corporate and government fixed maturities. The significant unobservable input used to value the following corporate and government fixed maturities is an adjustment for liquidity. When there is limited trading activity for the security, an adjustment is needed to reflect current market conditions and issuer circumstances.

Equity securities. The significant unobservable input used to value the following equity securities is a multiple of earnings before interest, taxes, depreciation and amortization (EBITDA). These securities are comprised of private equity investments with limited trading activity and therefore a ratio of EBITDA is used to estimate value based on company circumstances and relative risk characteristics.

(Fair value in millions)	Fair Value	Unobservable Input	Unobservable Adjustment Range (Weighted Average)
As of June 30, 2016			
Fixed maturities:			
Other asset and mortgage-backed securities	$ 216	Liquidity	60 - 470 (220) bps
		Weighting of credit spreads	190 - 750 (280) bps

Corporate and government fixed maturities		425	Liquidity	70 - 1,220 (370) bps
Total fixed maturities		641		
Equity securities		70	Price-to-earnings multiples	4.2 - 11.6 (8.2)
Subtotal		711		
Securities not priced by the Company(1)		32		
Total Level 3 securities	**$**	**743**		
As of December 31, 2015				
Fixed maturities:				
Other asset and mortgage-backed securities	$	327	Liquidity	60 - 440 (200) bps
			Weighting of credit spreads	170 - 630 (220) bps
Corporate and government fixed maturities		285	Liquidity	70 - 930 (280) bps
Total fixed maturities		612		
Equity securities		69	Price-to-earnings multiples	4.2 - 11.6 (8.3)
Subtotal		681		
Securities not priced by the Company(1)		45		
Total Level 3 securities	$	726		

(1) The fair values for these securities use single, unadjusted non-binding broker quotes not developed directly by the Company.

Table of Contents

Significant increases in fixed maturity spreads would result in a lower fair value measurement while decreases in these inputs would result in a higher fair value measurement. Significant decreases in equity price-to-earnings multiples would result in a lower fair value measurement while increases in these inputs would result in a higher fair value measurement. Generally, the unobservable inputs are not interrelated and a change in the assumption used for one unobservable input is not accompanied by a change in the other unobservable input.

GMIB contracts. As discussed in Note 6, the Company effectively exited the GMIB business in 2013. Although these GMIB assets and liabilities must continue to be reported as derivatives at fair value, the only assumption that is expected to impact future shareholders net income is the risk of non-performance. This assumption reflects a market participant s view of (a) the risk of a subsidiary of the Company not fulfilling its GMIB obligations (GMIB liabilities) and (b) the credit risk that the reinsurers do not pay their obligations (GMIB assets). As of June 30, 2016, there were three reinsurers for GMIB, with collateral securing 67% of the balance.

The Company reports GMIB liabilities and assets as derivatives at fair value because the cash flows of these liabilities and assets are affected by equity markets and interest rates, but are without significant life insurance risk and are settled in lump sum payments. Under the terms of these written and purchased contracts, the Company periodically receives and pays fees based on either contractholders account values or deposits increased at a contractual rate. The Company will also pay and receive cash depending on account values and interest rates when contractholders elect to begin to receive minimum income payments. The Company estimates the fair value of the assets and liabilities for GMIB contracts by calculating the results for many scenarios run through a model utilizing various assumptions that include non-performance risk, among other things.

The non-performance risk adjustment is incorporated by adding an additional spread to the discount rate in the calculation of both (a) the GMIB liabilities to reflect a market participant s view of the risk of a subsidiary of the Company not fulfilling its GMIB obligations, and (b) the GMIB assets to reflect a market participant s view of the credit risk of the reinsurers, after considering collateral.

Other assumptions that affect GMIB assets and liabilities include capital market assumptions (including market returns, interest rates and market volatilities of the underlying equity and bond mutual fund investments) and future annuitant behavior (including mortality, lapse and annuity election rates). As certain assumptions used to estimate fair values for these contracts are largely unobservable (primarily related to future annuitant behavior), the Company classifies GMIB assets and liabilities in Level 3.

The Company regularly evaluates each of the assumptions used in establishing these assets and liabilities. Significant decreases in assumed lapse rates or spreads used to calculate non-performance risk, or increases in assumed annuity election rates, would result in higher fair value measurements. A change in one of these assumptions is not necessarily accompanied by a change in another assumption.

GMIB liabilities are reported in the Company s Consolidated Balance Sheets in accounts payable, accrued expenses and other liabilities. GMIB assets associated with these contracts represent net receivables in connection with reinsurance that the Company has purchased from three external reinsurers and are reported in the Company s Consolidated Balance Sheets in other assets, including other intangibles.

Changes in Level 3 Financial Assets and Financial Liabilities Carried at Fair Value

The following tables summarize the changes in financial assets and financial liabilities classified in Level 3 for the three months and six months ended June 30, 2016 and 2015. Separate account asset changes are reported separately under the heading separate account assets as the changes in fair values of these assets accrue directly to the policyholders. Gains and losses reported in these tables may include net changes in fair value that are attributable to both observable and unobservable inputs.

Table of Contents

Balance at April 1, 2016	**$ 792**	**$ 957**	**$ (941)**	**$ 16**
GMIB fair value gain/(loss)	**-**	**32**	**(32)**	**-**
	9	**-**	**12**	**12**
Total gains (losses) included in shareholders net income	**9**	**32**	**(20)**	**12**
	(1)	**-**	**-**	**-**
Gains required to adjust future policy benefits for settlement annuities (1)	**24**	**-**	**-**	**-**
Purchases	**23**	**-**	**-**	-
	(125)	**-**	**-**	-
Settlements	**(5)**	**(14)**	**14**	**-**
	(107)	**(14)**	**14**	**-**
Transfers into/(out of) Level 3:				
	63	**-**	**-**	**-**
Transfers out of Level 3	**(37)**	**-**	**-**	**-**
	26	**-**	**-**	**-**
Balance at June 30, 2016	**$ 743**	**$ 975**	**$ (947)**	**$ 28**
	$ (1)	**$ 32**	**$ (20)**	**$ 12**

Balance at April 1, 2015	$ 818	$ 970	$ (948)	$ 22
GMIB fair value gain/(loss)	-	(94)	94	-
Total gains (losses) included in shareholders net income	15	(93)	97	4
Losses required to adjust future policy benefits for settlement annuities (1)	(4)	-	-	-
Purchases	100	-	-	-
Settlements	(4)	(10)	10	-
Transfers into/(out of) Level 3:				
Transfers out of Level 3	(30)	-	-	-
Balance at June 30, 2015	$ 666	$ 867	$ (841)	$ 26

(1) Amounts do not accrue to shareholders.

Table of Contents

Balance at January 1, 2016	**$ 726**	**$ 907**	**$ (885)**	**$ 22**
GMIB fair value gain/(loss)	**-**	**93**	**(93)**	**-**
	(16)	**(1)**	**7**	**6**
Total gains (losses) included in shareholders net income	**(16)**	**92**	**(86)**	**6**
	(1)	**-**	**-**	**-**
Gains required to adjust future policy benefits for settlement annuities (1)	**35**	**-**	**-**	**-**
Purchases	**47**	**-**	**-**	**-**
	(125)	**-**	**-**	**-**
Settlements	**(16)**	**(24)**	**24**	**-**
	(94)	**(24)**	**24**	**-**
Transfers into/(out of) Level 3:				
	191	**-**	**-**	**-**
Transfers out of Level 3	**(98)**	**-**	**-**	**-**
	93	**-**	**-**	**-**
Balance at June 30, 2016	**$ 743**	**$ 975**	**$ (947)**	**$ 28**
	$ (23)	**$ 92**	**$ (86)**	**$ 6**

Balance at January 1, 2015	$ 857	$ 953	$ (929)	$ 24
GMIB fair value gain/(loss)	-	(67)	67	-
Total gains (losses) included in shareholders net income	28	(67)	69	2
Gains required to adjust future policy benefits for settlement annuities (1)	2	-	-	-
Purchases	111	-	-	-
Settlements	(7)	(19)	19	-
Transfers into/(out of) Level 3:				
Transfers out of Level 3	(81)	-	-	-
Balance at June 30, 2015	$ 666	$ 867	$ (841)	$ 26

(1) Amounts do not accrue to shareholders.

Table of Contents

As noted in the tables above, total gains and losses included in shareholders net income are reflected in the following captions in the Consolidated Statements of Income:

- Realized investment gains (losses) and net investment income for amounts related to fixed maturities and equity securities and realized investment gains (losses) for the impact of changes in non-performance risk related to GMIB assets and liabilities, similar to hedge ineffectiveness; and
- Other operating expenses for amounts related to GMIB assets and liabilities (GMIB fair value gain/loss), except for the impact of changes in non-performance risk.

In the tables above, gains and losses included in other comprehensive income are reflected in net unrealized appreciation (depreciation) on securities in the Consolidated Statements of Comprehensive Income.

Reclassifications impacting Level 3 financial instruments are reported as transfers into or out of the Level 3 category as of the beginning of the quarter in which the transfer occurs. Therefore gains and losses in income only reflect activity for the period the instrument was classified in Level 3.

Transfers into or out of the Level 3 category occur when unobservable inputs, such as the Company s best estimate of what a market participant would use to determine a current transaction price, become more or less significant to the fair value measurement. For the three months ended June 30, 2016, transfers between Level 2 and Level 3 primarily reflect changes in the credit risk estimates for certain private placement issuers in the energy and consumer sectors. For the six months ended June 30, 2016, transfers between Level 2 and Level 3 primarily reflect changes in liquidity and credit risk estimates for certain private placement issuers in the metals, mining, energy and consumer sectors. For the three months and six months ended June 30, 2015, transfers out of Level 3 primarily reflect a change in the significance of the unobservable inputs related to liquidity and credit estimates used to value several private corporate bonds.

Separate account assets

Fair values and changes in the fair values of separate account assets generally accrue directly to the policyholders and are excluded from the Company s revenues and expenses. Beginning in 2016, investments that are measured using the practical expedient of NAV (see Note 2 for additional information) are excluded from the fair value hierarchy. Prior periods have been reclassified to conform to the current presentation. As of June 30, 2016 and December 31, 2015, separate account assets were as follows:

Guaranteed separate accounts (See Note 16)	$ 242	$ 264	$ -	$ 506
[redacted]	1,382	4,815	333	6,530
Subtotal	$ 1,624	$ 5,079	$ 333	7,036
[redacted]				934

Total separate account assets			**$**	**7,970**
Guaranteed separate accounts (See Note 16)	$ 235	$ 274	$ -	$ 509
Subtotal	$ 1,636	$ 4,972	$ 297	6,905
Total separate account assets				$ 7,833

(1) Non-guaranteed separate accounts included $3.7 billion as of June 30, 2016 and $3.6 billion as of December 31, 2015 in assets supporting the Company s pension plans, with $0.3 billion classified in Level 3 and $0.9 billion priced at NAV as a practical expedient for both periods.

Table of Contents

Separate account assets in Level 1 primarily include exchange-listed equity securities. Level 2 assets primarily include:

- corporate and structured bonds valued using recent trades of similar securities or pricing models that discount future cash flows at estimated market interest rates as described above; and
- actively-traded institutional and retail mutual fund investments and separate accounts priced using the daily net asset value that is the exit price.

Separate account assets classified in Level 3 include certain newly issued, privately-placed, complex, or illiquid securities that are priced using methods discussed above, as well as commercial mortgage loans that are valued according to the methodologies discussed below. The following tables summarize the changes in separate account assets reported in Level 3 for the three months and six months ended June 30, 2016 and 2015.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2016**	**2015**	**2016**	**2015**
Balance, beginning of period	$ 317	$ 259	$ 297	$ 255
Policyholder gains (losses)	2	(3)	1	(2)
Purchases, sales and settlements:				
Purchases	1	19	5	29
Sales	-	-	(1)	-
Settlements	-	(2)	(2)	(5)
Total purchases, sales and settlements	1	17	2	24
Transfers into/(out of) Level 3:				
Transfers into Level 3	16	-	39	-
Transfers out of Level 3	(3)	-	(6)	(4)
Total transfers into/(out of) Level 3	13	-	33	(4)
Balance, end of period	**$ 333**	$ 273	**$ 333**	$ 273

Separate account investments in securities partnerships, real estate, and hedge funds are generally valued based on the separate account s ownership share of the equity of the investee (NAV as a practical expedient), including changes in the fair values of its underlying investments. The table below provides additional information on these investments.

	Fair Value as of		Unfunded	Redemption Frequency	Redemption Notice
(In millions)	**June 30, 2016**	**December 31, 2015**	**Commitments**	**(if currently eligible)***	**Period***
Security Partnerships	$ 434	$ 406	$ 299	Not applicable	Not applicable
Real Estate Funds	274	261	-	Quarterly	45-90 days
Hedge Funds	226	261	-	Up to Annually, varying by fund	30-90 days
Total	$ **934**	$ 928	$ 299		

** The attributes noted are effective as of June 30, 2016 and December 31, 2015.*

Table of Contents

Assets and Liabilities Measured at Fair Value under Certain Conditions

Some financial assets and liabilities are not carried at fair value each reporting period, but may be measured using fair value only under certain conditions, such as investments in real estate, partnership entities and commercial mortgage loans when they become impaired. Impaired values for these asset types classified as Level 3 representing less than 1% of total investments, were written down to their fair values, resulting in realized investment losses of $2 million, after tax for the six months ended June 30, 2016 and $7 million, after tax for the six months ended June 30, 2015.

Fair Value Disclosures for Financial Instruments Not Carried at Fair Value

The following table includes the Company s financial instruments not recorded at fair value that are subject to fair value disclosure requirements at June 30, 2016 and December 31, 2015. In addition to universal life products and capital leases, financial instruments that are carried in the Company s Consolidated Financial Statements at amounts that approximate fair value are excluded from the following table.

(In millions)	Classification in the Fair Value Hierarchy	June 30, 2016 Fair Value	June 30, 2016 Carrying Value	December 31, 2015 Fair Value	December 31, 2015 Carrying Value
Commercial mortgage loans	Level 3	$ 1,876	$ 1,814	$ 1,911	$ 1,864
Contractholder deposit funds, excluding universal life products	Level 3	$ 1,215	$ 1,206	$ 1,151	$ 1,148
Long-term debt, including current maturities, excluding capital leases	Level 2	$ 5,740	$ 5,046	$ 5,515	$ 5,020

The fair values for all financial instruments presented in the table above have been estimated using market information when available. The following valuation methodologies and inputs are used by the Company to determine fair value.

***Commercial mortgage loans*.** The Company estimates the fair value of commercial mortgage loans generally by discounting the contractual cash flows using estimated market interest rates that reflect the Company s assessment of the credit quality of the loans. Market interest rates are derived by calculating the appropriate spread over comparable U.S. Treasury rates, based on the property type, quality rating and average life of the loan. The quality ratings reflect the relative risk of the loan, considering debt service coverage, the loan-to-value ratio and other factors. Fair values of impaired mortgage loans are based on the estimated fair value of the underlying collateral generally determined using an internal discounted cash flow model. The fair value measurements were classified in Level 3 because the cash flow models incorporate significant unobservable inputs.

***Contractholder deposit funds, excluding universal life products*.** Generally, these funds do not have stated maturities. Approximately 70% of these balances can be withdrawn by the customer at any time without prior notice or penalty. The fair value for these contracts is the amount estimated to be payable to the customer as of the reporting date, which is generally the carrying value. Most of the remaining contractholder deposit funds are reinsured by the buyers of the

individual life and annuity and retirement benefits businesses. The fair value for these contracts is determined using the fair value of these buyers assets supporting these reinsured contracts. The Company had reinsurance recoverables equal to the carrying value of these reinsured contracts. These instruments were classified in Level 3 because certain inputs are unobservable (supported by little or no market activity) and significant to their resulting fair value measurement.

***Long-term debt, including current maturities, excluding capital leases*.** The fair value of long-term debt is based on quoted market prices for recent trades. When quoted market prices are not available, fair value is estimated using a discounted cash flow analysis and the Company s estimated current borrowing rate for debt of similar terms and remaining maturities. These measurements were classified in Level 2 because the fair values are based on quoted market prices or other inputs that are market observable or can be corroborated by market data.

Fair values of off-balance-sheet financial instruments were not material as of June 30, 2016 and December 31, 2015.

Table of Contents

Note 8 Investments

Total Realized Investment Gains and Losses

The following realized gains and (losses) on investments exclude amounts required to adjust future policy benefits for the run-off settlement annuity business:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2016**	**2015**	**2016**	**2015**
Fixed maturities	$ 6	$ 12	$ (12)	$ 19
Equity securities	11	1	1	14
Commercial mortgage loans	4	(3)	4	2
Other investments, including derivatives	46	11	42	59
Realized investment gains before income taxes	**67**	21	**35**	94
Less income taxes	23	8	12	33
Net realized investment gains	**$ 44**	$ 13	**$ 23**	$ 61

Included in these realized investment gains (losses) were pre-tax asset write-downs as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2016**	**2015**	**2016**	**2015**
Other-than-temporary impairments on debt securities:				
Credit-related	$ (1)	$ (1)	$ (19)	$ (1)
Non credit-related (1)	(2)	(9)	(11)	(14)
Total other-than-temporary impairments on debt securities	**(3)**	(10)	**(30)**	(15)
Other asset write-downs (2)	(4)	(5)	(13)	(11)
Total	**$ (7)**	$ (15)	**$ (43)**	$ (26)

(1) These write-downs pertain to other-than-temporary declines in fair values due to increases in market yields (widening of credit spreads), particularly within the energy sector, for certain below investment grade fixed maturities with an increased probability of sales activity prior to recovery of their amortized cost basis.

(2) Other asset write-downs include other-than-temporary declines in fair values of equity securities, increases in valuation reserves on commercial mortgage loans and asset write-downs related to real estate investments and security partnerships.

Sales information for available-for-sale fixed maturities and equity securities was as follows:

(In millions)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Proceeds from sales	$ 351	$ 784	$ 712	$ 1,177
Gross gains on sales	$ 22	$ 24	$ 34	$ 51
Gross losses on sales	$ 1	$ 2	$ 6	$ 4

Table of Contents

Fixed Maturities and Equity Securities

The amortized cost and fair value by contractual maturity periods for fixed maturities were as follows at June 30, 2016:

(In millions)		Amortized Cost		Fair Value
Due in one year or less	$	1,473	$	1,480
Due after one year through five years		6,449		6,813
Due after five years through ten years		6,996		7,477
Due after ten years		3,331		4,239
Mortgage and other asset-backed securities		496		529
Total	**$**	**18,745**	**$**	**20,538**

Actual maturities of these securities could differ from their contractual maturities used in the table above. This could occur because issuers may have the right to call or prepay obligations, with or without penalties.

Gross unrealized appreciation (depreciation) on fixed maturities by type of issuer is shown below.

(In millions)	Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
		June 30, 2016		
Federal government and agency	$ 448	$ 303	$ -	$ 751
State and local government	1,411	165	-	1,576
Foreign government	2,062	209	(1)	2,270
Corporate	14,328	1,145	(61)	15,412
Mortgage-backed	37	1	-	38
Other asset-backed	459	37	(5)	491
Total	**$ 18,745**	**$ 1,860**	**$ (67)**	**$ 20,538**
(In millions)		**December 31, 2015**		
Federal government and agency	$ 528	$ 251	$ -	$ 779
State and local government	1,496	147	(2)	1,641
Foreign government	1,870	147	(3)	2,014
Corporate	14,022	632	(206)	14,448
Mortgage-backed	48	2	(1)	49
Other asset-backed	492	39	(7)	524
Total	$ 18,456	$ 1,218	$ (219)	$ 19,455

The above table includes investments with a fair value of $2.9 billion at June 30, 2016 and $2.7 billion at December 31, 2015 supporting liabilities of the Company s run-off settlement annuity business. These investments had gross unrealized appreciation of $738 million and gross unrealized depreciation of $4 million at June 30, 2016, compared with gross unrealized appreciation of $521 million and gross unrealized depreciation of $38 million at December 31, 2015. Such unrealized amounts are reported in future policy benefit liabilities rather than accumulated other comprehensive income.

Review of declines in fair value. Management reviews fixed maturities with a decline in fair value from cost for impairment based on criteria that include:

- length of time and severity of decline;
- financial health and specific near term prospects of the issuer;
- changes in the regulatory, economic or general market environment of the issuer s industry or geographic region; and
- the Company s intent to sell or the likelihood of a required sale prior to expected recovery.

Table of Contents

The table below summarizes fixed maturities in an unrealized loss position at June 30, 2016 by the length of time these securities have been in an unrealized loss position. These fixed maturities were primarily corporate securities with a decline in fair value that reflects an increase in market yields since purchase.

	June 30, 2016			
(Dollars in millions)	**Fair Value**	**Amortized Cost**	**Unrealized Depreciation**	**Number of Issues**
One year or less:				
Investment grade	$ 471	$ 479	$ (8)	107
Below investment grade	$ 274	$ 281	$ (7)	148
More than one year:				
Investment grade	$ 382	$ 406	$ (24)	56
Below investment grade	$ 283	$ 311	$ (28)	39

There were no available for sale equity securities with a significant unrealized loss reflected in accumulated other comprehensive income at June 30, 2016. Equity securities also include hybrid investments consisting of preferred stock with call features that are carried at fair value with changes in fair value reported in other realized investment gains (losses) and dividends reported in net investment income. As of June 30, 2016, fair values of these securities were $36 million and amortized cost was $51 million. As of December 31, 2015, fair values of these securities were $52 million and amortized cost was $66 million.

Commercial Mortgage Loans

Mortgage loans held by the Company are made exclusively to commercial borrowers and are diversified by property type, location and borrower. Loans are generally issued at a fixed rate of interest and are secured by high quality, primarily completed and substantially leased operating properties.

Credit quality. The Company regularly evaluates and monitors credit risk, beginning with the initial underwriting of a mortgage loan and continuing throughout the investment holding period. Mortgage origination professionals employ an internal credit quality rating system designed to evaluate the relative risk of the transaction at origination that is then updated each year as part of the annual portfolio loan review. The Company evaluates and monitors credit quality on an ongoing basis, classifying each loan as a loan in good standing, potential problem loan or problem loan.

Quality ratings are based on our evaluation of a number of key inputs related to the loan including real estate market-related factors such as rental rates and vacancies, and property-specific inputs such as growth rate assumptions and lease rollover statistics. However, the two most significant contributors to the credit quality rating are the debt service coverage and loan-to-value ratios. The debt service coverage ratio measures the amount of property cash flow available to meet annual interest and principal payments on the debt, with a ratio below 1.0 indicating that there is not enough cash flow to cover the required loan payments. The loan-to-value ratio, commonly expressed as a percentage, compares the amount of the loan to the fair value of the underlying property collateralizing the loan.

The following tables summarize the credit risk profile of the Company s commercial mortgage loan portfolio based on loan-to-value and debt service coverage ratios, as of June 30, 2016 and December 31, 2015:

	June 30, 2016 Debt Service Coverage Ratio					
(In millions) **Loan-to-Value Ratios**	**1.30x or Greater**	**1.20x to 1.29x**	**1.10x to 1.19x**	**1.00x to 1.09x**	**Less than 1.00x**	**Total**
Below 50%	$ 482	$ 16	$ -	$ -	$ -	$ 498
50% to 59%	502	24	19	38	-	583
60% to 69%	542	14	-	-	-	556
70% to 79%	-	-	30	-	35	65
80% to 89%	-	-	-	40	-	40
90% to 100%	-	-	-	-	72	72
Total	**$ 1,526**	**$ 54**	**$ 49**	**$ 78**	**$ 107**	**$ 1,814**

Table of Contents

	December 31, 2015 Debt Service Coverage Ratio					
(In millions) **Loan-to-Value Ratios**	**1.30x or Greater**	**1.20x to 1.29x**	**1.10x to 1.19x**	**1.00x to 1.09x**	**Less than 1.00x**	**Total**
Below 50%	$ 261	$ 2	$ -	$ 67	$ -	$ 330
50% to 59%	683	-	-	24	-	707
60% to 69%	590	14	-	19	-	623
70% to 79%	-	-	-	30	36	66
80% to 89%	40	-	-	-	-	40
90% to 100%	-	-	-	-	98	98
Total	$ 1,574	$ 16	$ -	$ 140	$ 134	$ 1,864

The Company s annual in-depth review of its commercial mortgage loan investments is the primary mechanism for identifying emerging risks in the portfolio. The most recent review was completed by the Company s investment professionals in the second quarter of 2016 and included an analysis of each underlying property s most recent annual financial statements, rent rolls, operating plans, budgets, a physical inspection of the property and other pertinent factors. Based on historical results, current leases, lease expirations and rental conditions in each market, the Company estimates the current year and future stabilized property income and fair value and categorizes the investments as loans in good standing, potential problem loans or problem loans. The results of the 2016 review showed slight improvement from the prior review in each of the key metrics and confirmed the overall strength of the portfolio. Based on property values and cash flows estimated as part of this review, the portfolio s average loan-to-value ratio improved to 57% at June 30, 2016 compared with 58% at December 31, 2015 and the portfolio s average debt service coverage ratio improved to 1.88 at June 30, 2016 compared with 1.78 at December 31, 2015. These improvements are primarily attributable to improvements in property operations and the relative stability of these metrics is primarily due to low portfolio turnover.

The Company will reevaluate a loan s credit quality between annual reviews if new property information is received or an event such as delinquency or a borrower s request for restructure causes management to believe that the Company s estimate of financial performance, fair value or the risk profile of the underlying property has been impacted.

Potential problem mortgage loans are considered current (no payment is more than 59 days past due), but they exhibit certain characteristics that increase the likelihood of future default. The characteristics management considers include, but are not limited to, the deterioration of debt service coverage below 1.0, estimated loan-to-value ratios increasing to 100% or more, downgrade in quality rating and requests from the borrower for restructuring. In addition, loans are considered potential problems if principal or interest payments are past due by more than 30 but less than 60 days. Problem mortgage loans are either in default by 60 days or more or have been restructured as to terms that could include concessions on interest rate, principal payment or maturity date. The Company monitors each problem and potential problem mortgage loan on an ongoing basis, and updates the loan categorization and quality rating when warranted.

Problem and potential problem mortgage loans, net of valuation reserves, totaled $112 million at June 30, 2016 and $139 million at December 31, 2015.

Impaired commercial mortgage loans. A commercial mortgage loan is considered impaired when it is probable that the Company will not collect all amounts due according to the terms of the original loan agreement. These loans are included in either problem or potential problem loans. The Company monitors credit risk and assesses the impairment of loans individually and on a consistent basis for all loans in the portfolio. Impaired loans are carried at the lower of unpaid principal balance or the fair value of the underlying real estate. Certain commercial mortgage loans without valuation reserves are considered impaired because the Company will not collect all interest due according to the terms of the original agreements; however, the Company expects to recover the unpaid principal because it is less than

the fair value of the underlying real estate.

The carrying value of the Company s impaired commercial mortgage loans and related valuation reserves were as follows:

	June 30, 2016			December 31, 2015		
(In millions)	**Gross**	**Reserves**	**Net**	**Gross**	**Reserves**	**Net**
Impaired commercial mortgage loans with valuation reserves	**$ 83**	**$ (11)**	**$ 72**	$ 113	$ (15)	$ 98
Impaired commercial mortgage loans without valuation reserves	**-**	**-**	**-**	-	-	-
Total	**$ 83**	**$ (11)**	**$ 72**	$ 113	$ (15)	$ 98

Table of Contents

The average recorded investment in impaired loans was $102 million during the six months ended June 30, 2016 and $135 million during the six months ended June 30, 2015. Because of the risk profile of the underlying investment, the Company recognizes interest income on impaired mortgage loans only when payment is actually received.

Changes in valuation reserves for commercial mortgage loans were not material for the six months ended June 30, 2016 and 2015.

Short-term investments and cash equivalents

Short-term investments and cash equivalents include corporate securities of $1.7 billion, federal government securities of $181 million and money market funds of $32 million as of June 30, 2016. The Company s short-term investments and cash equivalents as of December 31, 2015 included corporate securities of $925 million, federal government securities of $220 million and money market funds of $55 million.

Note 9 Derivative Financial Instruments

The Company uses derivative financial instruments to manage the characteristics of investment assets (such as duration, yield, currency and liquidity) to meet the varying demands of the related insurance and contractholder liabilities (such as paying claims, investment returns and withdrawals) and to hedge interest rate risk of its long-term debt. The Company has written and purchased GMIB reinsurance contracts in its run-off reinsurance business that are accounted for as freestanding derivatives. For further information on the Company s accounting policy for derivative financial instruments, see Note 2(C) to the Consolidated Financial Statements contained in the Company s 2015 Form 10-K. Derivatives in the Company s separate accounts are excluded from the following discussion because associated gains and losses generally accrue directly to separate account policyholders.

Collateral and termination features. The Company routinely monitors exposure to credit risk associated with derivatives and diversifies the portfolio among approved dealers of high credit quality to minimize this risk. As of June 30, 2016, the Company had $15 million in cash on deposit representing the upfront margin required for the Company s centrally-cleared derivative instruments. Certain of the Company s over-the-counter derivative instruments contain provisions requiring either the Company or the counterparty to post collateral or demand immediate payment depending on the amount of the net liability position and predefined financial strength or credit rating thresholds. Collateral posting requirements vary by counterparty. The net asset or liability positions of these derivatives were not material as of June 30, 2016 or December 31, 2015.

Investment Cash Flow and Fair Value Hedges

Using cash flow hedge accounting, the Company entered into interest rate, foreign currency, and combination (interest rate and foreign currency) swap contracts to hedge the interest and foreign currency cash flows of its fixed maturity bonds to match associated insurance liabilities. Fair values are reported in other long-term investments or accounts payable, accrued expenses and other liabilities. Changes in fair value are reported in accumulated other comprehensive income and amortized into net investment income or reported in other realized investment gains and losses as interest or principal payments are received.

During the second quarter of 2016, the Company entered into foreign currency swap contracts to hedge the foreign exchange related changes in fair value of its fixed maturity bonds to match associated insurance liabilities. Using fair value hedge accounting, fair values are reported in other long-term investments or accounts payable, accrued expenses and other liabilities. Changes in fair value of the swap, as well as changes in fair value of the hedged bond attributable to the hedged risk are reported in other realized investment gains and losses.

Under the terms of these various contracts, the Company periodically exchanges cash flows between variable and fixed interest rates or between two currencies for both principal and interest. Foreign currency and combination swaps are primarily Euros, Canadian dollars and Japanese yen and have terms for periods of up to seven years. Net interest cash flows are reported in operating activities.

The notional values of these cash flow swaps were $82 million as of June 30, 2016 and $131 million as of December 31, 2015. The notional value of the fair value swap entered into during the second quarter of 2016 was $23 million as of June 30, 2016.

As of June 30, 2016 and December 31, 2015, and for the three months and six months ended June 30, 2016 and 2015, the effects of these derivative instruments on the Consolidated Financial Statements were not material. No material amounts were excluded from the assessment of hedge effectiveness and no significant gains or losses were recognized due to hedge ineffectiveness.

Table of Contents

Fair Value Hedge of Long-Term Corporate Debt

The Company entered into interest rate swap contracts to convert a portion of the interest rate exposure on its long-term debt from fixed to variable rates to more closely align interest expense with interest income received on its cash equivalent and short-term investment balances. The variable rates are benchmarked to LIBOR.

Using fair value hedge accounting, the fair values of the swap contracts are reported in other assets, including other intangibles, or accounts payable, accrued expenses and other liabilities. As the critical terms of these swaps match those of the long-term debt being hedged, the carrying value of the hedged debt is adjusted to reflect changes in its fair value driven by LIBOR. The effects of those adjustments on other operating expenses are offset by the effects of corresponding changes in the swaps fair value, including interest expense for the difference between the variable and fixed interest rates.

Under the terms of these contracts, the Company provides upfront margin and settles fair value changes and net interest between variable and fixed interest rates daily with a central clearinghouse. Net interest cash flows are reported in operating activities.

The notional values of these derivative instruments were $750 million as of June 30, 2016 and December 31, 2015.

As of June 30, 2016 and December 31, 2015, and for the three and six months ended June 30, 2016 and 2015, the effects of these derivative instruments on the Consolidated Financial Statements were not material.

GMIB

The Company s run-off reinsurance business has written reinsurance contracts with issuers of variable annuities that provide annuitants with certain guarantees of minimum income benefits resulting from the level of variable annuity account values compared with a contractually guaranteed amount (GMIB liabilities). According to the contractual terms of the written reinsurance contracts, payment by the Company depends on the actual account value in the underlying mutual funds and the level of interest rates when the contractholders elect to receive minimum income payments. The Company has purchased retrocessional coverage (GMIB assets) for these contracts, including the agreement with Berkshire in 2013, effectively exiting this business. See Note 6 for further details.

The fair value effects of GMIB contracts on the financial statements are included in Note 7 and their volume of activity is included in Note 16. Cash flows on these contracts are reported in operating activities.

Note 10 Variable Interest Entities

When the Company becomes involved with a variable interest entity, as well as when there is a change in the Company s involvement with an entity, the Company evaluates the following to determine if it is the primary beneficiary and must consolidate the entity:

- the structure and purpose of the entity;

- the risks and rewards created by and shared through the entity; and

- the Company s ability to direct its activities, receive its benefits and absorb its losses relative to the other parties involved with the entity including its sponsors, equity holders, guarantors, creditors and servicers.

The Company owns interests in security and real estate limited partnerships that are now defined as variable interest entities under ASU 2015-02 (see Note 2). These partnerships invest in the equity or mezzanine debt of privately held companies and real estate properties. General partners unaffiliated with the Company control decisions that most significantly impact the partnership s operations and the limited partners do not have substantive kick-out or participating rights. The Company s maximum exposure to these entities of $1.9 billion across approximately 90 limited partnerships includes $1.0 billion reported in other long-term investments and commitments to contribute an additional $0.9 billion as of June 30, 2016. The Company s non-controlling interest in these limited partnerships is generally less than 10%.

In the normal course of its investing activities, the Company also makes passive investments in certain asset-backed and corporate securities that are issued by variable interest entities whose sponsors or issuers are unaffiliated with the Company. The Company receives fixed-rate cash flows from these investments and the maximum potential exposure to loss is limited to the carrying amount of $0.5 billion as of June 30, 2016, that is reported in fixed maturities. The Company s combined ownership interests are insignificant relative to the total principal amounts issued by these entities.

Table of Contents

To provide certain services to its Medicare Advantage customers, the Company contracts with independent physician associations (IPAs) that are variable interest entities. Physicians provide health care services to Medicare Advantage customers and the Company provides medical management and administrative services to the IPAs. The Company s maximum exposure to loss related to the IPA arrangements is limited to their liability for incurred but not reported medical costs for the Company s Medicare Advantage customers. These liabilities are not material and are generally secured by deposits maintained by the IPAs.

The Company is not the primary beneficiary and does not consolidate these entities because either:

- it has no power to direct the activities that most significantly impact the entities economic performance; or

- it has neither the right to receive benefits nor the obligation to absorb losses that could be significant to these variable interest entities.

The Company has not provided, and does not intend to provide, financial support to these entities that it is not contractually required to provide. The Company performs ongoing qualitative analyses of its involvement with these variable interest entities to determine if consolidation is required.

Note 11 Pension and Other Postretirement Benefit Plans

The Company and certain of its subsidiaries provide pension, health care and life insurance defined benefits to eligible retired employees, spouses and other eligible dependents through various domestic and foreign plans. The effect of its foreign pension and other postretirement benefit plans is immaterial to the Company s results of operations, liquidity and financial position. The Company froze its defined benefit postretirement medical plan in 2013 and its primary domestic pension plans in 2009.

As further discussed in Note 16, the Company and the Cigna Pension Plan are defendants in a class action lawsuit that has yet to be resolved. When the parties agree on a final plan amendment, the pension benefit obligation will be updated to reflect additional benefits resulting from this litigation.

For the six months ended June 30, 2016, the Company s unrecognized actuarial losses and prior service costs (reported in accumulated other comprehensive income) decreased by $28 million pre-tax in the aggregate ($19 million after-tax) resulting in an increase in shareholders equity. This change was primarily a result of amortization.

Pension and Other Postretirement Benefits. Components of net pension and net other postretirement benefit costs were as follows:

	Pension Benefits				Other Postretirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Service cost	$ 1	$ -	$ 1	$ 1	$ -	$ -	$ -	$ -
Interest cost	49	49	99	97	2	2	5	5
Expected long-term return on plan assets	(62)	(67)	(124)	(133)	-	-	-	-
Amortization of:								
Net loss from past experience	16	18	33	35	-	-	-	-
Prior service cost	-	-	-	-	-	-	(1)	(1)
Net cost	**$ 4**	$ -	**$ 9**	$ -	**$ 2**	$ 2	**$ 4**	$ 4

The Company funds its domestic qualified pension plans at least at the minimum amount required by the Pension Protection Act of 2006. The Company did not make any pension contributions during the six months ended June 30, 2016, and does not expect to make any pension contributions for the remainder of 2016.

Table of Contents

Note 12 Debt

Short-term and long-term debt were as follows:

(In millions)		June 30, 2016		December 31, 2015
Short-term:				
Commercial paper	$	-	$	100
Current maturities of long-term debt		250		-
Other, including capital leases		50		49
Total short-term debt	**$**	**300**	$	149
Long-term:				
$250 million, 5.375% Notes due 2017	$	-	$	249
$131 million, 6.35% Notes due 2018		131		131
$250 million, 4.375% Notes due 2020 (1)		262		254
$300 million, 5.125% Notes due 2020 (1)		309		303
$78 million, 6.37% Notes due 2021		78		78
$300 million, 4.5% Notes due 2021 (1)		314		304
$750 million, 4% Notes due 2022		743		743
$100 million, 7.65% Notes due 2023		100		100
$17 million, 8.3% Notes due 2023		17		17
$900 million, 3.25% Notes due 2025		893		892
$300 million, 7.875% Debentures due 2027		299		299
$83 million, 8.3% Step Down Notes due 2033		82		82
$500 million, 6.15% Notes due 2036		498		498
$300 million, 5.875% Notes due 2041		296		295
$750 million, 5.375% Notes due 2042		743		743
Other, including capital leases		24		32
Total long-term debt	**$**	**4,789**	$	5,020

(1) The Company has entered into interest rate swap contracts hedging a portion of these fixed-rate debt instruments. See Note 9 for further information about the Company s interest rate risk management and these derivative instruments.

The Company has a five-year revolving credit and letter of credit agreement for $1.5 billion that permits up to $500 million to be used for letters of credit. This agreement extends through December 12, 2019 and is diversified among 16 banks, with three banks each having 12% of the commitment and the remainder spread among 13 banks. The credit agreement includes options subject to consent by the administrative agent and the committing banks to increase the commitment amount to $2 billion and to extend the term past December 12, 2019. The credit agreement is available for general corporate purposes, including for the issuance of letters of credit. The credit agreement contains customary covenants and restrictions, including a financial covenant that the Company may not permit its leverage ratio which is total consolidated debt to total consolidated capitalization (each as defined in the credit agreement) to be greater than 0.50. The leverage ratio calculation excludes net unrealized appreciation in fixed maturities and the portion of the post-retirement benefits liability adjustment attributable to pension that is included in accumulated other comprehensive loss on the Company s consolidated balance sheets.

In addition to the $5.1 billion of debt outstanding as of June 30, 2016, the Company had $8.9 billion of borrowing capacity within the maximum debt coverage covenant in the credit agreement. This additional borrowing capacity includes the $1.5 billion available under the credit agreement. Letters of credit outstanding as of June 30, 2016 totaled $14 million.

The Company was in compliance with its debt covenants as of June 30, 2016.

In April 2015, the Company redeemed two of its outstanding notes early. The Company paid a total of $955 million including accrued interest and expenses that resulted in a total pre-tax loss on early debt extinguishment of $100 million ($65 million after-tax). See Note 15 of the Company s 2015 Form 10-K for further details.

Table of Contents

Note 13 Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) excludes amounts required to adjust future policy benefits for the run-off settlement annuity business and a portion of deferred acquisition costs associated with the corporate owned life insurance business. Changes in the components of accumulated other comprehensive income (loss) were as follows:

(In millions)	Pre-Tax	Tax (Expense) Benefit	After-Tax
Three Months Ended June 30,			
2016			
Net unrealized appreciation, securities, April 1,	**$ 867**	**$ (276)**	**$ 591**
Unrealized appreciation on securities arising during the period	285	(97)	188
Reclassification adjustment for (gains) included in shareholders net income (realized investment gains)	(17)	6	(11)
Net unrealized appreciation, securities arising during the period	268	(91)	177
Net unrealized appreciation, securities, June 30,	**$ 1,135**	**$ (367)**	**$ 768**
Net unrealized appreciation, derivatives, April 1,	**$ 6**	**$ (2)**	**$ 4**
Unrealized (depreciation) on derivatives arising during the period	(1)	-	(1)
Net unrealized appreciation, derivatives, June 30,	**$ 5**	**$ (2)**	**$ 3**
Net translation of foreign currencies, April 1,	**$ (212)**	**$ 19**	**$ (193)**
Net translation of foreign currencies arising during the period	(39)	(1)	(40)
Net translation of foreign currencies, June 30,	**$ (251)**	**$ 18**	**$ (233)**
Postretirement benefits liability adjustment, April 1,	**$ (2,139)**	**$ 749**	**$ (1,390)**
Reclassification adjustment for amortization of net losses from past experience and prior service costs (other operating expenses)	16	(6)	10
Net change due to valuation update	(4)	2	(2)
Net postretirement benefits liability adjustment arising during the period	12	(4)	8
Postretirement benefits liability adjustment, June 30,	**$ (2,127)**	**$ 745**	**$ (1,382)**
2015			
Net unrealized appreciation, securities, April 1,	$ 1,083	$ (375)	$ 708
Unrealized (depreciation) on securities arising during the period	(337)	112	(225)
Reclassification adjustment for (gains) included in shareholders net income (realized investment gains)	(13)	4	(9)
Net unrealized (depreciation), securities arising during the period	(350)	116	(234)
Net unrealized appreciation, securities, June 30,	$ 733	$ (259)	$ 474
Net unrealized (depreciation), derivatives, April 1,	$ (2)	$ 1	$ (1)
Unrealized (depreciation) on derivatives arising during the period	(3)	-	(3)
Reclassification adjustment for losses included in shareholders net income (other operating expenses)	12	(4)	8
Net unrealized appreciation on derivatives arising during the period	9	(4)	5
Net unrealized appreciation, derivatives, June 30,	$ 7	$ (3)	$ 4
Net translation of foreign currencies, April 1,	$ (180)	$ 14	$ (166)
Net translation of foreign currencies arising during the period	15	3	18
Net translation of foreign currencies, June 30,	$ (165)	$ 17	$ (148)
Postretirement benefits liability adjustment, April 1,	$ (2,270)	$ 795	$ (1,475)
Reclassification adjustment for amortization of net losses from past experience and prior service costs (other operating expenses)	18	(7)	11
Net change due to valuation update	12	(3)	9
Net postretirement benefits liability adjustment arising during the period	30	(10)	20
Postretirement benefits liability adjustment, June 30,	$ (2,240)	$ 785	$ (1,455)

Table of Contents

(In millions)	Pre-Tax	Tax (Expense) Benefit	After-Tax
Six Months Ended June 30,			
2016			
Net unrealized appreciation, securities, January 1,	**$ 612**	**$ (194)**	**$ 418**
Unrealized appreciation on securities arising during the period	512	(169)	343
Reclassification adjustment for losses included in shareholders net income (realized investment gains)	11	(4)	7
Net unrealized appreciation, securities arising during the period	523	(173)	350
Net unrealized appreciation, securities, June 30,	**$ 1,135**	**$ (367)**	**$ 768**
Net unrealized appreciation, derivatives, January 1,	**$ 10**	**$ (3)**	**$ 7**
Unrealized (depreciation), derivatives arising during the period	(5)	1	(4)
Net unrealized appreciation, derivatives, June 30,	**$ 5**	**$ (2)**	**$ 3**
Net translation of foreign currencies, January 1,	**$ (295)**	**$ 21**	**$ (274)**
Net translation of foreign currencies arising during the period	44	(3)	41
Net translation of foreign currencies, June 30,	**$ (251)**	**$ 18**	**$ (233)**
Postretirement benefits liability adjustment, January 1,	**$ (2,155)**	**$ 754**	**$ (1,401)**
Reclassification adjustment for amortization of net losses from past experience and prior service costs (other operating expenses)	32	(11)	21
Net change due to valuation update	(4)	2	(2)
Net postretirement benefits liability adjustment arising during the period	28	(9)	19
Postretirement benefits liability adjustment, June 30,	**$ (2,127)**	**$ 745**	**$ (1,382)**
2015			
Net unrealized appreciation, securities, January 1,	$ 955	$ (335)	$ 620
Unrealized (depreciation) on securities arising during the period	(189)	64	(125)
Reclassification adjustment for (gains) included in shareholders net income (realized investment gains)	(33)	12	(21)
Net unrealized (depreciation), securities arising during the period	(222)	76	(146)
Net unrealized appreciation, securities, June 30,	$ 733	$ (259)	$ 474
Net unrealized (depreciation), derivatives, January 1,	$ (12)	$ 4	$ (8)
Unrealized appreciation, derivatives arising during the period	7	(3)	4
Reclassification adjustment for losses included in shareholders net income (other operating expenses)	12	(4)	8
Net unrealized appreciation, derivatives arising during the period	19	(7)	12
Net unrealized appreciation, derivatives, June 30,	$ 7	$ (3)	$ 4
Net translation of foreign currencies, January 1,	$ (71)	$ 9	$ (62)
Net translation of foreign currencies arising during the period	(94)	8	(86)
Net translation of foreign currencies, June 30,	$ (165)	$ 17	$ (148)
Postretirement benefits liability adjustment, January 1,	$ (2,286)	$ 800	$ (1,486)
Reclassification adjustment for amortization of net losses from past experience and prior service costs (other operating expenses)	34	(12)	22
Net change due to valuation update	12	(3)	9
Net postretirement benefits liability adjustment arising during the period	46	(15)	31
Postretirement benefits liability adjustment, June 30,	$ (2,240)	$ 785	$ (1,455)

Table of Contents

Note 14 Income Taxes

A. Income Tax Expense

The consolidated effective tax rates of 37.7% for the six months ended June 30, 2016 and 2015 reflect the health insurance industry tax that is not deductible for federal income tax purposes. The effective tax rate for 2016 also reflects tax benefits associated with adopting ASU 2016-09 effective January 1, 2016 as described in Note 2, partially offset by the impact of certain costs related to the pending Anthem transaction that are not tax deductible.

As part of its global capital management strategy, the Company s foreign operations retain a significant portion of their earnings overseas. These undistributed earnings are deployed outside of the U.S. in support of the liquidity and capital needs of our foreign operations. The Company does not intend to repatriate these earnings to the U.S. and as a result, income taxes are provided using the respective foreign jurisdictions tax rate. The Company has accumulated undistributed foreign earnings of $2.5 billion as of June 30, 2016. If the Company intended to repatriate these foreign earnings to the U.S., the Company s consolidated balance sheet would have included an additional $350 million of deferred tax liabilities as of June 30, 2016.

B. Unrecognized Tax Benefits

Changes in unrecognized tax benefits were immaterial for the six months ended June 30, 2016.

C. Other Tax Matters

The Internal Revenue Service (IRS) is expected to complete their examination of the Company s 2011 and 2012 consolidated federal income tax returns during the second half of 2016.

Note 15 Segment Information

The financial results of the Company s businesses are reported in the following segments:

Global Health Care aggregates the Commercial and Government operating segments due to their similar economic characteristics, products and services and regulatory environment:

- The ***Commercial*** operating segment encompasses both the U.S. commercial and certain international health care businesses serving employers and their employees, other groups, and individuals. Products and services include medical, dental, behavioral health, vision, and prescription drug benefit plans, health advocacy programs and other products and services to insured and self-insured customers.

- The ***Government*** operating segment offers Medicare Advantage and Medicare Part D plans to seniors. This segment also offers Medicaid plans in selected markets.

Global Supplemental Benefits includes supplemental health, life and accident insurance products offered in selected international markets and in the U.S.

Group Disability and Life provides group long-term and short-term disability, group life, accident and specialty insurance products and related services.

Other Operations consist of:

- corporate-owned life insurance (COLI);

- run-off reinsurance business that is predominantly comprised of GMDB and GMIB business effectively exited through reinsurance with Berkshire in 2013;

- deferred gains recognized from the 1998 sale of the individual life insurance and annuity business and the 2004 sale of the retirement benefits business; and

- run-off settlement annuity business.

Table of Contents

Corporate reflects amounts not allocated to operating segments, such as net interest expense (defined as interest on corporate debt less net investment income on investments not supporting segment operations), interest on uncertain tax positions, certain litigation matters, intersegment eliminations, compensation cost for stock options, expense associated with frozen pension plans and certain costs for corporate projects, including overhead.

In the Company s segment disclosures, we present operating revenues, defined as total revenues excluding realized investment results. The Company excludes realized investment results from this measure because its portfolio managers may sell investments based on factors largely unrelated to the underlying business purposes of each segment. As a result, gains or losses created in this process may not be indicative of the past or future underlying performance of the business.

The Company uses adjusted income (loss) from operations as its principal financial measure of segment operating performance because management believes it best reflects the underlying results of business operations and permits analysis of trends in underlying revenue, expenses and profitability. Adjusted income from operations is defined as shareholders net income (loss) excluding after-tax realized investment gains and losses, net amortization of other acquired intangible assets and special items. Income or expense amounts are excluded from adjusted income from operations for the following reasons:

- Realized investment results are excluded because, as noted above, our portfolio managers may sell investments based on factors largely unrelated to the underlying business purposes of each segment.

- Net amortization of other intangible assets is excluded because it relates to costs incurred for acquisitions and, as a result, it does not relate to the core performance of the Company s business operations.

- Special items, if any, are excluded because management believes they are not representative of the underlying results of operations.

For the three months and six months ended June 30, 2016, the Company reported special item charges consisting of $34 million and $74 million of pre-tax costs ($26 million and $62 million after-tax) related to the proposed merger with Anthem. Management excludes these costs from adjusted income from operations because the size and nature of the Anthem merger is not comparable with the Company s previous acquisition activity. See Note 3 to the Consolidated Financial Statements for additional details.

For the three months and six months ended June 30, 2015, the Company reported special item charges consisting of a $100 million pre-tax loss ($65 million after-tax) on the early extinguishment of debt described in more detail in Note 15 of the Company s 2015 Form 10-K.

In connection with adopting ASU 2016-09 effective January 1, 2016, the Company recognized $23 million for the six months ended June 30, 2016 for certain income tax effects of stock-based compensation in adjusted income from operations for Corporate. See Note 2 to the

Consolidated Financial Statements for further discussion.

Summarized segment financial information was as follows:

(In millions)	Global Health Care	Global Supplemental Benefits	Group Disability and Life	Other Operations	Corporate	Total
Three Months Ended June 30, 2016						
Premiums, fees and other revenues and mail order pharmacy revenues	$ 7,759	$ 808	$ 1,010	$ 28	$ (6)	$ 9,599
Net investment income	81	27	88	93	5	294
Operating revenues	**$ 7,840**	**$ 835**	**$ 1,098**	**$ 121**	**$ (1)**	**$ 9,893**
Total revenues	**$ 7,868**	**$ 835**	**$ 1,122**	**$ 136**	**$ (1)**	**$ 9,960**
Shareholders net income (loss)	**$ 487**	**$ 78**	**$ 3**	**$ 30**	**$ (88)**	**$ 510**
After-tax adjustments to reconcile to adjusted income from operations:						
Net realized investment (gains)	(19)	-	(15)	(10)	-	(44)
Amortization of other acquired intangible assets, net	18	5	-	-	-	23
Special Item:						
Merger-related transaction costs	-	-	-	-	26	26
Adjusted income (loss) from operations	**$ 486**	**$ 83**	**$ (12)**	**$ 20**	**$ (62)**	**$ 515**

Table of Contents

(In millions)	Global Health Care	Global Supplemental Benefits	Group Disability and Life	Other Operations	Corporate	Total
Three Months Ended June 30, 2015						
Premiums, fees and other revenues and mail order pharmacy revenues	$ 7,416	$ 756	$ 978	$ 30	$ (6)	$ 9,174
Net investment income	91	26	85	94	1	297
Operating revenues	$ 7,507	$ 782	$ 1,063	$ 124	$ (5)	$ 9,471
Total revenues	$ 7,515	$ 780	$ 1,071	$ 131	$ (5)	$ 9,492
Shareholders net income (loss)	$ 512	$ 70	$ 111	$ 25	$ (130)	$ 588
After-tax adjustments to reconcile to adjusted income from operations:						
Net realized investment (gains) losses	(4)	3	(5)	(7)	-	(13)
Amortization of other acquired intangible assets, net	20	4	-	-	-	24
Special Item:						
Debt extinguishment costs	-	-	-	-	65	65
Adjusted income (loss) from operations	$ 528	$ 77	$ 106	$ 18	$ (65)	$ 664

(In millions)	Global Health Care	Global Supplemental Benefits	Group Disability and Life	Other Operations	Corporate	Total
Six Months Ended June 30, 2016						
Premiums, fees and other revenues and mail order pharmacy revenues	$ 15,571	$ 1,588	$ 2,039	$ 55	$ (10)	$ 19,243
Net investment income	153	53	168	183	9	566
Operating revenues	**$ 15,724**	**$ 1,641**	**$ 2,207**	**$ 238**	**$ (1)**	**$ 19,809**
Total revenues	**$ 15,735**	**$ 1,639**	**$ 2,228**	**$ 243**	**$ (1)**	**$ 19,844**
Shareholders net income (loss)	**$ 1,001**	**$ 137**	**$ 16**	**$ 44**	**$ (169)**	**$ 1,029**
After-tax adjustments to reconcile to adjusted income from operations:						
Net realized investment (gains) losses	(7)	1	(13)	(4)	-	(23)
Amortization of other acquired intangible assets, net	36	12	-	-	-	48
Special Item:						
Merger-related transaction costs	-	-	-	-	62	62
Adjusted income (loss) from operations	**$ 1,030**	**$ 150**	**$ 3**	**$ 40**	**$ (107)**	**$ 1,116**
Six Months Ended June 30, 2015						
Premiums, fees and other revenues and mail order pharmacy revenues	$ 14,787	$ 1,499	$ 1,954	$ 62	$ (10)	$ 18,292
Net investment income	166	52	168	186	1	573
Operating revenues	$ 14,953	$ 1,551	$ 2,122	$ 248	$ (9)	$ 18,865
Total revenues	$ 15,010	$ 1,552	$ 2,152	$ 254	$ (9)	$ 18,959
Shareholders net income (loss)	$ 965	$ 137	$ 176	$ 44	$ (201)	$ 1,121
After-tax adjustments to reconcile to adjusted income from operations:						
Net realized investment (gains)	(36)	-	(19)	(6)	-	(61)
Amortization of other acquired intangible assets, net	43	9	-	-	-	52
Special Item:						
Debt extinguishment costs	-	-	-	-	65	65
Adjusted income (loss) from operations	$ 972	$ 146	$ 157	$ 38	$ (136)	$ 1,177

Table of Contents

The Company had receivables, net of allowances, from CMS of $1.8 billion as of June 30, 2016 and $1.5 billion as of December 31, 2015. These amounts were included in the Consolidated Balance Sheet in premiums, accounts and notes receivable and reinsurance recoverables. Premiums from CMS were 21% of consolidated revenues for the six months ended June 30, 2016 and 22% for the six months ended June 30, 2015.

Note 16 Contingencies and Other Matters

The Company, through its subsidiaries, is contingently liable for various guarantees provided in the ordinary course of business.

A. Financial Guarantees: Retiree and Life Insurance Benefits

Separate account assets are contractholder funds maintained in accounts with specific investment objectives. The Company records separate account liabilities equal to separate account assets. In certain cases, the Company guarantees a minimum level of benefits for retirement and insurance contracts written in separate accounts. The Company establishes an additional liability if management believes that the Company will be required to make a payment under these guarantees.

The Company guarantees that separate account assets will be sufficient to pay certain life insurance or retiree benefits. The sponsoring employers are primarily responsible for ensuring that assets are sufficient to pay these benefits and are required to maintain assets that exceed a certain percentage of benefit obligations. This percentage varies depending on the asset class within a sponsoring employer s portfolio (for example, a bond fund would require a lower percentage than a riskier equity fund) and thus will vary as the composition of the portfolio changes. If employers do not maintain the required levels of separate account assets, the Company or an affiliate of the buyer of the retirement benefits business (Prudential Retirement Insurance and Annuity Company) has the right to redirect the management of the related assets to provide for benefit payments. As of June 30, 2016, employers maintained assets that exceeded the benefit obligations. Benefit obligations under these arrangements were $492 million as of June 30, 2016 and approximately 14% of these are reinsured by an affiliate of the buyer of the retirement benefits business. The remaining guarantees are provided by the Company with minimal reinsurance from third parties. There were no additional liabilities required for these guarantees as of June 30, 2016. Separate account assets supporting these guarantees are classified in Levels 1 and 2 of the GAAP fair value hierarchy. See Note 7 for further information on the fair value hierarchy.

The Company does not expect that these financial guarantees will have a material effect on the Company s consolidated results of operations, liquidity or financial condition.

B. GMIB Contracts

Under these guarantees, the future payment amounts are dependent on annuitants underlying mutual fund investment values and interest rate levels prior to and at the date of annuitization election that must occur within 30 days of a policy anniversary after the appropriate waiting

period. Therefore, the future payments are not fixed and determinable under the terms of these contracts. Accordingly, the Company calculated an exposure, without considering any reinsurance coverage, using the following hypothetical assumptions:

- no annuitants surrendered their accounts;
- all annuitants lived to elect their benefit;
- all annuitants elected to receive their benefit on the next available date (2016 through 2022); and
- all underlying mutual fund investment values remained at the June 30, 2016 value of $879 million with no future returns.

The Company has reinsurance coverage in place that covers the exposures on these contracts. Using these hypothetical assumptions, this GMIB exposure is $804 million, which is lower than the recorded liability for GMIB calculated using fair value assumptions. See Notes 6, 7 and 9 for further information on GMIB contracts.

Table of Contents

C. Certain Other Guarantees

The Company had indemnification obligations to lenders of up to $184 million as of June 30, 2016, related to borrowings by certain real estate joint ventures that the Company either records as an investment or consolidates. These borrowings, that are nonrecourse to the Company, are secured by the joint ventures real estate properties with fair values in excess of the loan amounts and mature at various dates beginning in 2017 through 2021. The Company s indemnification obligations would require payment to lenders for any actual damages resulting from certain acts such as unauthorized ownership transfers, misappropriation of rental payments by others or environmental damages. Based on initial and ongoing reviews of property management and operations, the Company does not expect that payments will be required under these indemnification obligations. Any payments that might be required could be recovered through a refinancing or sale of the assets. In some cases, the Company also has recourse to partners for their proportionate share of amounts paid. There were no liabilities required for these indemnification obligations as of June 30, 2016.

As of June 30, 2016, the Company guaranteed that it would compensate the lessors for a shortfall of up to $41 million in the market value of certain leased equipment at the end of its leases. Guarantees of $16 million expire in the fourth quarter of 2016 and $25 million expire in 2022. The Company had liabilities for these guarantees of $16 million as of June 30, 2016.

The Company does not expect that these guarantees will have a material adverse effect on the Company s consolidated results of operations, financial condition or liquidity.

The Company had indemnification obligations as of June 30, 2016 in connection with acquisition and disposition transactions. These indemnification obligations are triggered by the breach of representations or covenants provided by the Company, such as representations for the presentation of financial statements, the filing of tax returns, compliance with law or the identification of outstanding litigation. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential amount due is subject to contractual limitations based on a percentage of the transaction purchase price, while in other cases limitations are not specified or applicable. The Company does not believe that it is possible to determine the maximum potential amount due under these obligations, because not all amounts due under these indemnification obligations are subject to limitation. There were no liabilities required for these indemnification obligations as of June 30, 2016.

D. Guaranty Fund Assessments

The Company operates in a regulatory environment that may require its participation in assessments under state insurance guaranty association laws. The Company s exposure to assessments for certain obligations of insolvent insurance companies to policyholders and claimants is based on its share of business written in the relevant jurisdictions. For the six months ended June 30, 2016 and 2015, charges related to guaranty fund assessments were immaterial to the Company s results of operations.

The Company is aware of an insurer that is in rehabilitation. In 2012, the state court denied the regulator s amended petitions for liquidation and set forth specific requirements and a deadline for the regulator to develop a plan of rehabilitation without liquidating the insurer. The regulator has appealed the court s decision. The state court has been holding settlement conferences to attempt to resolve outstanding issues with the

rehabilitation plan. If the actions taken in the rehabilitation plan fail to improve this insurer s financial condition, or if the state court s ruling is overturned on appeal, this insurer may be forced into insolvency. In that event, the Company would be required to pay guaranty fund assessments related to this insurer. Due to the uncertainties surrounding this matter, the Company s share of any potential guaranty fund assessment related to this insurer is uncertain, but could be material to results of operations. The Company continues to monitor this situation.

E. Legal and Regulatory Matters

The Company is routinely involved in numerous claims, lawsuits, regulatory audits, investigations and other legal matters arising, for the most part, in the ordinary course of managing a health services business. These actions may include benefit disputes, breach of contract claims, tort claims, provider disputes, disputes regarding reinsurance arrangements, employment and employment discrimination-related suits, employee benefit claims, wage and hour claims, privacy, intellectual property claims and real estate-related disputes. There are currently, and may be in the future, attempts to bring class action lawsuits against the industry. The Company also is regularly engaged in IRS audits and may be subject to examinations by various state and foreign taxing authorities. Disputed income tax matters arising from these examinations, including those resulting in litigation, are accounted for under the FASB s guidance for uncertain tax positions. Further information on income tax matters can be found in Note 14.

Table of Contents

The business of administering and insuring health services programs, particularly health care and group insurance programs, is heavily regulated by federal and state laws and administrative agencies, such as state departments of insurance and the U.S. Departments of Health and Human Services (HHS), Treasury, Labor and Justice, as well as the courts. Health care regulation and legislation in its various forms, including the implementation of Health Care Reform, other regulatory reform initiatives, such as those relating to Medicare programs, or additional changes in existing laws or regulations or their interpretations, could have a material adverse effect on the Company s business, results of operations and financial condition.

In addition, there is heightened review by federal and state regulators of the health care, disability and life insurance industry business and related reporting practices. Cigna is frequently the subject of regulatory market conduct reviews and other examinations of its business and reporting practices, audits and investigations by state insurance and health and welfare departments, state attorneys general, CMS and the Office of Inspector General (OIG). With respect to Cigna s Medicare Advantage business, the CMS and OIG perform audits to determine a health plan s compliance with federal regulations and contractual obligations, including compliance with proper coding practices (sometimes referred to as Risk Adjustment Data Validation audits or RADV audits), that may result in retrospective adjustments to payments made to health plans. Regulatory actions can result in assessments, civil or criminal fines or penalties or other sanctions, including loss of licensing or exclusion from participating in government programs.

As a global company, Cigna is also subject to the laws, regulations and rules of the foreign jurisdictions in which it conducts business. Foreign laws and rules, and regulatory audit and investigation practices, may differ from or be more stringent than, similar requirements in the U.S.

Regulation, legislation and judicial decisions have resulted in changes to industry and the Company s business practices, financial liability or other sanctions and will continue to do so in the future.

When the Company (in the course of its regular review of pending litigation and legal or regulatory matters) has determined that a material loss is reasonably possible, the matter is disclosed. Such matters are described in the Litigation Matters and Regulatory Matters sections below. In accordance with GAAP, when litigation and regulatory matters present loss contingencies that are both probable and estimable, the Company accrues the estimated loss by a charge to net income. The amount accrued represents the Company s best estimate of the probable loss at the time. If only a range of estimated losses can be determined, the Company accrues an amount within the range that, in the Company s judgment, reflects the most likely outcome; if none of the estimates within that range is a better estimate than any other amount, the Company accrues the minimum amount of the range. In cases when the Company has accrued an estimated loss, the accrued amount may differ materially from the ultimate amount of the loss. In many proceedings, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount or range of any loss. The Company provides disclosure in the aggregate for material pending litigation and legal or regulatory matters, including accruals, range of loss, or a statement that such information cannot be estimated. As a litigation or regulatory matter develops, the Company monitors the matter for further developments that could affect the amount previously accrued, if any, and updates such amount accrued or disclosures previously provided as appropriate.

The outcome of litigation and other legal or regulatory matters is always uncertain, and unfavorable outcomes that are not justified by the evidence or existing law can occur. The Company believes that it has valid defenses to the matters pending against it and is defending itself vigorously. Except as otherwise noted, the Company believes that the legal actions, regulatory matters, proceedings and investigations currently pending against it should not have a material adverse effect on the Company s results of operations, financial condition or liquidity based upon current knowledge and taking into consideration current accruals. The Company had pre-tax reserves as of June 30, 2016 of approximately $190 million ($125 million after-tax) for the matters discussed below under the heading Litigation Matters . Due to numerous uncertain factors presented in these cases, it is not possible to estimate an aggregate range of loss (if any) for these matters at this time. In light of the uncertainties involved in these matters, there is no assurance that their ultimate resolution will not exceed the amounts currently accrued by the Company. An adverse outcome in one or more of these matters could be material to the Company s results of operations, financial condition or

liquidity for any particular period.

Table of Contents

Litigation Matters

Amara cash balance pension plan litigation. In December, 2001, Janice Amara filed a class action lawsuit in the U.S. District Court for the District of Connecticut against Cigna Corporation and the Cigna Pension Plan (the Plan) on behalf of herself and other similarly situated Plan participants affected by the 1998 conversion to a cash balance formula. The plaintiffs allege various violations of the Employee Retirement Income Security Act of 1974 (ERISA), including that the Plan s cash balance formula discriminates against older employees; that the conversion resulted in a wear-away period (when the pre-conversion accrued benefit exceeded the post-conversion benefit); and that the Plan communications contained inaccurate or inadequate disclosures about these conditions.

In 2008, the District Court (1) affirmed the Company s right to convert to a cash balance plan prospectively beginning in 1998; (2) found for plaintiffs on the disclosure claim only; and (3) required the Company to pay pre-1998 benefits under the pre-conversion traditional annuity formula and post-1997 benefits under the post-conversion cash balance formula. The Second Circuit upheld this decision. From 2008 through the present, this case has undergone a series of court proceedings that resulted in the original District Court order being largely upheld. In 2015, the Company submitted to the District Court its proposed method for calculating the additional pension benefits due to class members and plaintiffs responded in August 2015.

In January 2016, the District Court ordered the method of calculating the additional pension benefits due to class members. The court order left several aspects of the calculation of additional plan benefits open to interpretation. The parties continue to work towards obtaining agreement around differences in interpretation. The timing of the resolution of these differences remains uncertain. Once resolved, the Plan will be amended to comply with the agreed-upon interpretation of the District Court s order and the benefits will begin to be paid. The Company s reserve for this litigation remains reasonable at June 30, 2016 based on a calculation consistent with the Company s interpretation of the court order.

Ingenix. In April 2004, the Company was sued in a number of putative nationwide class actions alleging that the Company improperly underpaid claims for out-of-network providers through the use of data provided by Ingenix, Inc., a subsidiary of one of the Company s competitors. These actions were consolidated into *Franco v. Connecticut General Life Insurance Company, et al.*, pending in the U.S. District Court for the District of New Jersey. The consolidated amended complaint, filed in 2009 on behalf of subscribers, health care providers and various medical associations, asserted claims related to benefits and disclosure under ERISA, the Racketeer Influenced and Corrupt Organizations (RICO) Act, the Sherman Antitrust Act and New Jersey state law and seeks recovery for alleged underpayments from 1998 through the present. Other major health insurers have been the subject of, or have settled, similar litigation.

In September 2011, the District Court (1) dismissed all claims by the health care provider and medical association plaintiffs for lack of standing; and (2) dismissed the antitrust claims, the New Jersey state law claims and the ERISA disclosure claim. In January 2013 and again in April 2014, the District Court denied separate motions by the plaintiffs to certify a nationwide class of subscriber plaintiffs. The Third Circuit denied plaintiff s request for an immediate appeal of the January 2013 ruling. As a result, the case is proceeding on behalf of the named plaintiffs only. In June 2014, the District Court granted the Company s motion for summary judgment to terminate all claims, and denied the plaintiffs partial motion for summary judgment. In July 2014, the plaintiffs appealed all of the District Court s decisions in favor of the Company, including the

class certification decision, to the Third Circuit. On May 2, 2016, the Third Circuit affirmed the District Court s decisions denying class certification for the claims asserted by members, the granting of summary judgment on the individual plaintiffs claims, as well as the dismissal of the antitrust claims. However, the Third Circuit also reversed the earlier dismissal of the providers ERISA claims. The Company will continue to vigorously defend its position.

Regulatory Matters

CMS actions. In January 2016, CMS issued to the Company a Notice of Imposition of Immediate Intermediate Sanctions (the Notice). The Notice requires the Company to suspend certain enrollment and marketing activities for its Medicare Advantage-Prescription Drug and Medicare Part D Plans. The sanctions do not impact the ability of current enrollees to remain covered by the Company s Medicare Advantage-Prescription Drug or Medicare Part D Plans.

CMS imposed sanctions based on its finding of deficiencies with the Company s operations of its Parts C and D appeals and grievances, Part D formulary and benefit administration, and compliance program. The Company is working to resolve these matters as quickly as possible and is cooperating fully with CMS on its review. For the six months ended June 30, 2016 costs related to our CMS audit response were approximately $30 million after-tax. We do not anticipate that the impact of disenrollment will be material to consolidated revenues and earnings in 2016. However, if we are not able to address matters arising from the Notice in a timely and satisfactory manner, or if there are changes in eligibility for government payments for our programs that are not resolved in a timely and satisfactory manner, the impact to our 2017 Medicare customer base and consolidated revenues, results of operations and cash flows could be material.

Table of Contents

Disability claims regulatory matter. During the second quarter of 2013, the Company finalized an agreement with the Departments of Insurance for Maine, Massachusetts, Pennsylvania, Connecticut and California (together, the monitoring states) related to the Company s long-term disability claims handling practices. The agreement requires primarily: (1) enhanced procedures related to documentation and disposition and (2) a two-year monitoring period followed by a re-examination that began in the second quarter of 2016. Management believes the Company has addressed the requirements of the agreement. If the monitoring states find material non-compliance with the agreement upon re-examination, the Company may be subject to additional costs and penalties or requests to change its business practices that could negatively impact future earnings for this business.

Other Legal Matters

Following announcement of the Company s merger agreement with Anthem as discussed in Note 3, putative class action complaints (collectively the complaints or Cigna Merger Litigation) were filed by purported Cigna shareholders on behalf of a purported class of Cigna shareholders. Additional lawsuits arising out of or relating to the merger agreement or the merger may be filed in the future.

Cigna, members of the Cigna board of directors, Anthem and Anthem Merger Sub Corp (Merger Sub) have been named as defendants. The plaintiffs generally assert that the members of the Cigna board of directors breached their fiduciary duties to the Cigna shareholders during merger negotiations and by entering into the merger agreement and approving the merger, and that Cigna, Anthem and Merger Sub aided and abetted such breaches of fiduciary duties. The allegations include, among other things, that (1) the merger consideration undervalues Cigna, (2) the sales process leading up to the merger was flawed due to purported conflicts of interest of members of the Cigna board of directors and (3) certain provisions of the merger agreement inappropriately favor Anthem and inhibit competing bids. Plaintiffs seek, among other things, injunctive relief enjoining the merger, rescission of the merger agreement to the extent already implemented, and costs and damages.

Effective November 24, 2015, solely to avoid the costs, risks and uncertainties inherent in litigation, and without admitting any liability or wrongdoing, the Company, the Company s directors, Anthem and Merger Sub entered into a Memorandum of Understanding (MOU) to settle the Cigna Merger Litigation. Subject to approval by the Connecticut Superior Court, Judicial District of Hartford and further definitive documentation in a settlement agreement that will be subject to customary conditions, the MOU resolved the Cigna Merger Litigation and provided that the Company would make certain additional disclosures related to the merger. If the Court approves the settlement, the Cigna Merger Litigation will be dismissed with prejudice and all claims that were or could have been brought in any actions challenging any aspect of the merger, the merger agreement and any related disclosures will be released. In connection with the settlement, subject to the ultimate determination of the Court, plaintiffs counsel may receive an award of reasonable fees. There can be no assurance that the parties will ultimately enter into a settlement agreement, or that the Court will approve the settlement even if the parties were to enter into such agreement. The MOU may terminate, if, among other reasons, the Court does not approve the settlement or the merger is not consummated for any reason.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

INDEX

Cautionary Statement	**43**
Overview	**43**
Consolidated Results of Operations	**48**
Liquidity and Capital Resources	**50**
Critical Accounting Estimates	**53**
Segment Reporting	**53**
Global Health Care	**54**
Global Supplemental Benefits	**56**
Group Disability and Life	**57**
Other Operations	**58**
Corporate	**58**
Investment Assets	**59**
Market Risk	**62**

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide information to assist you in better understanding and evaluating our financial condition as of June 30, 2016 compared with December 31, 2015 and our results of operations for the three months and six months ended June 30, 2016 compared with the same periods last year. We encourage you to read this MD&A in conjunction with our Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2015 (2015 Form 10-K), in particular the Risk Factors contained in Part I, Item 1A of that form.

Unless otherwise indicated, financial information in the MD&A is presented in accordance with accounting principles generally accepted in the United States of America (GAAP). See Note 2 to the Consolidated Financial Statements in our 2015 Form 10-K for additional information regarding our significant accounting policies. The preparation of interim consolidated financial statements necessarily relies heavily on estimates. This and certain other factors, such as the seasonal nature of portions of the health care and related benefits business, as well as competitive and other market conditions, call for caution in estimating full year results based on interim results of operations. In some of our financial tables in this MD&A, we present percentage changes or N/M when those changes are so large as to become not meaningful. Changes in percentages are expressed in basis points (bps).

In this MD&A, our consolidated measures operating revenues and adjusted income from operations are not determined in accordance with GAAP and should not be viewed as substitutes for the most directly comparable GAAP measures total revenues and shareholders net income.

We define operating revenues as total revenues excluding realized investment results. We exclude realized investment results from this measure because our portfolio managers may sell investments based on factors largely unrelated to the underlying business purposes of each segment. As a result, gains or losses created in this process may not be indicative of the past or future underlying performance of the business.

We use adjusted income (loss) from operations as our principal financial measure of operating performance because management believes it best reflects the underlying results of our business operations and permits analysis of trends in underlying revenue, expenses and profitability. We define adjusted income from operations as shareholders net income (loss) excluding after-tax realized investment gains and losses, net amortization of other acquired intangible assets and special items. Income or expense amounts are excluded from adjusted income from operations for the following reasons:

- *Realized investment results are excluded because, as noted above, our portfolio managers may sell investments based on factors largely unrelated to the underlying business purposes of each segment.*

- *Net amortization of other intangible assets is excluded because it relates to costs incurred for acquisitions and, as a result, it does not relate to the core performance of our business operations.*

Table of Contents

- *Special items, if any, are excluded because management believes they are not representative of the underlying results of operations. We reported special item charges of $34 million pre-tax ($26 million after-tax) for the three months and $74 million pre-tax ($62 million after-tax) for the six months ended June 30, 2016 related to the proposed merger with Anthem. Management excludes these costs from adjusted income from operations because the size and nature of the Anthem merger is not comparable with our previous acquisition activity. See Note 3 to the Consolidated Financial Statements for additional details. For the three months and six months ended June 30, 2015, we reported special item charges consisting of a $100 million pre-tax loss ($65 million after-tax) on the early extinguishment of debt described in more detail in Note 15 of our 2015 Form 10-K.*

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on Cigna s current expectations and projections about future trends, events and uncertainties. These statements are not historical facts. Forward-looking statements may include, among others, statements concerning our business strategy and strategic or operational initiatives including our ability to deliver personalized and innovative solutions for customers and clients; future growth and expansion; future financial or operating performance; economic, regulatory or competitive environments; our projected cash position, future pension funding and financing or capital deployment plans; the proposed merger between Cigna and Anthem; statements regarding the timing of resolution of the issues raised by the Centers for Medicare and Medicaid Services (CMS); and other statements regarding Cigna s future beliefs, expectations, plans, intentions, financial condition or performance. You may identify forward-looking statements by the use of words such as believe, expect, plan, intend, anticipate, estimate, predict, potential, may, should, will or other words or expressions of sim not all forward-looking statements contain such terms.

Forward-looking statements are subject to risks and uncertainties, both known and unknown, that could cause actual results to differ materially from those expressed or implied in forward-looking statements. Such risks and uncertainties include, but are not limited to: our ability to achieve our financial, strategic and operational plans or initiatives; our ability to predict and manage medical costs and price effectively and develop and maintain good relationships with physicians, hospitals and other health care providers; the impact of modifications to our operations and processes, including those in our disability business; our ability to identify potential strategic acquisitions or transactions and realize the expected benefits of such strategic transactions; the substantial level of government regulation over our business and the potential effects of new laws or regulations or changes in existing laws or regulations; the outcome of litigation, regulatory audits including the CMS review and sanctions, investigations, actions and guaranty fund assessments; uncertainties surrounding participation in government-sponsored programs such as Medicare; the effectiveness and security of our information technology and other business systems; unfavorable industry, economic or political conditions including foreign currency movements; the timing and likelihood of completion of the proposed merger, including the timing, receipt and terms and conditions of any required governmental and regulatory approvals for the proposed merger that could reduce anticipated benefits or cause the parties to abandon the transaction; the possibility that the expected synergies and value creation from the proposed merger will not be realized or will not be realized within the expected time period; the risk that the businesses of Cigna and Anthem will not be integrated successfully; disruption from the proposed merger making it more difficult to maintain business and operational relationships; the risk that unexpected costs will be incurred; the possibility that the proposed merger does not close, including a failure to satisfy the closing conditions; the risk that financing for the proposed merger may not be available on favorable terms, as well as more specific risks and uncertainties discussed in Part I, Item 1A of our 2015 Form 10-K and as described from time to time in our future reports filed with the Securities and Exchange Commission (SEC) as well as the risks and uncertainties described in Anthem s most recent report on Form 10-K and subsequent reports filed with the SEC.

You should not place undue reliance on forward-looking statements, which speak only as of the date they are made, are not guarantees of future performance or results, and are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Cigna undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may

be required by law.

OVERVIEW

Cigna Corporation, together with its subsidiaries (either individually or collectively referred to as Cigna, the Company, we, our or us) is a g health services organization dedicated to a mission of helping individuals improve their health, well-being and sense of security. To execute on our mission, Cigna s strategy is to Go Deep, Go Global and Go Individual with a differentiated set of medical, dental, disability, life and accident insurance and related products and services offered by our subsidiaries. In addition to our ongoing operations, we also have certain run-off operations.

Table of Contents

On July 23, 2015, we entered into a definitive agreement to merge with Anthem, subject to certain terms, conditions and customary operating covenants, with Anthem continuing as the surviving company.

On July 21, 2016, the U.S. Department of Justice (DOJ) announced that it is challenging the proposed merger. Given the nature of the concerns raised by the DOJ and the states who joined, Cigna stepped back and evaluated its options under the merger agreement. As part of this evaluation, the Company sought to understand the various and significant concerns that were raised. Management will continue to fulfill its contractual obligations and to defend itself relative to the DOJ. In light of the DOJ s decision, Cigna does not believe the transaction will close in 2016 and the earliest it could close is 2017, if at all.

At special shareholders meetings in December 2015, Cigna shareholders approved the merger with Anthem and Anthem shareholders voted to approve the issuance of shares of Anthem common stock according to the merger agreement.

Upon closing, our shareholders would receive $103.40 in cash and 0.5152 of a share of Anthem common stock for each common share of the Company. The closing price of Anthem common stock on July 28, 2016 was $132.90. Consummation of the merger is subject to certain customary conditions, including the receipt of certain necessary governmental and regulatory approvals, and the absence of a legal restraint prohibiting the consummation of the merger.

See Note 3 to the Consolidated Financial Statements for additional details. In addition, see Item 1A. Risk Factors in our 2015 Form 10-K for risks to our business due to the proposed merger.

For further information on our business and strategy, please see Item 1, Business in our 2015 Form 10-K.

Executive Overview

This section includes a discussion of our consolidated financial results for the three months and six months ended June 30, 2016 compared with the same periods in 2015 as well as key trends and transactions impacting our business. See Note 15 to the Consolidated Financial Statements for a description of our reporting segments.

Financial Summary

Summarized below are certain key measures of our performance for the three months and six months ended June 30, 2016:

(Dollars in millions, except per share amounts)	Three Months Ended June 30, 2016	2015	% Change	Six Months Ended June 30, 2016	2015	% Change
Operating revenues (1)						
Global Health Care	$ 7,840	$ 7,507	4%	$ 15,724	$ 14,953	5%
Global Supplemental Benefits	835	782	7	1,641	1,551	6
Group Disability and Life	1,098	1,063	3	2,207	2,122	4
Other Operations	121	124	(2)	238	248	(4)
Corporate	(1)	(5)	80	(1)	(9)	89
Consolidated operating revenues	$ 9,893	$ 9,471	4%	$ 19,809	$ 18,865	5%
Total revenues	**$ 9,960**	$ 9,492	5%	**$ 19,844**	$ 18,959	5%
Adjusted income from operations (1)						
Global Health Care	$ 486	$ 528	(8)%	$ 1,030	$ 972	6%
Global Supplemental Benefits	83	77	8	150	146	3
Group Disability and Life	(12)	106	(111)	3	157	(98)
Other Operations	20	18	11	40	38	5
Corporate	(62)	(65)	5	(107)	(136)	21
Total adjusted income from operations	$ 515	$ 664	(22)%	$ 1,116	$ 1,177	(5)%
Shareholders net income (1)	**$ 510**	$ 588	(13)%	**$ 1,029**	$ 1,121	(8)%
Earnings per share (diluted):						
Adjusted income from operations (1)	$ 1.98	$ 2.55	(22)%	$ 4.30	$ 4.52	(5)%
Shareholders net income (1)	$ 1.97	$ 2.26	(13)%	$ 3.97	$ 4.30	(8)%

	As of June 30, 2016	2015	% Change
Global medical customers (in thousands)	15,141	14,771	3%

(1) See Consolidated Results of Operations on page 48 for reconciliations of operating revenues to total revenues and adjusted income from operations to shareholders net income.

Table of Contents

Total revenues. The increase in total revenues for the three months ended June 30, 2016 compared with the same period in 2015, reflected increased operating revenues discussed below and higher realized investment gains. For the six months ended June 30, 2016, the increase in operating revenues discussed below was partially offset by lower realized investment gains.

Operating revenues increased for the three months and six months ended June 30, 2016 compared with the same periods in 2015 in each of our ongoing reporting segments (Global Health Care, Global Supplemental Benefits and Group Disability and Life). These increases are primarily attributable to growth in specialty businesses within our Global Health Care segment, customer growth in our targeted market segments and higher premium rates in our commercial health care businesses to recover medical cost trend.

Shareholders net income decreased for the three months ended June 30, 2016 compared with the same period in 2015 due to lower adjusted income from operations as discussed below, partially offset by increased realized investment gains.

For the six months ended June 30, 2016 compared with the same period in 2015, shareholders net income decreased due to lower adjusted income from operations and lower realized investment gains.

Adjusted income from operations decreased significantly for the three months ended June 30, 2016 compared with the same period in 2015. These results were primarily attributable to the following factors:

- Significantly lower results in the Group Disability and Life segment due to the unfavorable impact of reserve reviews of $54 million after-tax ($17 million unfavorable life reserve review reported in 2016; absence of the $37 million favorable disability reserve review reported in 2015) and poor claim experience in the group life and disability businesses.

- Lower earnings in the Global Health Care segment, primarily due to an increased medical care ratio in the government and individual businesses as well as costs related to our CMS audit response.

For the six months ended June 30, 2016 compared with the same period in 2015, adjusted income from operations decreased, primarily due to the significant earnings decline in our Group Disability and Life segment as discussed above. Partially offsetting this decline were improved earnings in the Global Health Care and Global Supplemental Benefits segments.

Global medical customers. Our medical customer base increased as of June 30, 2016 compared with June 30, 2015 due to growth in our middle market, select, international and government market segments.

Further discussion of detailed components of revenue and expenses can be found in the Consolidated Results of Operations section of this MD&A beginning on page 48. For further analysis and explanation of individual segment results, see the Segment Reporting section of this MD&A beginning on page 53.

Table of Contents

Health Care Industry Developments

Our 2015 Form 10-K provides a detailed description of The Patient Protection and Affordable Care Act (Health Care Reform or ACA) provisions and other legislative initiatives that impact our health care business, including regulations issued by CMS, and the Departments of the Treasury and Health and Human Services (HHS). The table presented below provides an update of the impact of these items as of June 30, 2016.

Item	Description
Medicare Advantage (MA)	**CMS actions:** In January 2016, CMS issued a Notice of Imposition of Immediate Intermediate Sanctions (the Notice) to the Company. The Notice requires the Company to suspend certain enrollment and marketing activities for Medicare Advantage-Prescription Drug and Medicare Part D Plans. The sanctions do not impact the right of current enrollees to remain covered by the Company s Medicare Advantage-Prescription Drug or Medicare Part D Plans. See Note 16 to the Consolidated Financial Statements for additional information. For the six months ended June 30, 2016, costs related to our CMS audit response were approximately $30 million after-tax. We do not anticipate that the impact of disenrollment will be material to consolidated revenues and earnings in 2016. However, if we are not able to address matters arising from the Notice in a timely and satisfactory manner, or if there are changes in eligibility for government payments for our programs that are not resolved in a timely and satisfactory manner, the impact to our 2017 Medicare customer base and consolidated revenues, results of operations and cash flows could be material. **2017 MA Rates:** Final MA reimbursement rates for 2017 were published by CMS in April 2016. We do not expect the new rates to have a material impact on our consolidated results of operations in 2017.
Health Care Reform Taxes and Fees **- Industry Tax**	**Health Insurance Industry Tax:** This non-deductible tax is being levied based on a ratio of an insurer s net health insurance premiums written for the previous calendar year compared to the U.S. health insurance industry total. We recognized approximately $155 million in operating expenses for each of the six months ended June 30, 2016 and 2015. The industry assessment is $11.3 billion in both 2015 and 2016, and our full-year fee for 2016 is expected to approximate $305 million compared with $310 million in 2015. Because this tax is not deductible for federal income tax purposes, it negatively impacts our effective tax rate. Of the full year 2016 tax, $165 million relates to our commercial business and $140 million to our Medicare business.

	For our commercial business, we incorporated the industry tax into target pricing actions. For our Medicare business, although we have partially mitigated the effect of the tax through benefit changes and customer premium increases, the combination of the tax and lower MA rates have reduced margins in the Government operating segment in both 2016 and 2015. In December 2015, federal appropriations legislation imposed a one-year moratorium on the industry tax for 2017, with reinstatement expected in 2018. Our target pricing actions related to 2017 and 2018 plan years will consider the impacts of this legislation.
- **Reinsurance Fee**	**Reinsurance Fee:** This fee, applicable only for 2014-2016, is a fixed dollar per customer levy that applies to both insured and self-insured major medical plans excluding certain products such as Medicare Advantage and Medicare Part D. Proceeds from the fee are being used to fund the reinsurance program for non-grandfathered individual business sold either on or off the public exchanges. For our insured business, the amount of the fee is expected to approximate $45 million in 2016 compared with $70 million in 2015 and is tax deductible. The decrease in 2016 reflects a decline in the per-customer levy from $44 in 2015 to $27 in 2016. We recorded $23 million for the reinsurance fee for the six months ended June 30, 2016 compared with $35 million for the six months ended June 30, 2015. We incorporate these fees into target pricing actions.

Table of Contents

Item	Description
Public Health Exchanges	**Public Health Exchanges:** For 2016, we are offering individual coverage on seven public health insurance exchanges (Arizona, Colorado, Georgia, Maryland, Missouri, Tennessee and Texas).

Risk Mitigation Programs

See Note 2(R) to the Consolidated Financial Statements in our Form 2015 10-K for a description of and our accounting policy for these programs that commenced in 2014.

The following table presents the after-tax impact to shareholders net income of these programs for the three months and six months ended June 30, 2016 and 2015 and our net receivable balances as of June 30, 2016 and December 31, 2015.

	After-tax Impact on Shareholders Net Income (1)					
	Three Months Ended June 30,		Six Months Ended June 30,		Net Receivable Balance (2)	
(In millions)	**2016**	**2015**	**2016**	**2015**	**June 30, 2016**	**December 31, 2015**
Reinsurance	$ 14	$ 55	$ 16	$ 71	$ 120	$ 158
Risk Adjustment	25	63	22	63	144	118
Risk Corridor	(11)	(8)	(15)	7	110	134
Total	**$ 28**	$ 110	**$ 23**	$ 141	**$ 374**	$ 410

(1) For the 2016 coverage year, we have accrued reinsurance recoveries at the 50% coinsurance rate prescribed by Health Care Reform.

(2) For the reinsurance program, receivables are reported in reinsurance recoverables. Receivables, net of allowances, for the risk adjustment and risk corridor programs are reported in premiums, accounts and notes receivable. Payables for the risk adjustment and risk corridor programs are netted in the receivable balance presented above, and are reported in accounts payable, accrued expenses and other liabilities.

In the table above, the $28 million after-tax impact recorded in second quarter 2016 includes $25 million related to the 2016 coverage year, and a $3 million update related to the 2015 coverage year. The $110 million after-tax impact recorded in second quarter 2015 included $90 million related to the 2015 coverage year and a $20 million update related to the 2014 coverage year.

The updates in both years were based on CMS data received in the second quarter. These updates increased receivables for reinsurance and risk adjustment, which then resulted in decreases to risk corridor receivables. The reductions to risk corridor receivables in both years drove the unfavorable second quarter impacts of $11 million and $8 million shown in the table above.

CMS has paid substantially all amounts due under the 2014 reinsurance and risk adjustment programs. In addition, CMS has paid approximately 13% of insurers 2014 coverage year risk corridor receivables. CMS has acknowledged its legal obligation to pay insurers under the risk corridor program as required by Health Care Reform. If CMS risk corridor program collections, including carryovers from prior years, are insufficient to satisfy its payment obligations, CMS has stated that it will explore other funding sources subject to the availability of appropriations that may require congressional approval. We are continuing to monitor developments related to the risk corridor program.

Table of Contents

CONSOLIDATED RESULTS OF OPERATIONS

Summarized below are our results of operations on a GAAP basis:

FINANCIAL SUMMARY	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions)	**2016**	**2015**	**% Change**	**2016**	**2015**	**% Change**
Premiums	$ 7,654	$ 7,432	3%	$ 15,400	$ 14,834	4%
Fees and other revenues	1,197	1,117	7	2,398	2,255	6
Net investment income	294	297	(1)	566	573	(1)
Mail order pharmacy revenues	748	625	20	1,445	1,203	20
Consolidated operating revenues	9,893	9,471	4	19,809	18,865	5
Net realized investment gains	67	21	219	35	94	(63)
Total revenues	**9,960**	9,492	5	**19,844**	18,959	5
Global Health Care medical costs	4,777	4,577	4	9,538	9,181	4
Other benefit expenses	1,414	1,199	18	2,782	2,468	13
Mail order pharmacy costs	630	529	19	1,204	1,021	18
Operating expenses	2,289	2,212	3	4,610	4,416	4
Amortization of other acquired intangible assets, net	37	39	(5)	78	83	(6)
Total benefits and expenses	**9,147**	8,556	7	**18,212**	17,169	6
Income before taxes	813	936	(13)	1,632	1,790	(9)
Income taxes	310	352	(12)	615	675	(9)
Net income	503	584	(14)	1,017	1,115	(9)
Less: net (loss) attributable to noncontrolling interests	(7)	(4)	(75)	(12)	(6)	(100)
Shareholders net income	**$ 510**	$ 588	(13)%	**$ 1,029**	$ 1,121	(8)%

A reconciliation of shareholders net income to adjusted income from operations follows:

FINANCIAL SUMMARY	Three Months Ended June 30,		Change	Six Months Ended June 30,		Change
(In millions)	**2016**	**2015**	**Favorable (Unfavorable)**	**2016**	**2015**	**Favorable (Unfavorable)**
Shareholders net income	$ 510	$ 588	(13)%	$ 1,029	$ 1,121	(8)%
After-tax adjustments required to reconcile to adjusted income from operations:						
Net realized investment (gains)	(44)	(13)		(23)	(61)	
Amortization of other acquired intangible assets, net	23	24		48	52	
Special items:						
Debt extinguishment costs	-	65		-	65	
Merger-related transaction costs	26	-		62	-	
Adjusted income from operations	**$ 515**	$ 664	(22)%	**$ 1,116**	$ 1,177	(5)%

Other Key Consolidated Financial Data						
Earnings per share (diluted):						
Shareholders net income	$ 1.97	$ 2.26	(13)%	$ 3.97	$ 4.30	(8)%
After-tax adjustments required to reconcile to adjusted income from operations:						
Net realized investment (gains)	(0.18)	(0.05)		(0.09)	(0.23)	
Amortization of other acquired intangible assets, net	0.09	0.09		0.18	0.20	
Special items:						
Debt extinguishment costs	-	0.25		-	0.25	
Merger-related transaction costs	0.10	-		0.24	-	
Adjusted income from operations	$ 1.98	$ 2.55	(22)%	$ 4.30	$ 4.52	(5)%
Global medical customers (in thousands)				15,141	14,771	3%
Effective tax rate	**38.1%**	37.6%	(50)bps	**37.7%**	37.7%	-bps

Table of Contents

CONSOLIDATED RESULTS OF OPERATIONS

- ***Revenues.*** Components of the increase in total revenues for the three months and six months ended June 30, 2016 compared with the same periods in 2015 are discussed further below.

- ***Premiums.*** The increases reflect growth in each of our ongoing operating segments: Global Health Care, Global Supplemental Benefits and Group Disability and Life. These favorable results are primarily attributable to customer growth in certain of our market segments and higher premium rates in our commercial health care businesses consistent with medical cost trend.

- ***Fees and other revenues.*** The increases were largely the result of customer growth in our administrative services only business including contributions from specialty products offered through our Global Health Care segment.

- ***Net investment income*** was slightly lower in each period reflecting lower investment yields from the continued low interest rate environment, offset by higher average invested assets.

- ***Mail order pharmacy revenues.*** The increase in each period was driven by higher volume, primarily for injectable medications, due to growth in our customer base and increased utilization.

- ***Realized investment results*** increased for the three months ended June 30, 2016 compared with the same period in 2015 due to higher gains on real estate partnership sales and equity security sales in 2016. For the six months ended June 30, 2016, realized investment results decreased compared with the same period in 2015 due to the lower gains from real estate partnership sales and, to a lesser extent, higher impairment losses. See Note 8 for additional information.

- ***Global Health Care medical costs.*** The increases for the three months and six months ended June 30, 2016 compared with the same periods in 2015, were primarily due to growth in our specialty businesses and Government segment. To a lesser extent, medical cost inflation contributed to the increases.

- ***Other benefit expenses.*** The increases for the three months and six months ended June 30, 2016 compared with the same periods in 2015, resulted primarily from unfavorable claims experience in the Group Disability and Life

segment. Business growth in the Group Disability and Life and Global Supplemental Benefits segments also contributed to these increases.

- ***Mail order pharmacy costs.*** The increases for the three months and six months ended June 30, 2016 compared with the same periods in 2015, were driven by higher volume, primarily for injectable medications, due to growth in our customer base and increased utilization.

- ***Operating expenses.*** The increases for the three months and six months ended June 30, 2016 compared with the same periods in 2015, were primarily the result of business growth, strategic investments across our segments and costs related to our CMS audit response.

- ***Special items***. The special item charges for the three months and six months ended June 30, 2016 consist of the after-tax impact of legal, advisory and other transaction costs directly related to our proposed merger with Anthem. See Note 3 to the Consolidated Financial Statements for additional details. The special item charges for the three months and six months ended June 30, 2015 consist of the after-tax impact of the loss on the early extinguishment of debt. See Note 12 to the Consolidated Financial Statements for additional details.

- ***Effective tax rates.*** The increase in our effective tax rate for the three months ended June 30, 2016 compared with the same period in June 30, 2015, was largely driven by certain merger-related transaction costs reported in 2016 that are not tax deductible. Our effective tax rate for the six months ended June 30, 2016 was flat compared with the same period in June 30, 2015, as the tax benefits associated with adopting ASU 2016-09 discussed in Note 2 to the Consolidated Financial Statements were partially offset by non-tax deductible merger-related transaction costs.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

We maintain liquidity at two levels: the subsidiary level and the parent company level.

Liquidity requirements at the subsidiary level generally consist of:

- medical costs and benefit payments to policyholders; and
- operating expense requirements, primarily for employee compensation and benefits.

Our subsidiaries normally meet their operating requirements by:

- maintaining appropriate levels of cash, cash equivalents and short-term investments;
- using cash flows from operating activities;
- selling investments;
- matching investment durations to those estimated for the related insurance and contractholder liabilities; and
- borrowing from affiliates, subject to applicable regulatory limits.

Liquidity requirements at the parent company level generally consist of:

- debt service and dividend payments to shareholders;
- pension plan funding; and

- repurchases of common stock.

The parent company normally meets its liquidity requirements by:

- maintaining appropriate levels of cash and various types of marketable investments;
- collecting dividends from its subsidiaries;
- using proceeds from issuance of debt and equity securities; and
- borrowing from its subsidiaries.

Cash flows for the six months ended June 30, were as follows:

(In millions)		**2016**		**2015**
Operating activities (1)	**$**	1,196	$	1,183
Investing activities	**$**	(501)	$	(96)
Financing activities (1)	**$**	(223)	$	(520)

(1) As required by the adoption of ASU 2016-09, the Company retrospectively reclassified $74 million of cash payments from operating to financing activities for the six months ended June 30, 2015. These payments were related to employee tax obligations associated with stock compensation. The comparable amount reported in financing activities for the six months ended June 30, 2016 was $68 million. See Note 2 for further discussion.

Cash flows from operating activities consist of cash receipts and disbursements for premiums, fees and other revenues, mail order pharmacy, investment income, taxes and benefits and expenses. Because certain income and expense transactions do not generate cash, and because cash transactions related to revenues and expenses may occur in periods different from when those revenues and expenses are recognized in shareholders net income, cash flows from operating activities can significantly differ from shareholders net income.

Cash flows from investing activities generally consist of net investment purchases or sales and net purchases of property and equipment including capitalized internal-use software, as well as cash used to acquire businesses.

Cash flows from financing activities are generally comprised of issuances and re-payment of debt, proceeds on the issuance of common stock resulting from stock option exercises, and stock repurchases. In addition, the subsidiaries report net deposits and withdrawals to and from contractholder deposit fund liabilities (that include universal life insurance liabilities) because such liabilities are considered financing activities with policyholders.

Table of Contents

Operating activities

Cash provided by operating activities was flat for the six months ended June 30, 2016 compared with the same period in 2015.

Investing activities

Cash used in investing activities increased for the six months ended June 30, 2016 compared with the same period in 2015, primarily due to a lower volume of sales of fixed maturities.

Financing activities

Cash used in financing activities decreased for the six months ended June 30, 2016 compared with the same period in 2015, primarily due to a lower volume of share repurchases.

We maintain a share repurchase program, authorized by the Board of Directors. Under this program, we may repurchase shares from time to time, depending on market conditions and alternate uses of capital. We may suspend activity under our share repurchase program from time to time and may also remove such suspensions, generally without public announcement. We may also repurchase shares at times when we otherwise might be precluded from doing so under insider trading laws or because of self-imposed trading black-out periods by use of a Rule 10b5-1 trading plan.

Through July 29, 2016, we had repurchased 0.8 million shares for $110 million under our share repurchase program. The remaining share repurchase authority as of July 29, 2016 was $725 million.

Interest Expense

Interest expense on long-term debt, short-term debt and capital leases was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2016**	**2015**	**2016**	**2015**
Interest expense	**$ 62**	$ 62	**$ 125**	$ 128

Interest expense reported above for the three months and six months ended June 30, 2015 excludes losses on the early extinguishment of debt.

Capital Resources

Our capital resources (primarily retained earnings and the proceeds from the issuance of debt and equity securities) provide protection for policyholders, furnish the financial strength to underwrite insurance risks and facilitate continued business growth.

Management, guided by regulatory requirements and rating agency capital guidelines, determines the amount of capital resources that we maintain. Management allocates resources to new long-term business commitments when returns, considering the risks, look promising and when the resources available to support existing business are adequate.

We prioritize our use of capital resources to:

- provide the capital necessary to support growth and maintain or improve the financial strength ratings of subsidiaries;

- consider acquisitions that are strategically and economically advantageous; and

- return capital to investors through share repurchase.

The availability of capital resources will be impacted by equity and credit market conditions. Extreme volatility in credit or equity market conditions may reduce our ability to issue debt or equity securities.

Table of Contents

Liquidity and Capital Resources Outlook

The availability of resources at the parent company level is partially dependent on dividends from our subsidiaries, most of which are subject to regulatory restrictions and rating agency capital guidelines, and partially dependent on the availability of liquidity from the issuance of debt or equity securities.

Though we believe that we have adequate sources of liquidity, significant disruption or volatility in the capital and credit markets could affect our ability to access those markets for additional borrowings or increase costs associated with borrowing funds.

At June 30, 2016, there was $1.9 billion in cash and marketable investments available at the parent company level. For the remainder of 2016, the parent company s cash obligations are primarily for interest payments of approximately $130 million. The parent company also has $250 million of debt obligations that will mature in the first quarter of 2017.

We expect to have sufficient liquidity to meet the obligations discussed above, based on the parent company s current cash position and current projections for subsidiary dividends. In addition, we actively monitor our debt obligations and engage in issuance or redemption activities as needed in accordance with our capital management strategy.

Our cash projections may not be realized and the demand for funds could exceed available cash if our ongoing businesses experience unexpected shortfalls in earnings, or we experience material adverse effects from one or more risks or uncertainties described more fully in the Risk Factors section of the 2015 Form 10-K. In those cases, we expect to have the flexibility to satisfy liquidity needs through a variety of measures, including intercompany borrowings and sales of liquid investments. The parent company may borrow up to $1.3 billion from its insurance subsidiaries without additional state approval. As of June 30, 2016, the parent company had approximately $9 million of net intercompany loans receivable from its insurance subsidiaries. Alternatively, to satisfy parent company liquidity requirements we may use short-term borrowings, such as the commercial paper program and the committed revolving credit and letter of credit agreement of up to $1.5 billion, subject to the maximum debt leverage covenant in the credit agreement. As of June 30, 2016, short-term borrowing capacity of $1.5 billion under the credit agreement was available to us. Including this $1.5 billion, we have borrowing capacity of $8.9 billion within the maximum debt leverage covenant in the credit agreement described in Note 12 to the Consolidated Financial Statements, in addition to the $5.1 billion of debt outstanding.

Though we believe we have adequate sources of liquidity, continued significant disruption or volatility in the capital and credit markets could affect our ability to access those markets for additional borrowings or increase costs associated with borrowing funds.

We maintain a capital management strategy to retain overseas a significant portion of the earnings from our foreign operations. These undistributed earnings are deployed outside of the U.S. in support of the liquidity and capital needs of our foreign operations. As of June 30, 2016, undistributed earnings were approximately $2.5 billion. If repatriated, approximately $240 million of cash and cash equivalents held overseas would be subject to additional tax expense representing the difference between the U.S. and foreign tax rates. This strategy does not materially limit our ability to meet our liquidity and capital needs in the U.S. Cash and cash equivalents in foreign operations are held primarily to meet local liquidity and surplus needs with excess funds generally invested in longer duration, high quality securities.

Pension update. As of June 30, 2016, discount rates used annually to measure pension liabilities had declined by approximately 70 basis points since December 31, 2015, reflecting continuing market volatility including the impact of the United Kingdom s decision to exit from the European Union. As required by GAAP, the Company will update its pension liability at December 31, 2016 using an updated discount rate and actual year-end pension assets. If discount rates remain at their June 30, 2016 level and asset performance for the balance of 2016 is in line with our assumptions, the pension liability is expected to increase by approximately $300 million at December 31, 2016 resulting in an after-tax decline in shareholders equity of approximately $200 million. The amount of the year-end 2016 adjustment will be influenced by the movement of discount rates and investment markets during the remainder of 2016. This potential increase in the pension liability is not expected to increase 2017 pension expense or expected funding, resulting in no material impact to the Company s 2017 results of operations or liquidity.

Table of Contents

Guarantees and Contractual Obligations

We are contingently liable for various contractual obligations entered into during the ordinary course of business. See Note 16 to the Consolidated Financial Statements for additional information.

Contractual obligations. We have updated our contractual obligations previously provided in our 2015 Form 10-K for the following item:

- Investment commitments: the Company has entered into new commitments to invest in security and real estate limited partnerships. See Note 10 to the Consolidated Financial Statements for additional information.

(In millions, on an undiscounted basis)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Off-Balance Sheet					
Purchase obligations	$ 1,276	$ 583	$ 465	$ 139	$ 89

CRITICAL ACCOUNTING ESTIMATES

The preparation of Consolidated Financial Statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures in the Consolidated Financial Statements. We consider an accounting estimate to be critical if:

- it requires assumptions to be made that were uncertain at the time the estimate was made; and

- changes in the estimate or different estimates that could have been selected could have a material effect on our consolidated results of operations or financial condition.

We have discussed the development and selection of our critical accounting estimates and reviewed the disclosures presented in our 2015 Form 10-K with the Audit Committee of our Board of Directors. We regularly evaluate items that may impact critical accounting estimates.

Our most critical accounting estimates, as well as the effects of hypothetical changes in material assumptions used to develop each estimate, are described in the 2015 Form 10-K. As of June 30, 2016, there are no significant changes to the critical accounting estimates from what was reported in our 2015 Form 10-K.

Summary

Management believes the current assumptions used to estimate amounts reflected in our Consolidated Financial Statements are appropriate. However, if actual experience differs from the assumptions used in estimating amounts reflected in our Consolidated Financial Statements, the resulting changes could have a material adverse effect on our consolidated results of operations, and in certain situations, could have a material adverse effect on liquidity and our financial condition.

SEGMENT REPORTING

The following section of this MD&A discusses the results of each of our reporting segments. In these segment discussions, we present operating revenues, defined as total revenues excluding realized investment results and adjusted income from operations, defined as shareholders net income (loss) excluding after-tax realized investment results, net amortization of other acquired intangible assets and special items. Ratios presented in this segment discussion exclude the same items as adjusted income from operations. See Note 15 to the Consolidated Financial Statements for additional discussion of these metrics.

In these segment discussions, we also present adjusted margin, defined as adjusted income from operations divided by operating revenues.

See the MD&A Overview on page 44 for summarized financial results of each of our reporting segments.

Table of Contents

Global Health Care Segment

As described in the Segment Reporting introduction on page 53, the performance of the Global Health Care segment is measured using adjusted income from operations as presented in the table below. The key factors affecting adjusted income from operations for this segment are:

- customer growth;
- sales of specialty products;
- operating expenses as a percentage of operating revenues (operating expense ratio); and
- medical costs as a percentage of premiums (medical care ratio or MCR) for our commercial and government businesses.

Results of Operations

FINANCIAL SUMMARY	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions)	**2016**	**2015**	**Change Favorable (Unfavorable)**	**2016**	**2015**	**Change Favorable (Unfavorable)**
Operating revenues	$ 7,840	$ 7,507	4%	$ 15,724	$ 14,953	5%
Adjusted income from operations	**$ 486**	$ 528	(8)%	**$ 1,030**	$ 972	6%
Adjusted margin	6.2%	7.0%	(80)bps	6.6%	6.5%	10bps
Medical Care Ratios:						
Commercial	78.8%	77.5%	(130)bps	77.3%	76.3%	(100)bps
Government	86.4%	84.4%	(200)bps	86.3%	86.9%	60bps
Consolidated Global Health Care	81.7%	80.2%	(150)bps	80.9%	80.6%	(30)bps
Operating expense ratio	20.9%	20.4%	(50)bps	21.0%	21.0%	-bps

	As of June 30,		
(In thousands)	**2016**	**2015**	**% Change**
Customers:			
Total commercial risk	2,502	2,495	-%
Total government	598	556	8
Total risk	3,100	3,051	2
Service	12,041	11,720	3
Total medical customers	**15,141**	14,771	3%

(In millions)	As of June 30, 2016	December 31, 2015	% Change
Global Health Care medical costs payable	**$ 2,577**	$ 2,355	9%

Adjusted income from operations. The decrease for the three months ended June 30, 2016 compared with the same period in 2015, is attributable to lower earnings in our Government segment reflecting a higher medical care ratio and higher operating expenses primarily due to costs related to our CMS audit response, as well as lower margins in our U.S. Individual business. These decreases were partially offset by increased contributions from specialty products in our Commercial segment.

The increase for the six months ended June 30, 2016 compared with the same period in 2015, is attributable to higher contributions from specialty businesses, partially offset by additional costs in our Government segment related to our CMS audit response and lower margins in our U.S. Individual business.

Operating revenues. The increase for the three months and six months ended June 30, 2016 compared with the same periods in 2015, was primarily due to customer growth in our specialty businesses, including home delivery pharmacy, and in Medicare Advantage. In addition, the increase reflects higher premium rates for most products in the U.S. commercial employer segment primarily to recover underlying medical cost trend. These increases were partially offset by lower customer volumes in our Medicare Part D and U.S. Individual businesses.

Table of Contents

Medical care ratios. The Commercial medical care ratio increased for the three months ended June 30, 2016 compared with the same period in 2015, primarily reflecting higher medical costs in our individual ACA business including less favorable prior year reserve development. Additionally, the medical care ratio reflects a modest impact of a business mix shift in our employer book of business.

For the six months ended June 30, 2016 compared with the same period in 2015, the commercial medical care ratio increased, primarily reflecting the impact of a business mix shift in our employer book of business as well as less favorable prior year reserve development.

For the three months ended June 30, 2016, the government medical care ratio increased compared with the same period in 2015, primarily due to less favorable prior period reserve development and, to a lesser extent, higher medical costs in Medicare Advantage products and lower reimbursement rates in Medicaid programs.

For the six months ended June 30, 2016, the government medical care ratio decreased compared with the same period in 2015, primarily due to a lower Medicare Part D ratio reflecting new products that increased premiums and customer deductibles, offset by less favorable prior period reserve development.

Operating expense ratio. The operating expense ratio increased for the three months ended June 30, 2016 compared with the same period in 2015, primarily reflecting costs related to our CMS audit response and business initiative investments to enhance our capabilities. For the six months ended June 30, 2016, the operating expense ratio was unchanged compared with the same period in 2015, reflecting business initiative investments to enhance our capabilities, and costs related to our CMS audit response, offset by operating efficiencies and higher revenues.

Other Items Affecting Health Care Results

Medical Customers

A medical customer is defined as a person meeting any one of the following criteria:

- is covered under an insurance policy, managed care arrangement, or service agreement issued by us;
- has access to our provider network for covered services under their medical plan; or

- has medical claims that are administered by us.

Our medical customer base as of June 30, 2016 was higher than the same period in 2015, primarily driven by strong sales in our middle market, select, international and government market segments.

Global Health Care Medical Costs Payable

Medical costs payable was higher at June 30, 2016 compared to December 31, 2015, due to customer growth in our government business and seasonality in stop loss products. (See Note 5 to the Consolidated Financial Statements for additional information.)

Table of Contents

Global Supplemental Benefits Segment

As described in the Segment Reporting introduction on page 53, the performance of the Global Supplemental Benefits segment is measured using adjusted income from operations. The key factors affecting adjusted income from operations for this segment are:

- premium growth, including new business and customer retention;
- benefit expenses as a percentage of premiums (loss ratio);
- operating expenses and acquisition expenses as a percentage of operating revenues (expense ratio and acquisition cost ratio); and
- the impact of foreign currency movements.

Throughout this discussion and the table presented below, prior period currency adjusted income from operations, revenues, and benefits and expenses are calculated by applying the current period s exchange rates to reported results in the prior period. A strengthening U.S. Dollar against foreign currencies decreases these measures, while a weakening U.S. Dollar produces the opposite effect.

Results of Operations

FINANCIAL SUMMARY	Three Months Ended June 30,		Change Favorable	Six Months Ended June 30,		Change Favorable
(In millions)	**2016**	**2015**	**(Unfavorable)**	**2016**	**2015**	**(Unfavorable)**
Operating revenues	$ 835	$ 782	7%	$ 1,641	$ 1,551	6%
Adjusted income from operations	**$ 83**	$ 77	8%	**$ 150**	$ 146	3%
Operating revenues, using 2016 currency exchange rates	$ 835	$ 748	12%	$ 1,641	$ 1,469	12%
Adjusted income from operations, using 2016 currency exchange rates	$ 83	$ 72	15%	$ 150	$ 135	11%
Adjusted margin	9.9%	9.8%	10bps	9.1%	9.4%	(30)bps
Loss ratio	55.3%	55.2%	(10)bps	55.8%	55.7%	(10)bps
Acquisition cost ratio	18.2%	18.4%	20bps	18.3%	18.6%	30bps
Expense ratio (excluding acquisition costs)	17.2%	17.5%	30bps	17.7%	17.3%	(40)bps

Adjusted income from operations increased for the three months ended June 30, 2016 compared with the same period in 2015, reflecting business growth, primarily in South Korea, and lower operating expenses, partially offset by the unfavorable impact of foreign currency movements. For the six months ended June 30, 2016, adjusted income from operations increased compared with the same period in 2015, primarily due to business growth partially offset by the unfavorable impact of foreign currency movements.

Operating revenues increased for the three months and six months ended June 30, 2016 compared with the same periods in 2015, primarily due to new sales, particularly in South Korea and the U.S., partially offset by the unfavorable impact of foreign currency movements.

The segment ***loss ratio*** was flat for the three months and six months ended June 30, 2016 compared with the same periods in 2015, reflecting favorable claims experience in South Korea, offset by a change in business mix toward products with higher loss ratios in South Korea and the U.S. and higher claims in the U.S.

The ***acquisition cost ratio*** decreased for the three months and six months ended June 30, 2016 due to a shift toward higher premium products with lower acquisition costs, primarily in South Korea and the U.S.

The ***operating expense ratio*** (excluding acquisition costs) decreased for the three months ended June 30, 2016 compared with the same period in 2015, reflecting operating efficiencies. For the six months ended June 30, 2016, the operating expense ratio increased compared to the same periods in 2015, reflecting strategic business investments, mainly in the U.S. and South Korea, partially offset by operating efficiencies.

Table of Contents

Other Items Affecting Global Supplemental Benefits Results

For our Global Supplemental Benefits segment, South Korea is the single largest geographic market. South Korea generated 50% of the segment s revenues and 89% of the segment s earnings for the six months ended June 30, 2016. For the six months ended June 30, 2016, our Global Supplemental Benefits segment operations in South Korea represented 4% of our total consolidated revenues and 12% of shareholders net income.

As a global company, our business is exposed to risks inherent in foreign operations. While we continue to monitor and evaluate the impacts of the U.K. vote to exit the European Union and the political unrest in Turkey, we do not expect these events to materially impact the results of the Global Supplemental Benefits segment.

Group Disability and Life Segment

As described in the Segment Reporting introduction on page 53, the performance of the Group Disability and Life segment is measured using adjusted income from operations. The key factors affecting adjusted income from operations for this segment are:

- premium growth, including new business and customer retention;
- net investment income;
- benefit expenses as a percentage of premiums (loss ratio); and
- operating expenses as a percentage of premiums and fees and other revenues (expense ratio).

Results of Operations

FINANCIAL SUMMARY	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions)	2016	2015	Change Favorable (Unfavorable)	2016	2015	Change Favorable (Unfavorable)
Operating revenues	$ 1,098	$ 1,063	3%	$ 2,207	$ 2,122	4%
Adjusted income (loss) from operations	**$ (12)**	$ 106	(111)%	**$ 3**	$ 157	(98)%
Adjusted margin	(1.1)%	10.0%	(1,110)bps	0.1%	7.4%	(730)bps
Loss ratio	90.0%	73.3%	(1,670)bps	87.7%	77.1%	(1,060)bps
Expense ratio	22.5%	21.4%	(110)bps	22.4%	21.6%	(80)bps

Adjusted income from operations. Results for the three months and six months ended June 30, 2016 were significantly impacted by poor claims experience in our life business early in the second quarter, and were further dampened by the unfavorable effect of a life reserve review and continued pressure in our disability business.

The poor life claims experience in the second quarter of 2016 was driven by substantially higher new claim incidence and sizes, both of which abated in June. In addition, life results were further dampened by a $17 million after-tax unfavorable impact of reserve reviews completed in the second quarter of 2016.

We implemented modifications to our disability claims management process in the first quarter of 2016 to drive improved quality and consistency which extended the claims processing cycle and lowered the claim resolution rate. Although the disability claim resolution rate improved during the second quarter 2016 compared with the first quarter, the pace of improvement was slower than expected and contributed to lower disability results compared with the same period in 2015. As our modified disability claims management process matures, management expects continued improvement in disability claim resolution rates over the remainder of the year and into 2017. Until disability claim resolution rates return to a level at or near historical norms, we could see continued pressure on margins. In addition, results are lower for the three months and six months ended June 30, 2016 compared with the same periods in 2015 due to the absence of the $37 million favorable after-tax effect of reserve reviews recorded in the second quarter of 2015. Disability reserve reviews for 2016 will be completed in the second half of the year as the new claims management processes continue to stabilize.

Operating revenues increased for the three months and six months ended June 30, 2016 compared with the same periods in 2015, reflecting business growth due to new sales and strong customer retention.

The segment s ***loss ratio*** increased for the three months and six months ended June 30, 2016 compared with the same periods in 2015, driven by the unfavorable life and disability claims experience and reserve review impacts described above.

Table of Contents

Operating expense ratio. The operating expense ratio increased for the three months and six months ended June 30, 2016 compared with the same periods in 2015, reflecting higher claim management costs.

Other Operations

As described in the Segment Reporting introduction on page 53, the performance of the Other Operations segment is measured using adjusted income from operations. Cigna s corporate-owned life insurance (COLI) business contributes the majority of earnings in Other Operations. Other Operations also includes the results from the run-off reinsurance and settlement annuity businesses, as well as the remaining deferred gains recognized from the sale of the individual life insurance and annuity and retirement benefits businesses.

Results of Operations

FINANCIAL SUMMARY	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions)	**2016**	**2015**	**Change Favorable (Unfavorable)**	**2016**	**2015**	**Change Favorable (Unfavorable)**
Operating revenues	$ 121	$ 124	(2)%	$ 238	$ 248	(4)%
Adjusted income from operations	**$ 20**	$ 18	11%	**$ 40**	$ 38	5%
Adjusted margin	16.5%	14.5%	200bps	16.8%	15.3%	150bps

Adjusted income from operations increased for the three months and six months ended June 30, 2016 compared with the same periods in 2015, primarily due to favorable claims experience and strong persistency in COLI, partially offset by lower deferred gain amortization from the sold businesses.

Operating revenues decreased for the three months and six months ended June 30, 2016 compared with the same periods in 2015, due to lower premiums in COLI driven by favorable experience-rating impacts and, to a lesser extent, lower investment income yields and lower deferred gain amortization from the sold businesses.

Corporate

Description

Corporate reflects amounts not allocated to operating segments, such as net interest expense (defined as interest on corporate debt less net investment income on investments not supporting segment operations), interest on uncertain tax positions, certain litigation matters, intersegment eliminations, compensation cost for stock options, expense associated with our frozen pension plans and certain overhead and project costs.

FINANCIAL SUMMARY *(In millions)*	Three Months Ended June 30, 2016	2015	% Change	Six Months Ended June 30, 2016	2015	% Change
Adjusted loss from operations	**$ (62)**	$ (65)	5%	**$ (107)**	$ (136)	21%

Corporate s adjusted loss from operations was lower for the three months ended June 30, 2016 compared with the same period in 2015, mainly due to higher investment income. Corporate s adjusted loss from operations was lower for the six months ended June 30, 2016 compared with the same period in 2015, mainly due to adopting ASU 2016-09 effective January 1, 2016, as further discussed in Note 2 to the Consolidated Financial Statements.

Table of Contents

INVESTMENT ASSETS

The following table presents our invested asset portfolio, excluding separate account assets, as of June 30, 2016 and December 31, 2015. Additional information regarding our investment assets and related accounting policies is included in Notes 7, 8, 9, 10 and 13 to the Consolidated Financial Statements.

(In millions)		June 30, 2016		December 31, 2015
Fixed maturities	$	20,538	$	19,455
Equity securities		181		190
Commercial mortgage loans		1,814		1,864
Policy loans		1,442		1,419
Other long-term investments		1,419		1,404
Short-term investments		469		381
Total	**$**	**25,863**	$	24,713

Fixed Maturities

Investments in fixed maturities include publicly traded and privately placed debt securities, mortgage and other asset-backed securities and preferred stocks redeemable by the investor. These investments are classified as available for sale and are carried at fair value on our balance sheet. Additional information regarding valuation methodologies, key inputs and controls is included in Note 7 to the Consolidated Financial Statements. More detailed information about fixed maturities by type of issuer, maturity dates, and, for mortgages, by debt service coverage and loan-to-value ratios is included in Note 8 to these Consolidated Financial Statements and Note 11 to the Consolidated Financial Statements in our 2015 Form 10-K.

The following table reflects our fixed maturity portfolio by type of issuer as of June 30, 2016 and December 31, 2015:

(In millions)		June 30, 2016		December 31, 2015
Federal government and agency	$	751	$	779
State and local government		1,576		1,641
Foreign government		2,270		2,014
Corporate		15,412		14,448
Mortgage-backed		38		49
Other asset-backed		491		524
Total	**$**	**20,538**	$	19,455

The fixed maturity portfolio increased modestly during the six months ended June 30, 2016, reflecting increased valuations due to the impact of decreased market yields. Although overall asset values are well in excess of amortized cost, there are specific securities with amortized cost in excess of fair value by $67 million in aggregate as of June 30, 2016. See Note 8 to the Consolidated Financial Statements for further

information.

As of June 30, 2016, $18.4 billion, or 89%, of the fixed maturities in our investment portfolio were investment grade (Baa and above, or equivalent), and the remaining $2.1 billion were below investment grade. The majority of the bonds that are below investment grade are rated at the higher end of the non-investment grade spectrum. These quality characteristics have not materially changed since December 31, 2015.

Our investment in state and local government securities, with an average quality rating of Aa2 is diversified by issuer and geography with no single exposure greater than $30 million. We assess each issuer s credit quality based on a fundamental analysis of underlying financial information and do not rely solely on statistical rating organizations or monoline insurer guarantees.

Table of Contents

We invest in high quality foreign government obligations, with an average quality rating of Aa3 as of June 30, 2016. These investments are primarily concentrated in Asia consistent with the geographic distribution of our international business operations. Foreign government obligations also include $239 million of investments in European sovereign debt, none of which are in countries with significant political or economic concerns such as Portugal, Italy, Ireland, Greece, Spain and Turkey.

As of June 30, 2016, corporate fixed maturities include private placement investments of $5.4 billion that are generally less marketable than publicly-traded bonds. However, yields on these investments tend to be higher than yields on publicly-traded bonds with comparable credit risk. We perform a credit analysis of each issuer, diversify investments by industry and issuer and require financial and other covenants that allow us to monitor issuers for deteriorating financial strength and pursue remedial actions, if warranted. Corporate fixed maturities include $334 million of investments in companies that are domiciled or have significant business interests in Italy, Ireland, Spain and Turkey. These investments have an average quality rating of Baa3 and are diversified by industry sector, including approximately 2% invested in financial institutions. Corporate fixed maturities also include investments in the energy and natural gas sector of $1.6 billion with gross unrealized losses of $18 million. These investments have an average quality rating of Baa2 and are diversified by issuer with no single exposure greater than $40 million.

We have approximately $25 million of aggregate corporate fixed maturity investment in China-based companies. In addition to amounts classified in fixed maturities on our Consolidated Balance Sheet, we operate a joint venture in China in which we have a 50% ownership interest. We account for this joint venture on the equity basis of accounting and report it in other assets, including other intangibles. This entity has an investment portfolio of approximately $2.7 billion that is primarily invested in diversified corporate fixed maturities and has no investments with a material unrealized loss as of June 30, 2016.

Commercial Mortgage Loans

Our commercial mortgage loans are fixed rate loans, diversified by property type, location and borrower. Loans are secured by high quality commercial properties and are generally made at less than 70% of the property s value at origination of the loan. Property value, debt service coverage, quality, building tenancy and stability of cash flows are all important financial underwriting considerations. We hold no direct residential mortgage loans and do not originate or service securitized mortgage loans.

We completed an annual in-depth review of our commercial mortgage loan portfolio during the second quarter of 2016. This review included an analysis of each property s year-end 2015 financial statements, rent rolls, operating plans and budgets for 2016, a physical inspection of the property and other pertinent factors. The results showed slight improvement from 2015 in each of the key metrics and confirmed the strength of the overall portfolio. Based on this review, the portfolio s average loan-to-value ratio slightly improved to 57% at June 30, 2016 compared with 58% at December 31, 2015 and the portfolio s average debt service coverage ratio improved to 1.88 at June 30, 2016 compared with 1.78 at December 31, 2015. These improvements are primarily attributable to improvements in property operations and the relative stability of these metrics is due to low portfolio turnover. See Note 8 to the Consolidated Financial Statements for further information.

Commercial real estate capital markets remain very active for well-leased, quality commercial real estate located in strong institutional investment markets. The vast majority of properties securing the mortgages in our mortgage loan portfolio possess these characteristics.

The $1.8 billion commercial mortgage loan portfolio consists of approximately 65 loans. The portfolio includes two impaired loans with a carrying value totaling $72 million, net of $11 million in reserves, that are classified as problem loans. We have $148 million of loans maturing in the next twelve months. Given the quality and diversity of the underlying real estate, positive debt service coverage and significant borrower cash investment or equity value averaging 30%, we remain confident that borrowers will continue to perform as expected under their contract terms.

Other Long-term Investments

Other long-term investments of $1.4 billion primarily include investments in security partnership and real estate funds as well as direct investments in real estate joint ventures. The funds typically invest in mezzanine debt or equity of privately held companies (securities partnerships) and equity real estate. Given our subordinate position in the capital structure of these underlying entities, we assume a higher level of risk for higher expected returns. To mitigate risk, investments are diversified across approximately 110 separate partnerships, and approximately 70 general partners who manage one or more of these partnerships. Also, the funds underlying investments are diversified by industry sector or property type, and geographic region. No single partnership investment exceeds 4% of our securities and real estate partnership portfolio.

Table of Contents

Problem and Potential Problem Investments

Problem bonds and commercial mortgage loans are either delinquent by 60 days or more or have been restructured as to terms, including concessions by us to modify the interest rate, principal payment or maturity date. Potential problem bonds and commercial mortgage loans are considered current (no payment is more than 59 days past due), but management believes they have certain characteristics that increase the likelihood that they may become problems. The characteristics management considers include, but are not limited to, the following:

- request from the borrower for restructuring;
- principal or interest payments past due by more than 30 but fewer than 60 days;
- downgrade in credit rating;
- collateral losses on asset-backed securities; and
- for commercial mortgages, deterioration of debt service coverage below 1.0 or value declines resulting in estimated loan-to-value ratios increasing to 100% or more.

We recognize interest income on problem bonds and commercial mortgage loans only when payment is actually received because of the risk profile of the underlying investment. The amount that would have been reflected in net income if interest on non-accrual investments had been recognized in accordance with the original terms was not significant for the six months ended June 30, 2016 or 2015.

The following table shows problem and potential problem investments at amortized cost, net of valuation reserves and write-downs:

	June 30, 2016			December 31, 2015		
(In millions)	**Gross**	**Reserve**	**Net**	**Gross**	**Reserve**	**Net**
Problem bonds	$ 28	$ (25)	$ 3	$ 3	$ (1)	$ 2
Problem commercial mortgage loans	83	(11)	72	90	(11)	79
Total problem investments	**$ 111**	**$ (36)**	**$ 75**	$ 93	$ (12)	$ 81
Potential problem bonds	$ 35	$ (22)	$ 13	$ 55	$ (23)	$ 32
Potential problem commercial mortgage loans	40	-	40	64	(4)	60
Total potential problem investments	**$ 75**	**$ (22)**	**$ 53**	$ 119	$ (27)	$ 92

Investment Outlook

Global financial markets have exhibited continued volatility during the first half of 2016 reflecting global economic and political uncertainty, led by concerns about the United Kingdom s decision to exit the European Union, China s decelerating economic growth as well as the negative and potentially destabilizing impacts from cyclically low energy prices. The near-term impact of these events has not materially impacted our financial condition or liquidity; however, we continue to closely monitor global macroeconomic trends and the potential impact to our investment portfolio. Future realized and unrealized investment results will be driven largely by market conditions that exist when a transaction occurs or at the reporting date. These future conditions are not reasonably predictable; however, we believe that the vast majority of our investments will continue to perform under their contractual terms. Based on our strategy to match the duration of invested assets to the duration of insurance and contractholder liabilities, we expect to hold a significant portion of these assets for the long term. Although future impairment losses resulting from interest rate movements and credit deterioration due to both company-specific and the global economic uncertainties discussed above remain possible, we do not expect these losses to have a material adverse effect on our financial condition or liquidity.

Table of Contents

MARKET RISK

Financial Instruments

Our assets and liabilities include financial instruments subject to the risk of potential losses from adverse changes in market rates and prices. Our primary market risk exposures are interest-rate risk and foreign currency exchange rate risk. Certain financial instruments, such as insurance-related assets and liabilities, are excluded from these hypothetical calculations. We encourage you to read this in conjunction with Market Risk Financial Instruments included in Part II, Item 7 of our 2015 Form 10-K.

The loss in fair value of a hypothetical 100 basis point increase in interest rates for certain financial instruments increased from approximately $865 million at December 31, 2015 to approximately $920 million at June 30, 2016. The increased interest rate sensitivity results primarily from increased asset purchases and valuation increases of our fixed maturities and long-term debt resulting from lower market yields during the six months ended June 30, 2016.

Our foreign operations hold investment assets, such as fixed maturities, cash, and cash equivalents, that are generally invested in the currency of the related liabilities. Due to an increase in the amount of these investments during the six months ended June 30, 2016 that are primarily denominated in the South Korean won, the loss in fair value of a hypothetical 10% strengthening in the U.S. dollar to foreign currencies increased from approximately $340 million at December 31, 2015 to approximately $390 million at June 30, 2016.

Table of Contents

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information responsive to this item is contained under the caption Market Risk in Item 2 above, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents

Item 4. CONTROLS AND PROCEDURES

Based on an evaluation of the effectiveness of Cigna s disclosure controls and procedures conducted under the supervision and with the participation of Cigna s management, Cigna s Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, Cigna s disclosure controls and procedures are effective to ensure that information required to be disclosed by Cigna in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms and is accumulated and communicated to Cigna s management, including Cigna s Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the period covered by this report, there have been no changes in Cigna s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Cigna s internal control over financial reporting.

Table of Contents

Item 1. LEGAL PROCEEDINGS

The information contained under Litigation Matters , Regulatory Matters and Other Legal Matters in Note 16 to the Consolidated Financial Statements is incorporated herein by reference.

Table of Contents

Item 1A. RISK FACTORS

Cigna s Annual Report on Form 10-K for the year ended December 31, 2015 includes a detailed description of its risk factors.

Table of Contents

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information about Cigna s share repurchase activity for the quarter ended June 30, 2016:

Issuer Purchases of Equity Securities

Period	Total # of shares purchased (1)	Average price paid per share	Total # of shares purchased as part of publicly announced program (2)	Approximate dollar value of shares that may yet be purchased as part of publicly announced program (3)
April 1-30, 2016	142	$ 138.60	-	$ 389,765,351
May 1-31, 2016	3,534	$ 131.87	-	$ 389,765,351
June 1-30, 2016	845	$ 129.80	-	$ 389,765,351
Total	**4,521**	**$ 131.69**	**-**	**N/A**

(1) Includes shares tendered by employees as payment of taxes withheld on the vesting of restricted stock and strategic performance shares granted under the Company s equity compensation plans. Employees tendered 142 shares in April, 3,534 shares in May and 845 shares in June 2016.

(2) Cigna has had a repurchase program for many years, and has had varying levels of repurchase authority and activity under this program. The program has no expiration date. Cigna suspends activity under this program from time to time and also removes such suspensions, generally without public announcement. Remaining authorization under the program was approximately $725 million as of July 29, 2016.

(3) Approximate dollar value of shares is as of the last date of the applicable month.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

Item 6. EXHIBITS

(a) See Exhibit Index

Table of Contents

SIGNATURE

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.

Cigna Corporation

Date:	July 29, 2016
By:	/s/ Thomas A. McCarthy
	Thomas A. McCarthy
	Executive Vice President
	Chief Financial Officer
	(Duly Authorized Officer and Principal Financial Officer)

Table of Contents

INDEX TO EXHIBITS

Number	Description	Method of Filing
3.1	Restated Certificate of Incorporation of the registrant as last amended October 28, 2011	Filed as Exhibit 3.1 to the registrant s Form 10-Q for the quarterly period ended September 30, 2011 and incorporated herein by reference.
3.2	By-Laws of the registrant as last amended and restated December 6, 2012	Filed as Exhibit 3.2 to the registrant s Form 10-K for the year ended December 31, 2012 and incorporated herein by reference.
12	Computation of Ratios of Earnings to Fixed Charges	Filed herewith.
31.1	Certification of Chief Executive Officer of Cigna Corporation pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934	Filed herewith.
31.2	Certification of Chief Financial Officer of Cigna Corporation pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934	Filed herewith.
32.1	Certification of Chief Executive Officer of Cigna Corporation pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350	Furnished herewith.
32.2	Certification of Chief Financial Officer of Cigna Corporation pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350	Furnished herewith.
101	Financial statements from the quarterly report on Form 10-Q of Cigna Corporation for the quarter ended June 30, 2016 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Income; (ii) the Consolidated Statements of Comprehensive Income; (iii) the Consolidated Balance Sheets; (iv) the Consolidated Statements of Total Equity; (v) the Consolidated Statements of Cash Flow; and (vi) the Notes to the Consolidated Financial Statements	Filed herewith.

Shareholders may obtain copies of exhibits by writing to Cigna Corporation, Shareholder Services Department, 1601 Chestnut Street, Philadelphia, PA 19192.