CNA FINANCIAL CORP
Form 10-Q
October 30, 2012

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

FORM 10-Q
[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number 1-5823

CNA FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	36-6169860 (I.R.S. Employer Identification No.)
333 S. Wabash Chicago, Illinois (Address of principal executive offices)	60604 (Zip Code)

(312) 822-5000
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer [x]	Accelerated filer [ ]	Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [x]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 26, 2012
Common Stock, Par value $2.50	269,397,139

Table of Contents

Part I. Financial Information
Item 1. Condensed Consolidated Financial Statements
CNA Financial Corporation
Condensed Consolidated Statements of Operations (Unaudited)

Periods ended September 30	Three Months		Nine Months	
(In millions, except per share data)	2012	2011	2012	2011
Revenues				
Net earned premiums	$1,781	$1,732	$5,098	$4,942
Net investment income	601	394	1,719	1,531
Net realized investment gains (losses), net of participating policyholders' interests:				
Other-than-temporary impairment losses	(62)	(75)	(89)	(136)
Portion of other-than-temporary impairments recognized in Other comprehensive income	(2)	(2)	(25)	(44)
Net other-than-temporary impairment losses recognized in earnings	(64)	(77)	(114)	(180)
Other net realized investment gains	72	50	180	181
Net realized investment gains (losses), net of participating policyholders' interests	8	(27)	66	1
Other revenues	76	76	230	214
Total revenues	2,466	2,175	7,113	6,688
Claims, Benefits and Expenses				
Insurance claims and policyholders' benefits	1,435	1,400	4,164	4,131
Amortization of deferred acquisition costs	333	297	937	880
Other operating expenses	341	311	976	914
Interest	43	43	128	132
Total claims, benefits and expenses	2,152	2,051	6,205	6,057
Income from continuing operations before income tax	314	124	908	631
Income tax expense	(93)	(48)	(271)	(196)
Income from continuing operations	221	76	637	435
Loss from discontinued operations, net of income tax benefit of -, -, - and $0	—	—	—	(1)
Net income	221	76	637	434
Net (income) loss attributable to noncontrolling interests	—	(1)	—	(15)
Net income attributable to CNA	$221	$75	$637	$419
Income Attributable to CNA Common Stockholders				
Income from continuing operations attributable to CNA common stockholders	$221	$75	$637	$420
Loss from discontinued operations attributable to CNA common stockholders	—	—	—	(1)
Income attributable to CNA common stockholders	$221	$75	$637	$419

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

Periods ended September 30	Three Months		Nine Months	
(In millions, except per share data)	2012	2011	2012	2011
Basic Earnings Per Share Attributable to CNA Common Stockholders				
Income from continuing operations attributable to CNA common stockholders	$0.82	$0.28	$2.37	$1.56
Loss from discontinued operations attributable to CNA common stockholders	—	—	—	—
Income attributable to CNA common stockholders	$0.82	$0.28	$2.37	$1.56
Diluted Earnings Per Share Attributable to CNA Common Stockholders				
Income from continuing operations attributable to CNA common stockholders	$0.82	$0.28	$2.36	$1.56
Loss from discontinued operations attributable to CNA common stockholders	—	—	—	—
Income attributable to CNA common stockholders	$0.82	$0.28	$2.36	$1.56
Dividends per share	$0.15	$0.10	$0.45	$0.30
Weighted Average Outstanding Common Stock and Common Stock Equivalents				
Basic	269.4	269.3	269.4	269.3
Diluted	269.8	269.6	269.8	269.6

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

CNA Financial Corporation

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Periods ended September 30	Three Months		Nine Months	
(In millions)	2012	2011	2012	2011
Other Comprehensive Income, Net of Tax				
Changes in:				
Net unrealized gains (losses) on investments with other-than-temporary impairments	$36	$(14)	$73	$25
Net unrealized gains on other investments	191	236	530	558
Net unrealized gains on investments	227	222	603	583
Foreign currency translation adjustment	33	(52)	37	(22)
Pension and postretirement benefits	3	1	12	3
Net unrealized gains on discontinued operations and other	—	—	—	1
Allocation to participating policyholders	—	(6)	(2)	(7)
Other comprehensive income, net of tax	263	165	650	558
Net income	221	76	637	434
Comprehensive income	484	241	1,287	992
Other comprehensive (income) loss attributable to noncontrolling interests related to changes in net unrealized (gains) losses on investments	—	—	—	(8)
Net (income) loss attributable to noncontrolling interests	—	(1)	—	(15)
Comprehensive (income) loss attributable to noncontrolling interests	—	(1)	—	(23)
Total comprehensive income attributable to CNA	$484	$240	$1,287	$969

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

CNA Financial Corporation
Condensed Consolidated Balance Sheets (Unaudited)

(In millions, except share data)	September 30, 2012	December 31, 2011
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of $37,945 and $37,345)	$42,305	$39,937
Equity securities at fair value (cost of $228 and $288)	260	304
Limited partnership investments	2,370	2,245
Other invested assets	11	12
Mortgage loans	358	234
Short term investments	2,484	1,641
Total investments	47,788	44,373
Cash	129	75
Reinsurance receivables (less allowance for uncollectible receivables of $74 and $91)	5,840	6,001
Insurance receivables (less allowance for uncollectible receivables of $102 and $112)	1,902	1,614
Accrued investment income	484	436
Deferred acquisition costs	603	552
Deferred income taxes	8	415
Property and equipment at cost (less accumulated depreciation of $408 and $420)	317	309
Goodwill and other intangible assets	285	139
Other assets (includes $0 and $130 due from Loews Corporation)	911	779
Separate account business	345	417
Total assets	$58,612	$55,110
Liabilities and Equity		
Liabilities:		
Insurance reserves:		
Claim and claim adjustment expenses	$24,331	$24,303
Unearned premiums	3,681	3,250
Future policy benefits	10,974	9,810
Policyholders’ funds	165	191
Participating policyholders’ funds	71	68
Short term debt	13	83
Long term debt	2,557	2,525
Other liabilities (includes $87 and $0 due to Loews Corporation)	3,815	2,975
Separate account business	345	417
Total liabilities	45,952	43,622
Commitments and contingencies (Notes D, H and J)		
Equity:		
Common stock ($2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; 269,397,139 and 269,274,900 shares outstanding)	683	683
Additional paid-in capital	2,144	2,141
Retained earnings	8,823	8,308
Accumulated other comprehensive income	1,130	480
Treasury stock (3,643,104 and 3,765,343 shares), at cost	(99)	(102)
Notes receivable for the issuance of common stock	(21)	(22)
Total CNA stockholders’ equity	12,660	11,488
Total liabilities and equity	$58,612	$55,110

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

CNA Financial Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)
Nine months ended September 30

(In millions)	2012	2011
Cash Flows from Operating Activities		
Net income	$637	$434
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Loss from discontinued operations	—	1
Loss on disposal of property and equipment	1	8
Deferred income tax expense	95	151
Trading portfolio activity	(13)	(8)
Net realized investment gains, net of participating policyholders’ interests	(66)	(1)
Equity method investees	(68)	80
Amortization of investments	(43)	(47)
Depreciation and amortization	83	59
Changes in:		
Receivables, net	348	267
Accrued investment income	(46)	(42)
Deferred acquisition costs	(27)	(21)
Insurance reserves	(53)	(5)
Other assets	90	110
Other liabilities	47	(181)
Other, net	8	10
Total adjustments	356	381
Net cash flows provided by operating activities-continuing operations	$993	$815
Net cash flows provided (used) by operating activities-discontinued operations	$—	$(2)
Net cash flows provided by operating activities-total	$993	$813
Cash Flows from Investing Activities		
Purchases of fixed maturity securities	$(7,369)	$(8,854)
Proceeds from fixed maturity securities:		
Sales	4,761	5,900
Maturities, calls and redemptions	2,655	2,434
Purchases of equity securities	(30)	(51)
Proceeds from sales of equity securities	72	171
Origination of mortgage loans	(129)	(118)
Change in short term investments	(505)	499
Change in other investments	35	(137)
Purchase of Hardy	(197)	—
Purchases of property and equipment	(60)	(67)
Other, net	20	4
Net cash flows used by investing activities-continuing operations	$(747)	$(219)
Net cash flows provided (used) by investing activities-discontinued operations	$—	$2
Net cash flows used by investing activities-total	$(747)	$(217)

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

Nine months ended September 30		
(In millions)	2012	2011
Cash Flows from Financing Activities		
Acquisition of CNA Surety noncontrolling interest	$—	$(475)
Dividends paid to common stockholders	(122)	(81)
Proceeds from the issuance of debt	—	396
Repayment of debt	(70)	(420)
Stock options exercised	1	2
Other, net	(4)	(10)
Net cash flows used by financing activities-continuing operations	$(195)	$(588)
Net cash flows provided (used) by financing activities-discontinued operations	$—	$—
Net cash flows used by financing activities-total	$(195)	$(588)
Effect of foreign exchange rate changes on cash	$3	$(1)
Net change in cash	$54	$7
Cash, beginning of year	75	77
Cash, end of period	$129	$84

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

CNA Financial Corporation
Condensed Consolidated Statements of Equity (Unaudited)
Nine months ended September 30

(In millions)	2012	2011
Common Stock		
Balance, beginning of period	$683	$683
Balance, end of period	683	683
Additional Paid-in Capital		
Balance, beginning of period, as previously reported	2,146	2,200
Cumulative effect adjustment from accounting change for deferred acquisition costs, net of tax	(5)	—
Balance, beginning of period, as adjusted	2,141	2,200
Stock-based compensation	3	3
Acquisition of CNA Surety noncontrolling interest	—	(65)
Other	—	1
Balance, end of period	2,144	2,139
Retained Earnings		
Balance, beginning of period, as previously reported	8,382	7,876
Cumulative effect adjustment from accounting change for deferred acquisition costs, net of tax	(74)	(72)
Balance, beginning of period, as adjusted	8,308	7,804
Dividends paid to common stockholders	(122)	(81)
Net income attributable to CNA	637	419
Balance, end of period	8,823	8,142
Accumulated Other Comprehensive Income		
Balance, beginning of period, as previously reported	470	326
Cumulative effect adjustment from accounting change for deferred acquisition costs, net of tax	10	—
Balance, beginning of period, as adjusted	480	326
Other comprehensive income attributable to CNA	650	550
Acquisition of CNA Surety noncontrolling interest	—	19
Balance, end of period	1,130	895
Treasury Stock		
Balance, beginning of period	(102)	(105)
Stock-based compensation	3	3
Balance, end of period	(99)	(102)
Notes Receivable for the Issuance of Common Stock		
Balance, beginning of period	(22)	(26)
Decrease in notes receivable for the issuance of common stock	1	4
Balance, end of period	(21)	(22)
Total CNA Stockholders’ Equity	12,660	11,735
Noncontrolling Interests		
Balance, beginning of period, as previously reported	—	570
Cumulative effect adjustment from accounting change for deferred acquisition costs, net of tax	—	(7)
Balance, beginning of period, as adjusted	—	563
Net income	—	15
Other comprehensive income	—	8
Acquisition of CNA Surety noncontrolling interest	—	(429)

Other	—	(12)
Balance, end of period	—	145
Total Equity	$12,660	$11,880

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

9

Table of Contents

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note A. General

Basis of Presentation

The Condensed Consolidated Financial Statements (Unaudited) include the accounts of CNA Financial Corporation (CNAF) and its controlled subsidiaries. Collectively, CNAF and its controlled subsidiaries are referred to as CNA or the Company. CNA's property and casualty and remaining life and group insurance operations are primarily conducted by Continental Casualty Company (CCC), The Continental Insurance Company, Western Surety Company, and Continental Assurance Corporation. Loews Corporation (Loews) owned approximately 90% of the outstanding common stock of CNAF as of September 30, 2012.

The accompanying Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Certain financial information that is normally included in annual financial statements, including certain financial statement notes, prepared in accordance with GAAP, is not required for interim reporting purposes and has been condensed or omitted. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in CNAF's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) for the year ended December 31, 2011, including the summary of significant accounting policies in Note A. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

The interim financial data as of September 30, 2012 and for the three and nine months ended September 30, 2012 and 2011 is unaudited. However, in the opinion of management, the interim data includes all adjustments, consisting of normal recurring accruals, necessary for a fair statement of the Company's results for the interim periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. Intercompany amounts have been eliminated.

Noncontrolling Interests

Net income attributable to noncontrolling interests for the three and nine months ended September 30, 2011 represented the noncontrolling interests in CNA Surety Corporation (Surety) and First Insurance Company of Hawaii (FICOH). On June 10, 2011, CNA completed the acquisition of the noncontrolling interest of Surety and on November 29, 2011, CNA completed the sale of its 50% ownership interest in FICOH.

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the Financial Accounting Standards Board issued updated accounting guidance which limits the capitalization of costs incurred to acquire or renew insurance contracts to those that are incremental direct costs of successful contract acquisitions. The previous guidance allowed the capitalization of acquisition costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts, whether the costs related to successful or unsuccessful efforts.

As of January 1, 2012, the Company adopted the updated accounting guidance prospectively as of January 1, 2004, the earliest date practicable. Due to the lack of available historical data related to certain accident and health contracts issued prior to January 1, 2004, a full retrospective application of the change in accounting guidance was impracticable. Acquisition costs capitalized prior to January 1, 2004 will continue to be accounted for under the previous accounting guidance and will be amortized over the premium-paying period of the related policies using assumptions consistent with those used for computing future policy benefit reserves for such contracts.

For the three and nine months ended September 30, 2012, the adoption of the new accounting guidance resulted in no impact and a $3 million decrease in Net income attributable to CNA and no impact and a $0.01 decrease in Basic and Diluted earnings per share attributable to CNA common stockholders.

The Company has adjusted its previously reported financial information included herein to reflect the change in accounting guidance for deferred acquisition costs. The impacts of adopting the new accounting standard on the

Table of Contents

Company's Condensed Consolidated Balance Sheet as of December 31, 2011 were a $106 million decrease in Deferred acquisition costs and a $37 million increase in Deferred income taxes. The impacts to Accumulated other comprehensive income (AOCI) and Additional paid-in capital were the result of the indirect effects of the Company's adoption of this guidance on Shadow Adjustments, as further discussed in Note D, and the Company's acquisition of the noncontrolling interest of Surety as discussed above.

The impacts on the Company's Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011 were a $59 million and $171 million decrease in Amortization of deferred acquisition costs, a $59 million and $178 million increase in Other operating expenses, a $1 million and $2 million decrease in Income tax expense, and a $1 million increase and no impact in Net income attributable to noncontrolling interests, resulting in no impact and a $5 million decrease in Net income attributable to CNA, and no impact and a $0.02 decrease in Basic and Diluted earnings per share attributable to CNA common stockholders. There were no changes to net cash flows from operating, investing or financing activities for the comparative periods presented as a result of the adoption of the new accounting standard.

Table of Contents

Note B. Hardy

On July 2, 2012, the Company completed the previously announced acquisition of all outstanding shares of Hardy Underwriting Bermuda Limited and its subsidiaries (Hardy), a specialized Lloyd's of London (Lloyd's) underwriter. Through Lloyd's Syndicate 382, Hardy underwrites primarily short-tail exposures in marine and aviation, non-marine property, specialty lines and property treaty reinsurance. The acquisition of Hardy aligns with the Company's specialized underwriting focus and will be a key platform for expanding the Company's global business through the Lloyd's marketplace. The results of Hardy for the period from July 2, 2012 to September 30, 2012 are included in the results of our core property and casualty insurance operations as a separate segment.

For the year ended December 31, 2011, Hardy reported gross written premiums of $430 million and recorded a loss of $55 million in its group consolidated financial statements prepared in accordance with International Financial Reporting Standards.

The purchase price for Hardy was $231 million. Acquisition related expenses of $4 million were incurred during the nine months ended September 30, 2012, including investment advisory, legal and other expenses, and were recorded in the Corporate and Other Non-Core segment.

The fair value of the assets acquired and the liabilities assumed as a result of the acquisition of Hardy were as follows:

(In millions)	Acquisition Date July 2, 2012
Investments:	
Fixed maturity securities	$117
Short term investments	255
Total investments	372
Cash	34
Reinsurance receivables	252
Insurance receivables	222
Accrued investment income	2
Property and equipment	4
Goodwill and other intangible assets	171
Other assets	109
Total assets acquired	$1,166
Claim and claim adjustment expenses	$500
Unearned premiums	249
Long term debt	30
Other liabilities	156
Total liabilities assumed	$935

Table of Contents

The intangible assets acquired are presented in the following table.

(In millions)	Amount	Economic Useful Life
Syndicate capacity	$55	Indefinite
Total indefinite-lived intangible assets	55	
Value of business acquired	60	1 - 4 years
Trade name	8	8 years
Distribution channel	13	15 years
Total finite-lived intangible assets	81	
Total intangible assets as of the acquisition date	$136	

For the three months ended September 30, 2012, amortization expense of $18 million was included in Amortization of deferred acquisition costs and $6 million was included in Other operating expenses in the Statement of Operations for the Hardy segment. Estimated future amortization expense for these intangible assets is $19 million in the fourth quarter of 2012, $21 million in 2013, $4 million in 2014, $1 million in 2015 and $2 million in both 2016 and 2017.

The acquisition resulted in goodwill of $35 million which was recorded in the Hardy segment. The recognized goodwill is based on the Company's expected growth and profitability of Hardy. The goodwill is not deductible for tax purposes.

Lloyd's requires syndicate capital providers to provide funds at Lloyd's (FAL) which is available to Lloyd's should funds in the Lloyd's premium trust fund be insufficient to cover obligations. At September 30, 2012, the Company had a deposit of $66 million of short duration U.S. Treasury securities in a Lloyd's custody account related to the FAL. Although the Company still owns these securities, these securities are controlled by Lloyd's and are therefore restricted. Additionally, cash and securities with a carrying value of approximately $71 million were deposited by Hardy under local requirements of regulatory authorities as of September 30, 2012.

Table of Contents

Note C. Earnings Per Share

Earnings per share attributable to the Company's common stockholders is based on the weighted average number of outstanding common shares. Basic earnings (loss) per share excludes the impact of dilutive securities and is computed by dividing net income (loss) attributable to CNA by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

For the three and nine months ended September 30, 2012, approximately 450 thousand and 400 thousand potential shares attributable to exercises under stock-based employee compensation plans were included in the calculation of diluted earnings per share. For those same periods, approximately 693 thousand and 740 thousand potential shares attributable to exercises under stock-based employee compensation plans were not included in the calculation of diluted earnings per share because the effect would have been antidilutive.

For the three and nine months ended September 30, 2011, approximately 279 thousand and 286 thousand potential shares attributable to exercises under stock-based employee compensation plans were included in the calculation of diluted earnings per share. For those same periods, approximately 1.2 million and 1.1 million potential shares attributable to exercises under stock-based employee compensation plans were not included in the calculation of diluted earnings per share because the effect would have been antidilutive.

Table of Contents

Note D. Investments

The significant components of net investment income are presented in the following table.

Net Investment Income

Periods ended September 30	Three Months		Nine Months	
(In millions)	2012	2011	2012	2011
Fixed maturity securities	$507	$494	$1,528	$1,505
Short term investments	2	2	5	6
Limited partnership investments	89	(93)	184	32
Equity securities	4	4	10	16
Mortgage loans	5	2	13	6
Trading portfolio (a)	7	(1)	18	5
Other	—	1	3	6
Gross investment income	614	409	1,761	1,576
Investment expense	(13)	(15)	(42)	(45)
Net investment income	$601	$394	$1,719	$1,531

(a) There were no net unrealized gains (losses) related to changes in fair value of trading securities still held included in net investment income for the three or nine months ended September 30, 2012. Net unrealized losses related to changes in fair value on trading securities still held included in net investment income were $1 million for the three and nine months ended September 30, 2011.

Net realized investment gains (losses) are presented in the following table.

Net Realized Investment Gains (Losses)

Periods ended September 30	Three Months		Nine Months	
(In millions)	2012	2011	2012	2011
Net realized investment gains (losses):				
Fixed maturity securities:				
Gross realized gains	$75	$56	$193	$233
Gross realized losses	(49)	(85)	(120)	(222)
Net realized investment gains (losses) on fixed maturity securities	26	(29)	73	11
Equity securities:				
Gross realized gains	5	1	10	7
Gross realized losses	(20)	(2)	(24)	(10)
Net realized investment gains (losses) on equity securities	(15)	(1)	(14)	(3)
Derivatives	(1)	1	(1)	—
Short term investments and other (a) (b)	(2)	2	8	(7)
Net realized investment gains (losses), net of participating policyholders' interests	$8	$(27)	$66	$1

(a) The nine months ended September 30, 2011 included a $9 million loss related to the early extinguishment of debt in 2011.

(b) Includes net unrealized gains (losses) related to changes in the fair value of securities for which the fair value option has been elected. There were no net unrealized gains (losses) included in the three months ended September 30, 2012 or 2011 or the nine months ended September 30, 2012. There were $1 million of net unrealized gains for the nine months ended September 30, 2011.

Table of Contents

The components of net other-than-temporary impairment (OTTI) losses recognized in earnings by asset type are summarized in the following table.

Periods ended September 30	Three Months		Nine Months	
(In millions)	2012	2011	2012	2011
Fixed maturity securities available-for-sale:				
Corporate and other bonds	$7	$49	$23	$73
States, municipalities and political subdivisions	17	—	17	—
Asset-backed:				
Residential mortgage-backed	20	21	49	95
Other asset-backed	—	4	—	4
Total asset-backed	20	25	49	99
U.S. Treasury and obligation of government-sponsored enterprises	—	—	1	—
Total fixed maturity securities available-for-sale	44	74	90	172
Equity securities available-for-sale:				
Common stock	1	3	5	7
Preferred stock	19	—	19	1
Total equity securities available-for-sale	20	3	24	8
Net OTTI losses recognized in earnings	$64	$77	$114	$180

A security is impaired if the fair value of the security is less than its cost adjusted for accretion, amortization and previously recorded OTTI losses, otherwise defined as an unrealized loss. When a security is impaired, the impairment is evaluated to determine whether it is temporary or other-than-temporary.

Significant judgment is required in the determination of whether an OTTI loss has occurred for a security. The Company follows a consistent and systematic process for determining and recording an OTTI loss. The Company has established a committee responsible for the OTTI process. This committee, referred to as the Impairment Committee, is made up of three officers appointed by the Company’s Chief Financial Officer (CFO). The Impairment Committee is responsible for evaluating all securities in an unrealized loss position on at least a quarterly basis.

The Impairment Committee’s assessment of whether an OTTI loss has occurred incorporates both quantitative and qualitative information. Fixed maturity securities that the Company intends to sell, or it more likely than not will be required to sell before recovery of amortized cost, are considered to be other-than-temporarily impaired and the entire difference between the amortized cost basis and fair value of the security is recognized as an OTTI loss in earnings. The remaining fixed maturity securities in an unrealized loss position are evaluated to determine if a credit loss exists. The factors considered by the Impairment Committee include (a) the financial condition and near term prospects of the issuer, (b) whether the debtor is current on interest and principal payments, (c) credit ratings of the securities and (d) general market conditions and industry or sector specific outlook. The Company also considers results and analysis of cash flow modeling for asset-backed securities, and when appropriate, other fixed maturity securities. The focus of the analysis for asset-backed securities is on assessing the sufficiency and quality of underlying collateral and timing of cash flows based on scenario tests. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss is judged to exist and the asset-backed security is deemed to be temporarily impaired. If the present value of the expected cash flows is less than amortized cost, the security is judged to be other-than-temporarily impaired for credit reasons and that shortfall, referred to as the credit component, is recognized as an OTTI loss in earnings. The difference between the adjusted amortized cost basis and fair value, referred to as the non-credit component, is recognized as OTTI in Other comprehensive income. In subsequent reporting periods, a change in intent to sell or further credit impairment on a security whose fair value has not deteriorated will cause the non-credit component originally recorded as OTTI in Other comprehensive income to be recognized as an OTTI loss in earnings.

Table of Contents

The Company performs the discounted cash flow analysis using stressed scenarios to determine future expectations regarding recoverability. For asset-backed securities, significant assumptions enter into these cash flow projections including delinquency rates, probable risk of default, loss severity upon a default, over collateralization and interest coverage triggers, and credit support from lower level tranches.

The Company applies the same impairment model as described above for the majority of non-redeemable preferred stock securities on the basis that these securities possess characteristics similar to debt securities and that the issuers maintain their ability to pay dividends. For all other equity securities, in determining whether the security is other-than-temporarily impaired, the Impairment Committee considers a number of factors including, but not limited to: (a) the length of time and the extent to which the fair value has been less than amortized cost, (b) the financial condition and near term prospects of the issuer, (c) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for an anticipated recovery in value and (d) general market conditions and industry or sector specific outlook.

The following tables provide a summary of fixed maturity and equity securities.

Summary of Fixed Maturity and Equity Securities

September 30, 2012 (In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
Fixed maturity securities available-for-sale:					
Corporate and other bonds	$19,209	$2,634	$32	$21,811	$—
States, municipalities and political subdivisions	9,415	1,450	53	10,812	—
Asset-backed:					
Residential mortgage-backed	5,907	264	81	6,090	(12)
Commercial mortgage-backed	1,582	123	17	1,688	(3)
Other asset-backed	944	23	1	966	—
Total asset-backed	8,433	410	99	8,744	(15)
U.S. Treasury and obligations of government-sponsored enterprises	182	11	1	192	—
Foreign government	588	26	—	614	—
Redeemable preferred stock	101	14	—	115	—
Total fixed maturity securities available-for-sale	37,928	4,545	185	42,288	$(15)
Total fixed maturity securities trading	17	—	—	17	
Equity securities available-for-sale:					
Common stock	22	24	—	46	
Preferred stock	206	8	—	214	
Total equity securities available-for-sale	228	32	—	260	
Total	$38,173	$4,577	$185	$42,565	

Table of Contents

December 31, 2011 (In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
Fixed maturity securities available-for-sale:					
Corporate and other bonds	$19,086	$1,946	$154	$20,878	$—
States, municipalities and political subdivisions	9,018	900	136	9,782	—
Asset-backed:					
Residential mortgage-backed	5,786	172	183	5,775	99
Commercial mortgage-backed	1,365	48	59	1,354	(2)
Other asset-backed	946	13	4	955	—
Total asset-backed	8,097	233	246	8,084	97
U.S. Treasury and obligations of government-sponsored enterprises	479	14	—	493	—
Foreign government	608	28	—	636	—
Redeemable preferred stock	51	7	—	58	—
Total fixed maturity securities available-for-sale	37,339	3,128	536	39,931	$97
Total fixed maturity securities trading	6	—	—	6	
Equity securities available-for-sale:					
Common stock	30	17	—	47	
Preferred stock	258	4	5	257	
Total equity securities available-for-sale	288	21	5	304	
Total	$37,633	$3,149	$541	$40,241	

The net unrealized gains on investments included in the tables above are recorded as a component of AOCI. When presented in AOCI, these amounts are net of tax and any required Shadow Adjustments. At September 30, 2012 and December 31, 2011, the net unrealized gains on investments included in AOCI were net of after-tax Shadow Adjustments of $1,277 million and $723 million. To the extent that unrealized gains on fixed income securities supporting certain products within the Life & Group Non-Core segment would result in a premium deficiency if realized, a related decrease in Deferred acquisition costs and/or increase in Insurance reserves is recorded, net of tax, as a reduction through Other comprehensive income (Shadow Adjustments).

The following tables summarize the estimated fair value and gross unrealized losses of available-for-sale fixed maturity and equity securities in a gross unrealized loss position by the length of time in which the securities have continuously been in that position.

Securities in a Gross Unrealized Loss Position

	Less than 12 Months		12 Months or Longer		Total	
September 30, 2012 (In millions)	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities available-for-sale:						
Corporate and other bonds	$600	$18	$210	$14	$810	$32
States, municipalities and political subdivisions	84	1	227	52	311	53
Asset-backed:						
Residential mortgage-backed	327	3	580	78	907	81
Commercial mortgage-backed	142	2	132	15	274	17
Other asset-backed	66	1	—	—	66	1
Total asset-backed	535	6	712	93	1,247	99
	22	1	—	—	22	1

U.S. Treasury and obligations of government-sponsored enterprises						
Total	$1,241	$26	$1,149	$159	$2,390	$185

Table of Contents

December 31, 2011 (In millions)	Less than 12 Months Estimated Fair Value	Gross Unrealized Losses	12 Months or Longer Estimated Fair Value	Gross Unrealized Losses	Total Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities available-for-sale:						
Corporate and other bonds	$2,552	$126	$159	$28	$2,711	$154
States, municipalities and political subdivisions	67	1	721	135	788	136
Asset-backed:						
Residential mortgage-backed	719	36	874	147	1,593	183
Commercial mortgage-backed	431	39	169	20	600	59
Other asset-backed	389	4	—	—	389	4
Total asset-backed	1,539	79	1,043	167	2,582	246
Total fixed maturity securities available-for-sale	4,158	206	1,923	330	6,081	536
Equity securities available-for-sale:						
Preferred stock	117	5	—	—	117	5
Total	$4,275	$211	$1,923	$330	$6,198	$541

Based on current facts and circumstances, the Company believes the unrealized losses presented in the September 30, 2012 Securities in a Gross Unrealized Loss Position table above, are primarily attributable to broader economic conditions, changes in interest rates and credit spreads, market illiquidity and other market factors, but are not indicative of the ultimate collectibility of the current amortized cost of the securities. The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at September 30, 2012.

The amount of pretax net realized gains (losses) on available-for-sale securities reclassified out of AOCI into earnings was $12 million and $59 million for the three and nine months ended September 30, 2012 and $(29) million and $12 million for the three and nine months ended September 30, 2011.

The following table summarizes the activity for the three and nine months ended September 30, 2012 and 2011 related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held at September 30, 2012 and 2011 for which a portion of an OTTI loss was recognized in Other comprehensive income (loss).

Periods ended September 30 (In millions)	Three Months 2012	Three Months 2011	Nine Months 2012	Nine Months 2011
Beginning balance of credit losses on fixed maturity securities	$99	$82	$92	$141
Additional credit losses for securities for which an OTTI loss was previously recognized	2	11	23	29
Credit losses for securities for which an OTTI loss was not previously recognized	—	10	2	11
Reductions for securities sold during the period	(3)	(4)	(11)	(50)
Reductions for securities the Company intends to sell or more likely than not will be required to sell	—	—	(8)	(32)
Ending balance of credit losses on fixed maturity securities	$98	$99	$98	$99

Table of Contents

Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at September 30, 2012 and December 31, 2011. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

Contractual Maturity

	September 30, 2012		December 31, 2011	
(In millions)	Cost or Amortized Cost	Estimated Fair Value	Cost or Amortized Cost	Estimated Fair Value
Due in one year or less	$1,861	$1,876	$1,802	$1,812
Due after one year through five years	13,382	14,176	13,110	13,537
Due after five years through ten years	8,490	9,337	8,410	8,890
Due after ten years	14,195	16,899	14,017	15,692
Total	$37,928	$42,288	$37,339	$39,931

Investment Commitments

As of September 30, 2012, the Company had committed approximately $114 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases, sales and funding. The purchase and sale of these investments are recorded on the date that the legal agreements are finalized and cash settlements are made. As of September 30, 2012, the Company had commitments to purchase $159 million and sell $154 million of such investments. The Company has an obligation to fund additional amounts under the terms of current loan participations that may not be recorded until a draw is made. As of September 30, 2012, the Company had obligations on unfunded bank loan participations in the amount of $6 million.

Table of Contents

Note E. Derivative Financial Instruments

A summary of the recognized gains (losses) related to derivative financial instruments follows.

Recognized Gains (Losses)

Periods ended September 30	Three Months		Nine Months	
(In millions)	2012	2011	2012	2011
Without hedge designation				
Currency forwards	$(1)	$—	$(1)	$(1)
Forward commitments for mortgage-backed securities	—	1	—	1
Total without hedge designation	(1)	1	(1)	—
Trading activities				
Futures sold, not yet purchased	(1)	—	—	—
Total	$(2)	$1	$(1)	$—

A summary of the aggregate contractual or notional amounts and gross estimated fair values related to derivative financial instruments reported as Other invested assets or Other liabilities on the Condensed Consolidated Balance Sheets follows. The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and may not be representative of the potential for gain or loss on these instruments.

Derivative Financial Instruments

September 30, 2012	Contractual/	Estimated Fair Value
(In millions)	Notional Amount	Asset