

CNA FINANCIAL CORP
Form 10-Q
November 01, 2011

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 September 30, 2011
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 1-5823

CNA FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)
Delaware
(State or other jurisdiction of
incorporation or organization)
333 S. Wabash
Chicago, Illinois
(Address of principal executive offices)
(312) 822-5000
(Registrant's telephone number, including area code)

36-6169860
(I.R.S. Employer
Identification No.)
60604
(Zip 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 R No o

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 R No o

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	£	Accelerated filer	R	Non-accelerated filer	o	
				(Do not check if a smaller	Smaller reporting company	o
				reporting company)		

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

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 28, 2011
Common Stock, Par value \$2.50	269,274,900

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CNA Financial Corporation

Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Operations (Unaudited)

Periods ended September 30 (In millions, except per share data)	Three Months		Nine Months	
	2011	2010	2011	2010
Revenues				
Net earned premiums	\$1,732	\$1,645	\$4,942	\$4,868
Net investment income	394	581	1,531	1,692
Net realized investment gains (losses), net of participating policyholders' interests:				
Other-than-temporary impairment losses	(75	) (41	) (136	) (189
Portion of other-than-temporary impairments recognized in Other comprehensive income	(2	) (3	) (44	) 28
Net other-than-temporary impairment losses recognized in earnings	(77	) (44	) (180	) (161
Other net realized investment gains	50	106	181	286
Net realized investment gains (losses), net of participating policyholders' interests	(27	) 62	1	125
Other revenues	76	75	214	226
Total revenues	2,175	2,363	6,688	6,911
Claims, Benefits and Expenses				
Insurance claims and policyholders' benefits	1,400	1,344	4,131	3,799
Amortization of deferred acquisition costs	356	351	1,051	1,038
Other operating expenses	252	795	736	1,325
Interest	43	40	132	113
Total claims, benefits and expenses	2,051	2,530	6,050	6,275
Income (loss) from continuing operations before income tax	124	(167	) 638	636
Income tax (expense) benefit	(49	) 64	(198	) (183
Income (loss) from continuing operations	75	(103	) 440	453
Income (loss) from discontinued operations, net of income tax (expense) benefit of -, \$0, \$0 and \$0	—	(22	) (1	) (21
Net income (loss)	75	(125	) 439	432
Net (income) loss attributable to noncontrolling interests	—	(15	) (15	) (44
Net income (loss) attributable to CNA	\$75	\$(140	) \$424	\$388
Income (Loss) Attributable to CNA Common Stockholders				
Income (loss) from continuing operations attributable to CNA	\$75	\$(118	) \$425	\$409
Dividends on 2008 Senior Preferred	—	(18	) —	(68
Income (loss) from continuing operations attributable to CNA common stockholders	75	(136	) 425	341
Income (loss) from discontinued operations attributable to CNA common stockholders	—	(22	) (1	) (21
Income (loss) attributable to CNA common stockholders	\$75	\$(158	) \$424	\$320
Basic and Diluted Earnings (Loss) Per Share Attributable to CNA Common Stockholders				
	\$0.28	\$(0.51) \$1.58	\$1.27

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Income (loss) from continuing operations attributable to CNA common stockholders						
Income (loss) from discontinued operations attributable to CNA common stockholders	—	(0.08)	—	(0.08)
Basic and diluted earnings (loss) per share attributable to CNA common stockholders	\$0.28	\$(0.59	)	\$1.58	\$1.19
Weighted Average Outstanding Common Stock and Common Stock Equivalents						
Basic	269.3	269.2		269.3	269.1	
Diluted	269.6	269.2		269.6	269.4	

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

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CNA Financial Corporation

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Periods ended September 30

(In millions)

Three Months

2011 2010

Nine Months

2011 2010

Other Comprehensive Income, Net of Tax

Changes in:

Net unrealized gains (losses) on investments with other-than-temporary impairments

\$(14) \$39 \$25 \$81

Net unrealized gains on other investments

227 726 549 1,426

Net unrealized gains on investments

213 765 574 1,507

Net unrealized gains on discontinued operations and other

— 3 1 11

Foreign currency translation adjustment

(52) 37 (22) 44

Pension and postretirement benefits

1 2 3 5

Allocation to participating policyholders

(6) (9) (7) (37)

Other comprehensive income, net of tax

156 798 549 1,530

Net income

75 (125) 439 432

Comprehensive income

231 673 988 1,962

Changes in:

Net unrealized (gains) losses on investments attributable to noncontrolling interests

— (13) (8) (27)

Pension and postretirement benefits attributable to noncontrolling interests

— — — (3)

Other comprehensive (income) loss attributable to noncontrolling interests

— (13) (8) (30)

Net (income) loss attributable to noncontrolling interests

— (15) (15) (44)

Comprehensive (income) loss attributable to noncontrolling interests

— (28) (23) (74)

Total comprehensive income attributable to CNA

\$231 \$645 \$965 \$1,888

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

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CNA Financial Corporation

Condensed Consolidated Balance Sheets (Unaudited)

(In millions, except share data)	September 30, 2011	December 31, 2010
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of \$36,913 and \$36,427)	\$39,456	\$37,577
Equity securities at fair value (cost of \$316 and \$422)	327	440
Limited partnership investments	2,371	2,309
Other invested assets	17	27
Mortgage loans	204	87
Short term investments	1,730	2,215
Total investments	44,105	42,655
Cash	84	77
Reinsurance receivables (less allowance for uncollectible receivables of \$99 and \$125)	6,723	7,079
Insurance receivables (less allowance for uncollectible receivables of \$134 and \$160)	1,694	1,557
Accrued investment income	467	425
Deferred acquisition costs	783	1,079
Deferred income taxes	205	667
Property and equipment at cost (less accumulated depreciation of \$567 and \$543)	324	333
Goodwill and other intangible assets	141	141
Other assets (includes \$120 and \$139 due from Loews Corporation)	900	868
Separate account business	418	450
Total assets	\$55,844	\$55,331
Liabilities and Equity		
Liabilities:		
Insurance reserves:		
Claim and claim adjustment expenses	\$25,031	\$25,496
Unearned premiums	3,386	3,203
Future policy benefits	9,258	8,718
Policyholders' funds	176	173
Participating policyholders' funds	66	60
Short term debt	100	400
Long term debt	2,538	2,251
Other liabilities	2,915	3,056
Separate account business	418	450
Total liabilities	43,888	43,807
Commitments and contingencies (Notes C, D, G, and I)		
Equity:		
Common stock (\$2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; 269,274,900 and 269,139,198 shares outstanding)	683	683
Additional paid-in capital	2,144	2,200
Retained earnings	8,219	7,876
Accumulated other comprehensive income	886	326
Treasury stock (3,765,343 and 3,901,045 shares), at cost	(102)	(105)
Notes receivable for the issuance of common stock	(22)	(26)
Total CNA stockholders' equity	11,808	10,954
Noncontrolling interests	148	570
Total equity	11,956	11,524

Total liabilities and equity	\$55,844	\$55,331
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The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

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CNA Financial Corporation

Condensed Consolidated Statements of Cash Flows (Unaudited)

Nine months ended September 30

(In millions)	2011	2010	
Cash Flows from Operating Activities			
Net income	\$439	\$432	
Adjustments to reconcile net income to net cash flows provided (used) by operating activities:			
Loss from discontinued operations	1	21	
Loss on disposal of property and equipment	8	—	
Deferred income tax expense	153	163	
Trading portfolio activity	(8	) 125	
Net realized investment gains, net of participating policyholders' interests	(1	) (125)
Equity method investees	80	(25)
Amortization of investments	(47	) (84)
Depreciation	59	60	
Changes in:			
Receivables, net	267	(709)
Accrued investment income	(42	) (51)
Deferred acquisition costs	(28	) 12	
Insurance reserves	(5	) (563)
Other assets	110	168	
Other liabilities	(181	) (11)
Other, net	10	3	
Total adjustments	376	(1,016)
Net cash flows provided (used) by operating activities-continuing operations	\$815	\$(584)
Net cash flows used by operating activities-discontinued operations	\$(2	) \$(89)
Net cash flows provided (used) by operating activities-total	\$813	\$(673)
Cash Flows from Investing Activities			
Purchases of fixed maturity securities	\$(8,854	) \$(12,981)
Proceeds from fixed maturity securities:			
Sales	5,900	9,263	
Maturities, calls and redemptions	2,434	2,891	
Purchases of equity securities	(51	) (92)
Proceeds from sales of equity securities	171	215	
Origination of mortgage loans	(118	) (70)
Change in short term investments	499	1,752	
Change in other investments	(137	) (227)
Purchases of property and equipment	(67	) (38)
Dispositions	—	65	
Other, net	4	7	
Net cash flows provided (used) by investing activities-continuing operations	\$(219	) \$785	
Net cash flows provided by investing activities-discontinued operations	\$2	\$75	
Net cash flows provided (used) by investing activities-total	\$(217	) \$860	
The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).			

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Nine months ended September 30

(In millions)

	2011	2010
Cash Flows from Financing Activities		
Acquisition of CNA Surety noncontrolling interest	\$(475)) \$—
Dividends paid to common stockholders	(81)) —
Dividends paid to Loews Corporation for 2008 Senior Preferred	—	(68)
Payment to redeem 2008 Senior Preferred	—	(500)
Proceeds from the issuance of debt	396	495
Repayment of debt	(420)	) (150)
Stock options exercised	2	4
Other, net	(10)	) (26)
Net cash flows used by financing activities-continuing operations	\$(588)	) \$(245)
Net cash flows provided (used) by financing activities-discontinued operations	\$—	\$—
Net cash flows used by financing activities-total	\$(588)	) \$(245)
Effect of foreign exchange rate changes on cash-continuing operations	(1)) —
Net change in cash	\$7	\$(58)
Net cash transactions from continuing operations to discontinued operations	—	(14)
Net cash transactions to discontinued operations from continuing operations	—	14
Cash, beginning of year	77	140
Cash, end of period	\$84	\$82
Cash-continuing operations	\$84	\$82
Cash-discontinued operations	—	—
Cash-total	\$84	\$82

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

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CNA Financial Corporation

Condensed Consolidated Statements of Equity (Unaudited)

Nine months ended September 30

(In millions)	2011	2010	
Preferred Stock			
Balance, beginning of period	\$—	\$1,000	
Redemption of 2008 Senior Preferred	—	(500)
Balance, end of period	—	500	
Common Stock			
Balance, beginning of period	683	683	
Balance, end of period	683	683	
Additional Paid-in Capital			
Balance, beginning of period	2,200	2,177	
Stock-based compensation	3	1	
Acquisition of CNA Surety noncontrolling interest	(60) —	
Other	1	23	
Balance, end of period	2,144	2,201	
Retained Earnings			
Balance, beginning of period	7,876	7,264	
Cumulative effect adjustment from change in credit derivatives accounting guidance as of July 1, 2010, net of tax	—	(2)
Dividends paid to common stockholders	(81) —	
Dividends paid to Loews Corporation for 2008 Senior Preferred	—	(68)
Net income attributable to CNA	424	388	
Balance, end of period	8,219	7,582	
Accumulated Other Comprehensive Income (Loss)			
Balance, beginning of period	326	(325)
Cumulative effect adjustment from change in credit derivatives accounting guidance as of July 1, 2010, net of tax	—	2	
Other comprehensive income attributable to CNA	541	1,500	
Acquisition of CNA Surety noncontrolling interest	19	—	
Balance, end of period	886	1,177	
Treasury Stock			
Balance, beginning of period	(105	) (109)
Stock-based compensation	3	6	
Balance, end of period	(102	) (103)
Notes Receivable for the Issuance of Common Stock			
Balance, beginning of period	(26	) (30)
Decrease in notes receivable for the issuance of common stock	4	—	
Balance, end of period	(22	) (30)
Total CNA Stockholders' Equity	11,808	12,010	
Noncontrolling Interests			
Balance, beginning of period	570	506	
Net income (loss)	15	44	
Other comprehensive income (loss)	8	30	
Acquisition of CNA Surety noncontrolling interest	(434) —	
Other	(11	) (25)
Balance, end of period	148	555	
Total Equity	\$11,956	\$12,565	

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

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CNA Financial Corporation

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 Company. Loews Corporation (Loews) owned approximately 90% of the outstanding common stock of CNAF as of September 30, 2011.

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, 2010, 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, 2011 and for the three and nine months ended September 30, 2011 and 2010 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.

The Company has historically reported certain run-off insurance and reinsurance operations acquired in its merger with The Continental Corporation in 1995 as discontinued operations. Due to the immateriality of the remaining liabilities, effective in the third quarter of 2011, the Company is no longer reporting these run-off operations as discontinued operations.

First Insurance Company of Hawaii

The Company owns 50% of the common stock of First Insurance Company of Hawaii (FICOH). On August 11, 2011, CNA announced the sale of its noncontrolling interest in FICOH to Tokio Marine & Nichido Fire Insurance Co., Ltd., the other 50% shareholder. The sale, which is subject to regulatory approval, is expected to close in the fourth quarter of 2011 and result in a modest gain. The Company previously anticipated recovering the undistributed earnings of FICOH at a dividend tax rate. As a result of the pending sale, the Company has increased income tax expense by \$22 million to reflect the statutory tax rate.

CNA Surety Corporation

On June 10, 2011, CNA completed its previously announced acquisition of the noncontrolling interest of CNA Surety Corporation (CNA Surety). Previously the Company owned approximately 61% of the outstanding publicly-traded common stock of CNA Surety. CNA Surety is now a wholly-owned subsidiary of CCC, and, effective after the close of the stock market on June 10, 2011, trading in CNA Surety common stock ceased.

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The aggregate purchase price was approximately \$475 million, based on the offer price of \$26.55 per share and inclusive of the retirement of CNA Surety employee stock options. The amount paid to acquire the common stock of CNA Surety not owned by the Company in excess of the closing date noncontrolling interest included in the Company's equity of \$434 million was reflected as an adjustment to Additional Paid-in Capital and Accumulated Other Comprehensive Income on the Condensed Consolidated Statement of Equity. During 2011, net income attributable to the noncontrolling interest in CNA Surety through the acquisition date of June 10, 2011 was \$12 million and is reflected on the Condensed Consolidated Statement of Operations. For the three and nine months ended September 30, 2010, net income attributable to the noncontrolling interest in CNA Surety was \$11 million and \$30 million.

Reinsurance Receivables

The Company has established an allowance for uncollectible reinsurance receivables which relates to both amounts already billed on ceded paid losses as well as ceded reserves that will be billed when losses are paid in the future. The allowance for uncollectible reinsurance receivables is estimated on the basis of periodic evaluations of balances due from reinsurers, reinsurer creditworthiness, management's experience and current economic conditions. Financial strength ratings are updated and reviewed on an annual basis or sooner if the Company becomes aware of significant changes related to a reinsurer. Because billed receivables are less than 5% of total reinsurance receivables, the age of the reinsurance receivables related to paid losses is not a significant input into the allowance analysis. During the three months ended September 30, 2011, the Company reduced its allowance for uncollectible reinsurance receivables by \$15 million arising from a change in estimate. The additional reduction in the allowance primarily related to write-offs of reinsurance receivable balances.

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the FASB 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 updated accounting guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011 with prospective or retrospective application allowed. The Company intends to adopt this updated accounting guidance retrospectively and is currently assessing the impact it will have on its financial condition and results of operations. The Company preliminarily estimates that amounts capitalized under the current accounting guidance as of September 30, 2011 would be approximately \$75 million to \$130 million less under the updated guidance. Any reduction of capitalized costs will also necessitate a change in related deferred tax balances.

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Note B. Earnings (Loss) Per Share

Earnings (loss) 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, 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.

For the three months ended September 30, 2010, as a result of the net loss, none of the 2.3 million potential shares attributable to exercises under stock-based employee compensation plans were included in the calculation of loss per share as the effect would have been antidilutive. For the nine months ended September 30, 2010, approximately 240 thousand potential shares attributable to exercises under stock-based employee compensation plans were included in the calculation of diluted earnings per share. For that same period, approximately 1.2 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.

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Note C. 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)	2011	2010	2011	2010
Fixed maturity securities	\$494	\$511	\$1,505	\$1,540
Short term investments	2	2	6	13
Limited partnership investments	(93	) 68	32	136
Equity securities	4	7	16	26
Mortgage loans	2	1	6	1
Trading portfolio (a)	(1	) 4	5	10
Other	1	2	6	7
Gross investment income	409	595	1,576	1,733
Investment expense	(15	) (14	) (45	) (41
Net investment income	\$394	\$581	\$1,531	\$1,692

The 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. The net unrealized gains 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, 2010.

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)	2011	2010	2011	2010
Net realized investment gains (losses):				
Fixed maturity securities:				
Gross realized gains	\$56	\$121	\$233	\$352
Gross realized losses	(85	) (45	) (222	) (183
Net realized investment gains (losses) on fixed maturity securities	(29	) 76	11	169
Equity securities:				
Gross realized gains	1	3	7	7
Gross realized losses	(2	) (20	) (10	) (49
Net realized investment losses on equity securities	(1	) (17	) (3	) (42
Derivatives	1	(1	) —	(1
Short term investments and other (a) (b)	2	4	(7	) (1
Net realized investment gains (losses), net of participating policyholders' interests	\$(27	) \$62	\$1	\$125

(a) The nine months ended September 30, 2011 includes a \$9 million loss related to the early extinguishment of \$400 million of senior notes originally due August 15, 2011.

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, 2011, \$1 million of net unrealized gains for the nine months ended September 30, 2011 and \$2 million of net unrealized gains for the three and nine months ended September 30, 2010.

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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 (In millions)	Three Months		Nine Months	
	2011	2010	2011	2010
Fixed maturity securities available-for-sale:				
Corporate and other bonds	\$49	\$17	\$73	\$59
States, municipalities and political subdivisions	—	—	—	20
Asset-backed:				
Residential mortgage-backed	21	18	95	55
Commercial mortgage-backed	—	—	—	2
Other asset-backed	4	—	4	2
Total asset-backed	25	18	99	59
Total fixed maturity securities available-for-sale	74	35	172	138
Equity securities available-for-sale:				
Common stock	3	5	7	10
Preferred stock	—	4	1	13
Total equity securities available-for-sale	3	9	8	23
Net OTTI losses recognized in earnings	\$77	\$44	\$180	\$161

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. 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.

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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, 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	\$19,141	\$1,918	\$160	\$20,899	\$—
States, municipalities and political subdivisions	8,834	853	150	9,537	—
Asset-backed:					
Residential mortgage-backed	5,812	199	161	5,850	82
Commercial mortgage-backed	1,255	55	61	1,249	(8)
Other asset-backed	1,035	15	14	1,036	—
Total asset-backed	8,102	269	236	8,135	74
U.S. Treasury and obligations of government-sponsored enterprises	221	16	—	237	—
Foreign government	557	25	—	582	—
Redeemable preferred stock	49	8	—	57	—
Total fixed maturity securities available-for-sale	36,904	3,089	546	39,447	\$74
Total fixed maturity securities trading	9	—	—	9	
Equity securities available-for-sale:					
Common stock	103	19	2	120	
Preferred stock	213	2	8	207	
Total equity securities available-for-sale	316	21	10	327	
Total	\$37,229	\$3,110	\$556	\$39,783	

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Summary of Fixed Maturity and Equity Securities

December 31, 2010

(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	\$19,492	\$1,603	\$70	\$21,025	\$—
States, municipalities and political subdivisions	8,157	142	410	7,889	—
Asset-backed:					
Residential mortgage-backed	6,254	101	265	6,090	114
Commercial mortgage-backed	994	40	41	993	(2)
Other asset-backed	753	18	8	763	—
Total asset-backed	8,001	159	314	7,846	112
U.S. Treasury and obligations of government-sponsored enterprises	122	16	1	137	—
Foreign government	602	18	—	620	—
Redeemable preferred stock	47	7	—	54	—
Total fixed maturity securities available-for-sale	36,421	1,945	795	37,571	\$112
Total fixed maturity securities trading	6	—	—	6	
Equity securities available-for-sale:					
Common stock	90	25	—	115	
Preferred stock	332	2	9	325	
Total equity securities available-for-sale	422	27	9	440	
Total	\$36,849	\$1,972	\$804	\$38,017	

At September 30, 2011 and December 31, 2010, net unrealized gains on investments included in Accumulated other comprehensive income (AOCI) supporting certain products within the Life & Group Non-Core segment were reduced by \$467 million and \$150 million, net of tax, resulting from a reduction of Deferred acquisition costs or an increase in Future policy benefit reserves.

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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

September 30, 2011 (In millions)	Less than 12 Months		Greater than 12 Months		Total	
	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	\$3,143	\$134	\$142	\$26	\$3,285	\$160
States, municipalities and political subdivisions	270	4	716	146	986	150
Asset-backed:						
Residential mortgage-backed	789	20	978	141	1,767	161
Commercial mortgage-backed	474	42	179	19	653	61
Other asset-backed	377	4	77	10	454	14
Total asset-backed	1,640	66	1,234	170	2,874	236
Total fixed maturity securities available-for-sale	5,053	204	2,092	342	7,145	546
Equity securities available-for-sale:						
Common stock	36	2	—	—	36	2
Preferred stock	129	7	19	1	148	8
Total equity securities available-for-sale	165	9	19	1	184	10
Total	\$5,218	\$213	\$2,111	\$343	\$7,329	\$556
December 31, 2010 (In millions)	Less than 12 Months		Greater than 12 Months		Total	
	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	\$1,719	\$34	\$405	\$36	\$2,124	\$70
States, municipalities and political subdivisions	3,339	164	745	246	4,084	410
Asset-backed:						
Residential mortgage-backed	1,800	52	1,801	213	3,601	265
Commercial mortgage-backed	164	3	333	38	497	41
Other asset-backed	122	1	60	7	182	8
Total asset-backed	2,086	56	2,194	258	4,280	314
U.S. Treasury and obligations of government-sponsored enterprises	8	1	—	—	8	1
Total fixed maturity securities available-for-sale	7,152	255	3,344	540	10,496	795
Equity securities available-for-sale:						
Preferred stock	175	5	70	4	245	9
Total equity securities available-for-sale	175	5	70	4	245	9
Total	\$7,327	\$260	\$3,414	\$544	\$10,741	\$804

The amount of pretax net unrealized gains (losses) on available-for-sale securities reclassified out of AOCI into earnings was \$(29) million and \$12 million for the three and nine months ended September 30, 2011 and \$62 million

and \$133 million for the three and nine months ended September 30, 2010.

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The following table summarizes the activity for the three and nine months ended September 30, 2011 and 2010 related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held at September 30, 2011 and 2010 for which a portion of an OTTI loss was recognized in Other comprehensive income.

Periods ended September 30 (In millions)	Three Months		Nine Months	
	2011	2010	2011	2010
Beginning balance of credit losses on fixed maturity securities	\$82	\$171	\$141	\$164
Additional credit losses for securities for which an OTTI loss was previously recognized	11	4	29	26
Credit losses for securities for which an OTTI loss was not previously recognized	10	1	11	9
Reductions for securities sold during the period	(4	) (27	) (50	) (50
Reductions for securities the Company intends to sell or more likely than not will be required to sell	—	(8	) (32	) (8
Ending balance of credit losses on fixed maturity securities	\$99	\$141	\$99	\$141

Based on current facts and circumstances, the Company has determined that no additional OTTI losses related to the securities in an unrealized loss position presented in the September 30, 2011 Securities in a Gross Unrealized Loss Position table above are required to be recorded. A discussion of some of the factors reviewed in making that determination is presented below.

The classification between investment grade and non-investment grade presented in the discussion below is based on a ratings methodology that takes into account ratings from two major providers, Standard & Poor's (S&P) and Moody's Investors Service, Inc. (Moody's) in that order of preference. If a security is not rated by these providers, the Company formulates an internal rating. For securities with credit support from third party guarantees, the rating reflects the greater of the underlying rating of the issuer or the insured rating.

Corporate and Other Bonds

The unrealized losses on the Company's investments in this category primarily relate to non-investment grade bonds and bonds within the financial industry sector. The financial industry sector holdings in this category include bonds with an aggregate fair value of \$1,702 million and an aggregate amortized cost of \$1,793 million as of September 30, 2011.

The following table summarizes corporate and other bonds in a gross unrealized loss position by ratings distribution at September 30, 2011.

**Gross Unrealized Losses by Ratings Distribution
September 30, 2011**

(In millions)	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
AAA	\$58	\$57	\$1
AA	202	196	6
A	1,018	975	43
BBB	1,280	1,219	61
Non-investment grade	887	838	49
Total	\$3,445	\$3,285	\$160

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. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of principal and interest; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at September 30, 2011.

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States, Municipalities and Political Subdivisions

The unrealized losses on the Company's investments in this category are primarily due to market conditions for zero coupon bonds, particularly for those with maturity dates that exceed 20 years. Yields for these securities continue to be higher than historical norms relative to after-tax returns on similar fixed income securities.

The following table summarizes the ratings distribution of states, municipalities and political subdivisions securities in a gross unrealized loss position at September 30, 2011.

Gross Unrealized Losses by Ratings Distribution

September 30, 2011

(In millions)	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
AAA	\$198	\$190	\$8
AA	485	378	107
A	370	340	30
BBB	67	63	4
Non-investment grade	16	15	1
Total	\$1,136	\$986	\$150

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. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of principal and interest; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at September 30, 2011.

Asset-Backed Securities

The fair value of total asset-backed holdings at September 30, 2011 was \$8,135 million which was comprised of 2,054 different securities. The fair value of these securities tends to be influenced by the characteristics and projected cash flows of the underlying collateral rather than the credit of the issuer. Each security has deal-specific tranche structures, credit support that results from the unique deal structure, particular collateral characteristics and other distinct security terms. As a result, seemingly common factors such as delinquency rates and collateral performance affect each security differently. Of these securities, 132 had underlying collateral that was either considered sub-prime or Alt-A in nature. The exposure to sub-prime residential mortgage (sub-prime) collateral and Alternative A residential mortgages that have lower than normal standards of loan documentation (Alt-A) collateral is measured by the original deal structure.

Residential mortgage-backed securities included 149 non-agency structured securities that had at least one trade lot in a gross unrealized loss position. The aggregate severity of the gross unrealized loss for residential mortgage-backed securities was approximately 8% of amortized cost.

Commercial mortgage-backed securities included 66 securities that had at least one trade lot in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 9% of amortized cost.

Other asset-backed securities included 46 securities that had at least one trade lot in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 3% of amortized cost.

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The following table summarizes asset-backed securities in a gross unrealized loss position by ratings distribution at September 30, 2011.

Gross Unrealized Losses by Ratings Distribution

September 30, 2011

(In millions)	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
U.S. Government, Government Agencies, and Government-Sponsored Enterprises	\$481	\$465	\$16
AAA	762	734	28
AA	441	415	26
A	213	203	10
BBB	316	278	38
Non-investment grade	897	779	118
Total	\$3,110	\$2,874	\$236

The Company believes the unrealized losses are primarily attributable to broader economic conditions, changes in interest rates, wider than historical bid/ask spreads, and uncertainty with regard to the timing and amount of ultimate collateral realization, but are not indicative of the ultimate collectibility of the current carrying values of 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, 2011.

Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at September 30, 2011 and December 31, 2010. 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

(In millions)	September 30, 2011		December 31, 2010	
	Cost or Amortized Cost	Estimated Fair Value	Cost or Amortized Cost	Estimated Fair Value
Due in one year or less	\$1,658	\$1,662	\$1,515	\$1,506
Due after one year through five years	12,947	13,407	11,198	11,653
Due after five years through ten years	8,447	8,941	10,022	10,425
Due after ten years	13,852	15,437	13,686	13,987
Total	\$36,904	\$39,447	\$36,421	\$37,571

Limited Partnerships

The carrying value of limited partnerships as of September 30, 2011 and December 31, 2010 was \$2,371 million and \$2,309 million. Limited partnerships comprising 57% of the total carrying value were reported on a current basis through September 30, 2011 with no reporting lag, 27% were reported on a one month lag and the remainder were reported on more than a one month lag. As of September 30, 2011 and December 31, 2010, the Company had 82 and 75 active limited partnership investments. The number of limited partnerships held and the strategies employed provide diversification to the limited partnership portfolio and the overall invested asset portfolio.

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Of the limited partnerships held, 81% and 85% at September 30, 2011 and December 31, 2010 employ hedge fund strategies that generate returns through investing in securities that are marketable while engaging in various management techniques primarily in public fixed income and equity markets. These hedge fund strategies include both long and short positions in fixed income, equity and derivative instruments. The hedge fund strategies may seek to generate gains from mispriced or undervalued securities, price differentials between securities, distressed investments, sector rotation, or various arbitrage disciplines. Within hedge fund strategies, approximately 45% were equity related, 32% pursued a multi-strategy approach, 19% were focused on distressed investments and 4% were fixed income related at September 30, 2011. Limited partnerships representing 14% and 11% at September 30, 2011 and December 31, 2010 were invested in private debt and equity. The remaining were invested in various other partnerships including real estate.

While the Company generally does not invest in highly leveraged partnerships, there are risks which may result in losses due to short-selling, derivatives or other speculative investment practices. The use of leverage increases volatility generated by the underlying investment strategies.

The Company's limited partnership investments contain withdrawal provisions that generally limit liquidity for a period of thirty days up to one year and in some cases do not permit withdrawals until the termination of the partnership. Typically, withdrawals require advanced written notice of up to 90 days.

Commercial Mortgage Loans

Mortgage loans are commercial in nature and are carried at unpaid principal balance, net of unamortized fees and any valuation allowance. Mortgage loans are considered to be impaired loans when it is probable that contractual principal and interest payments will not be collected. A valuation allowance is established for impaired loans to the extent that the present value of expected future cash flows discounted at the loan's original effective interest rate is less than the carrying value of the loan. Interest income from mortgage loans is recognized on an accrual basis using the effective yield method. Accrual of income is generally suspended for mortgage loans that are impaired and collection of principal and interest payment is unlikely. Mortgage loans are considered past due when full principal or interest payments have not been received according to contractual terms.

Risks related to the recoverability of loan balances include declines in the estimated cash flows from underlying property leases, declines in the fair value of collateral, and creditworthiness of tenants of credit tenant loan properties, where lease payments directly service the loan. As of September 30, 2011, 17% of the carrying value of mortgage loans related to credit tenant loans. The Company identifies loans for evaluation of impairment primarily based on the collection experience of each loan. As of September 30, 2011, there were no loans past due or in non-accrual status, and no valuation allowance was recorded.

Investment Commitments

As of September 30, 2011, the Company had committed approximately \$157 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 and sales. 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, 2011, the Company had commitments to purchase \$110 million and sell \$51 million of such investments.

As of September 30, 2011, the Company had mortgage loan commitments of \$31 million representing signed loan applications received and accepted. The mortgage loans are recorded once funded.

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Note D. Derivative Financial Instruments

The Company uses derivatives in the normal course of business, primarily in an attempt to reduce its exposure to market risk (principally interest rate risk, equity price risk and foreign currency risk) stemming from various assets and liabilities and credit risk (the ability of an obligor to make timely payment of principal and/or interest). The Company's principal objective under such risk strategies is to achieve the desired reduction in economic risk, even if the position does not receive hedge accounting treatment.

The Company's use of derivatives is limited by statutes and regulations promulgated by the various regulatory bodies to which it is subject, and by its own derivative policy. The derivative policy limits the authorization to initiate derivative transactions to certain personnel. Derivatives entered into for hedging, regardless of the choice to designate hedge accounting, shall have a maturity that effectively correlates to the underlying hedged asset or liability. The policy prohibits the use of derivatives containing greater than one-to-one leverage with respect to changes in the underlying price, rate or index. The policy also prohibits the use of borrowed funds, including funds obtained through securities lending, to engage in derivative transactions.

The Company has exposure to economic losses due to interest rate risk arising from changes in the level of, or volatility of, interest rates. The Company attempts to mitigate its exposure to interest rate risk in the normal course of portfolio management which includes rebalancing its existing portfolios of assets and liabilities. In addition, various derivative financial instruments are used to modify the interest rate risk exposures of certain assets and liabilities. These strategies include the use of interest rate swaps, interest rate caps and floors, options, futures, forwards and commitments to purchase securities. These instruments are generally used to lock interest rates or market values, to shorten or lengthen durations of fixed maturity securities or to hedge (on an economic basis) interest rate risks associated with investments and variable rate debt.

The Company has exposure to equity price risk as a result of its investment in equity securities and equity derivatives. Equity price risk results from changes in the level or volatility of equity prices, which affect the value of equity securities, or instruments that derive their value from such securities. The Company attempts to mitigate its exposure to such risks by limiting its investment in any one security or index. The Company may also manage this risk by utilizing instruments such as options, swaps, futures and collars to protect appreciation in securities held.

The Company has exposure to credit risk arising from the uncertainty associated with a financial instrument obligor's ability to make timely principal and/or interest payments. The Company attempts to mitigate this risk by limiting credit concentrations, practicing diversification and frequently monitoring the credit quality of issuers and counterparties. In addition, the Company may utilize credit derivatives such as credit default swaps (CDS) to modify the credit risk inherent in certain investments. CDS involve a transfer of credit risk from one party to another in exchange for periodic payments.

Foreign currency risk arises from the possibility that changes in foreign currency exchange rates will impact the fair value of financial instruments denominated in a foreign currency. The Company's foreign transactions are primarily denominated in British pounds, Euros and Canadian dollars. The Company typically manages this risk via asset/liability currency matching and through the use of foreign currency forwards.

In addition to the derivatives used for risk management purposes described above, the Company may also use derivatives for purposes of income enhancement. Income enhancement transactions are entered into with the intention of providing additional income or yield to a particular portfolio segment or instrument. Income enhancement transactions are limited in scope and primarily involve the sale of covered options in which the Company receives a premium in exchange for selling a call or put option.

The Company will also use CDS to sell credit protection against a specified credit event. In selling credit protection, CDS are used to replicate fixed income securities when credit exposure to certain issuers is not available or when it is economically beneficial to transact in the derivative market compared to the cash market alternative. Credit risk includes both the default event risk and market value exposure due to fluctuations in credit spreads. In selling CDS protection, the Company receives a periodic premium in exchange for providing credit protection on a single name reference obligation or a credit derivative index. If there is an event of default as defined by the CDS agreement, the Company is required to pay the counterparty the referenced notional amount of the CDS contract and in exchange, the Company is entitled to receive the referenced defaulted security or the cash equivalent.

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The tables below summarize open CDS contracts where the Company sold credit protection as of September 30, 2011 and December 31, 2010. The fair value of the contracts represents the amounts that the Company would receive or pay at those dates to exit the derivative positions. The maximum amount of future payments assumes no residual value in the defaulted securities that the Company would receive as part of the contract terminations and is equal to the notional value of the CDS contracts.

Credit Ratings of Underlying Reference Obligations

September 30, 2011

(In millions)	Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps	Weighted Average Years to Maturity
BB rated	\$—	\$5	1.7
B rated	—	3	0.7
Total	\$—	\$8	1.4

Credit Ratings of Underlying Reference Obligations

December 31, 2010

(In millions)	Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps	Weighted Average Years to Maturity
BB rated	\$1	\$5	2.5
B rated	—	3	1.5
Total	\$1	\$8	2.1

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized fair value of the asset related to the instruments recognized on the Condensed Consolidated Balance Sheets. The Company attempts to mitigate the risk of non-performance by monitoring the creditworthiness of counterparties and diversifying derivatives to multiple counterparties. The Company generally requires that all over-the-counter derivative contracts be governed by an International Swaps and Derivatives Association Master Agreement, and exchanges collateral under the terms of these agreements with its derivative investment counterparties depending on the amount of the exposure and the credit rating of the counterparty. The Company does not offset its net derivative positions against the fair value of the collateral provided. The fair value of cash collateral provided by the Company was \$1 million and \$2 million at September 30, 2011 and December 31, 2010. The fair value of cash collateral received from counterparties was \$1 million at September 30, 2011 and December 31, 2010.

Derivative securities are recorded at fair value. See Note E for information regarding the fair value of derivatives securities. Changes in the fair value of derivatives not held in a trading portfolio are reported in Net realized investment gains (losses) on the Condensed Consolidated Statements of Operations. Changes in the fair value of derivatives held for trading purposes are reported in Net investment income on the Condensed Consolidated Statements of Operations.

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

Recognized Gains (Losses)

Periods ended September 30 (In millions)	Three Months		Nine Months	
	2011	2010	2011	2010
Without hedge designation				
Credit default swaps - purchased protection	\$—	\$(1	) \$—	\$(1
Currency forwards	—	—	(1) —
Forward commitments for mortgage-backed securities	1	—	1	—
Total without hedge designation	1	(1) —	(1
Trading activities				
Futures sold, not yet purchased	—	(4) —	(3
Total	\$1	\$(5) \$—	\$(4

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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, 2011

(In millions)	Contractual/ Notional Amount	Estimated Fair Value Asset	(Liability)
Without hedge designation			
Credit default swaps - purchased protection	\$20	\$—	\$(2)
Credit default swaps - sold protection	8	—	—
Forward commitments for mortgage-backed securities	62	1	—
Equity warrants	—	1	—
Options written	1	—	—
Total without hedge designation	91	2	(2)
Trading activities			
Futures sold, not yet purchased	13	—	—
Total	\$104	\$2	\$(2)

Derivative Financial Instruments

December 31, 2010

(In millions)	Contractual/ Notional Amount	Estimated Fair Value Asset	(Liability)
Without hedge designation			
Credit default swaps - purchased protection	\$20	\$—	\$(2)
Credit default swaps - sold protection	8	1	—
Currency forwards	18	—	—
Equity warrants	3	—	—
Total	\$49	\$1	\$(2)

During the three and nine months ended September 30, 2011, new derivative transactions entered into totaled approximately \$229 million and \$728 million in notional value while derivative termination activity totaled approximately \$166 million and \$673 million. This activity was primarily attributable to interest rate futures, forward commitments for mortgage-backed securities, and foreign currency forwards. During the three and nine months ended September 30, 2010, new derivative transactions entered into totaled approximately \$0.9 billion and \$2.1 billion in notional value while derivative termination activity totaled approximately \$0.9 billion and \$2.3 billion. This activity was primarily attributable to interest rate futures and forward commitments for mortgage-backed securities.

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Note E. Fair Value

Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are the most transparent or reliable.

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are not observable.

The Company attempts to establish fair value as an exit price in an orderly transaction consistent with normal settlement market conventions. The Company is responsible for the valuation process and seeks to obtain quoted market prices for all securities. When quoted market prices in active markets are not available, the Company uses a number of methodologies to establish fair value estimates including: discounted cash flow models, prices from recently executed transactions of similar securities, or broker/dealer quotes, utilizing market observable information to the extent possible. In conjunction with modeling activities, the Company may use external data as inputs. The modeled inputs are consistent with observable market information, when available, or with the Company's assumptions as to what market participants would use to value the securities. The Company also uses pricing services as a significant source of data. The Company monitors all the pricing inputs to determine if the markets from which the data is gathered are active. As further validation of the Company's valuation process, the Company samples past fair value estimates and compares the valuations to actual transactions executed in the market on similar dates.

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Assets and Liabilities Measured at Fair Value

Assets and liabilities measured at fair value on a recurring basis are summarized below.

September 30, 2011

(In millions)	Level 1	Level 2	Level 3	Total Assets/(Liabilities) at Fair Value
Assets				
Fixed maturity securities:				
Corporate and other bonds	\$—	\$20,289	\$619	\$ 20,908
States, municipalities and political subdivisions	—	9,355	182	9,537
Asset-backed:				
Residential mortgage-backed	—	5,219	631	5,850
Commercial mortgage-backed	—	1,090	159	1,249
Other asset-backed	—	607	429	1,036
Total asset-backed	—	6,916	1,219	8,135
U.S. Treasury and obligations of government-sponsored enterprises	176	61	—	237
Foreign government	92	490	—	582
Redeemable preferred stock	3	54	—	57
Total fixed maturity securities	271	37,165	2,020	39,456
Equity securities	179	116	32	327
Derivative and other financial instruments, included in Other invested assets	—	6	11	17
Short term investments	1,158	566	6	1,730
Life settlement contracts, included in Other assets	—	—	125	125
Separate account business	23	360	35	418
Total assets	\$1,631	\$38,213	\$2,229	\$ 42,073
Liabilities				
Derivative financial instruments, included in Other liabilities	\$—	\$—	\$(2) \$ (2
Total liabilities	\$—	\$—	\$(2) \$ (2

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December 31, 2010

(In millions)	Level 1	Level 2	Level 3	Total Assets/(Liabilities) at Fair Value
Assets				
Fixed maturity securities:				
Corporate and other bonds	\$—	\$20,407	\$624	\$ 21,031
States, municipalities and political subdivisions	—	7,623	266	7,889
Asset-backed:				
Residential mortgage-backed	—	5,323	767	6,090
Commercial mortgage-backed	—	920	73	993
Other asset-backed	—	404	359	763
Total asset-backed	—	6,647	1,199	7,846
U.S. Treasury and obligations of government-sponsored enterprises	76	61	—	137
Foreign government	115	505	—	620
Redeemable preferred stock	3	48	3	54
Total fixed maturity securities	194	35,291	2,092	37,577
Equity securities	288	126	26	440
Derivative and other financial instruments, included in Other invested assets	—	—	27	27
Short term investments	1,214	974	27	2,215
Life settlement contracts, included in Other assets	—	—	129	129
Discontinued operations investments, included in Other liabilities	11	60	—	71
Separate account business	28	381	41	450
Total assets	\$1,735	\$36,832	\$2,342	\$ 40,909
Liabilities				
Derivative financial instruments, included in Other liabilities	\$—	\$—	\$(2) \$ (2
Total liabilities	\$—	\$—	\$(2) \$ (2

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The tables below present a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended September 30, 2011 and 2010.

Level 3 (In millions)	Balance at July 1, 2011	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income (loss)*	Net change in unrealized appreciation (depreciation) included in other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at September 30, 2011	Unrealized gains (losses) on Level 3 assets and liabilities held at September 30, 2011 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	\$812	\$ (7)	\$ (3)	\$ 113	\$(107)	\$(47)	\$ 12	\$(154)	\$ 619	\$(10)
States, municipalities and political subdivisions	179	—	—	3	—	—	—	—	182	—
Asset-backed:										
Residential mortgage-backed	687	1	(5)	73	(81)	(13)	—	(31)	631	—
Commercial mortgage-backed	95	—	(7)	76	—	—	—	(5)	159	—
Other asset-backed	491	(5)	(6)	114	(105)	(25)	2	(37)	429	(4)
Total asset-backed	1,273	(4)	(18)	263	(186)	(38)	2	(73)	1,219	(4)
Total fixed maturity securities	2,264	(11)	(21)	379	(293)	(85)	14	(227)	2,020	(14)
Equity securities	36	—	—	—	(1)	—	—	(3)	32	—
Derivative and other financial instruments, net	9	(1)	—	1	—	—	—	—	9	—
Short term investments	6	—	—	—	—	—	—	—	6	—
Life settlement contracts	129	11	—	—	—	(15)	—	—	125	(1)
Separate account business	37	—	—	—	(2)	—	—	—	35	—
Total	\$2,481	\$ (1)	\$ (21)	\$ 380	\$(296)	\$(100)	\$ 14	\$(230)	\$ 2,227	\$(15)

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Level 3 (In millions)	Balance at July 1, 2010	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income (loss)*	Net change in unrealized appreciation (depreciation) included in other comprehensive income (loss)	Purchases, sales, issuances and settlements	Transfers into Level 3	Transfers out of Level 3	Balance at September 30, 2010	Unrealized gains (losses) on Level 3 assets and liabilities held at September 30, 2010 recognized in net income (loss)*
Fixed maturity securities:								
Corporate and other bonds	\$718	\$ 1	\$ 18	\$(83)	\$—	\$(54)	\$ 600	\$(1)
States, municipalities and political subdivisions	539	—	3	(84)	—	—	458	—
Asset-backed:								
Residential mortgage-backed	659	1	(9)	(5)	—	—	646	—
Commercial mortgage-backed	95	—	3	—	—	(20)	78	—
Other asset-backed	306	(1)	7	(66)	—	—	246	—
Total asset-backed	1,060	—	1	(71)	—	(20)	970	—
Redeemable preferred stock	1	—	—	—	—	—	1	—
Total fixed maturity securities	2,318	1	22	(238)	—	(74)	2,029	(1)
Equity securities	4	(3)	—	15	6	—	22	(4)
Derivative financial instruments, net	(2)	2	—	25	—	—	25	2
Short term investments	11	—	—	2	—	(11)	2	—
Life settlement contracts	134	8	—	(6)	—	—	136	4
Separate account business	37	—	—	4	—	—	41	—
Total	\$2,502	\$ 8	\$ 22	\$(198)	\$6	\$(85)	\$ 2,255	\$ 1

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The tables below present a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2011 and 2010.

Level 3 (In millions)	Balance at January 1 2011	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income (loss)*	Net change in unrealized appreciation (depreciation) in other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at September 30, 2011	Unrealized gains (losses) on Level 3 assets and liabilities held at September 30, 2011 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	\$ 624	\$ (5)	\$ (6)	\$ 459	\$(157)	\$(144)	\$ 52	\$(204)	\$ 619	\$(11)
States, municipalities and political subdivisions	266	—	—	3	—	(87)	—	—	182	—
Asset-backed:										
Residential mortgage-backed	767	(11)	9	170	(164)	(54)	—	(86)	631	(15)
Commercial mortgage-backed	73	3	11	81	(4)	—	—	(5)	159	—
Other asset-backed	359	—	(6)	441	(236)	(80)	2	(51)	429	(4)
Total asset-backed	1,199	(8)	14	692	(404)	(134)	2	(142)	1,219	(19)
Redeemable preferred stock	3	3	(3)	—	(3)	—	—	—	—	—
Total fixed maturity securities	2,092	(10)	5	1,154	(564)	(365)	54	(346)	2,020	(30)
Equity securities	26	(2)	(1)	19	(12)	—	5	(3)	32	(3)
Derivative and other financial instruments, net	25	2	—	1	(19)	—	—	—	9	1
Short term investments	27	—	—	12	—	(23)	—	(10)	6	—
Life settlement contracts	129	20	—	—	—	(24)	—	—	125	2
Separate account business	41	—	—	—	(6)	—	—	—	35	—
Total	\$ 2,340	\$ 10	\$ 4	\$ 1,186	\$(601)	\$(412)	\$ 59	\$(359)	\$ 2,227	\$(30)

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Level 3 (In millions)	Balance at January 1, 2010	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation), included in net income (loss)*	Net change in unrealized appreciation (depreciation) included in other comprehensive income (loss)	Purchases, sales, issuances and settlements	Transfers into Level 3	Transfers out of Level 3	Balance at September 30, 2010	Unrealized gains (losses) on Level 3 assets and liabilities held at September 30, 2010 recognized in net income (loss)*
Fixed maturity securities:								
Corporate and other bonds	\$609	\$ 10	\$ 56	\$29	\$23	\$(127)	\$ 600	\$(2)
States, municipalities and political subdivisions	756	—	9	(307)	—	—	458	—
Asset-backed:								
Residential mortgage-backed	629	(7)	20	50	—	(46)	646	(10)
Commercial mortgage-backed	123	(1)	1	6	7	(58)	78	(2)
Other asset-backed	348	3	29	(89)	—	(45)	246	(1)
Total asset-backed	1,100	(5)	50	(33)	7	(149)	970	(13)
Redeemable preferred stock	2	6	—	(7)	—	—	1	—
Total fixed maturity securities	2,467	11	115	(318)	30	(276)	2,029	(15)
Equity securities	11	(4)	—	14	8	(7)	22	(5)
Derivative financial instruments, net	(11)	1	—	35	—	—	25	2
Short term investments	—	—	—	12	1	(11)	2	—
Life settlement contracts	130	25	—	(19)	—	—	136	11
Discontinued operations investments	16	—	1	(2)	—	—	—	—