CNA FINANCIAL CORP
Form 10-Q
May 03, 2010

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

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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)	**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 þ 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 o 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 o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

(Do not check if a 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 o No þ

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 April 29, 2010**
Common Stock, Par value $2.50	269,074,878

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

Three months ended March 31	**2010**	**2009**
(In millions, except per share data)		
Revenues		
Net earned premiums	$ 1,615	$ 1,672
Net investment income	590	420
Net realized investment gains (losses), net of participating policyholders interests:		
Other-than-temporary impairment losses	(90)	(614)
Portion of other-than-temporary impairment losses recognized in Other comprehensive income	30	
Net other-than-temporary impairment losses recognized in earnings	(60)	(614)
Other net realized investment gains	94	82
Net realized investment gains (losses), net of participating policyholders interests	34	(532)
Other revenues	76	78
Total revenues	2,315	1,638
Claims, Benefits and Expenses		
Insurance claims and policyholders benefits	1,308	1,342
Amortization of deferred acquisition costs	342	349
Other operating expenses	272	251
Interest	36	31
Total claims, benefits and expenses	1,958	1,973
Income (loss) from continuing operations before income tax	357	(335)
Income tax (expense) benefit	(102)	150
Income (loss) from continuing operations	255	(185)
Income (loss) from discontinued operations, net of income tax (expense) benefit of $0 and $0		
Net income (loss)	255	(185)
Net income attributable to noncontrolling interests	(10)	(10)
Net income (loss) attributable to CNA	$ 245	$ (195)

Income (Loss) Attributable to CNA Common Stockholders		
Income (loss) from continuing operations attributable to CNA	$ 245	$ (195)
Dividends on 2008 Senior Preferred	(25)	(31)
Income (loss) from continuing operations attributable to CNA common stockholders	220	(226)
Income (loss) from discontinued operations attributable to CNA common stockholders		
Income (loss) attributable to CNA common stockholders	$ 220	$ (226)

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

Three months ended March 31	**2010**	**2009**
(In millions, except per share data)		
Basic and Diluted Earnings (Loss) Per Share Attributable to CNA Common Stockholders		
Income (loss) from continuing operations attributable to CNA common stockholders	$ 0.82	$ (0.84)
Income (loss) from discontinued operations attributable to CNA common stockholders		
Basic and diluted earnings (loss) per share attributable to CNA common stockholders	$ 0.82	$ (0.84)
Weighted Average Outstanding Common Stock and Common Stock Equivalents		
Basic	269.1	269.0
Diluted	269.2	269.0

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)

Three months ended March 31	**2010**	**2009**
(In millions)		
Other Comprehensive Income (Loss), Net of Tax		
Changes in:		
Net unrealized gains (losses) on investments with other-than-temporary impairments	$ 25	$
Net unrealized gains (losses) on other investments	323	401
Net unrealized gains (losses) on investments	348	401
Net unrealized gains (losses) on discontinued operations and other	7	(2)
Foreign currency translation adjustment	(10)	(8)
Pension and postretirement benefits	1	2
Allocation to participating policyholders	(23)	
Other comprehensive income, net of tax	323	393
Net income (loss)	255	(185)
Comprehensive income	578	208
Changes in:		
Net unrealized (gains) losses on investments attributable to noncontrolling interests	(6)	(5)
Pension and postretirement benefits attributable to noncontrolling interests	(3)	
Other comprehensive income attributable to noncontrolling interests	(9)	(5)
Net income attributable to noncontrolling interests	(10)	(10)
Comprehensive income attributable to noncontrolling interests	(19)	(15)
Total comprehensive income attributable to CNA	$ 559	$ 193

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)	March 31, 2010	December 31, 2009
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of $37,185 and $35,602)	$ 37,711	$ 35,612
Equity securities at fair value (cost of $651 and $633)	681	644
Limited partnership investments	1,947	1,787
Other invested assets	3	4
Short term investments	2,484	3,949
Total investments	42,826	41,996
Cash	95	140
Reinsurance receivables (less allowance for uncollectible receivables of $350 and $351)	6,328	6,581
Insurance receivables (less allowance for doubtful accounts of $197 and $202)	1,645	1,656
Accrued investment income	457	416
Deferred acquisition costs	1,109	1,108
Deferred income taxes	1,098	1,333
Property and equipment at cost (less accumulated depreciation of $511 and $498)	350	360
Goodwill and other intangible assets	141	141
Other assets	1,188	1,144
Separate account business	442	423
Total assets	$ 55,679	$ 55,298
Liabilities and Equity		
Liabilities:		
Insurance reserves:		
Claim and claim adjustment expenses	$ 26,559	$ 26,816
Unearned premiums	3,283	3,274
Future policy benefits	8,090	7,981
Policyholders funds	177	192
Participating policyholders funds	54	56
Long term debt	2,304	2,303
Other liabilities	3,046	3,087
Separate account business	442	423
Total liabilities	43,955	44,132
Commitments and contingencies (Notes D, E, G, H, and J)		

Equity:		
Preferred stock (12,500,000 shares authorized) 2008 Senior Preferred (no par value; $100,000 stated value; 10,000 shares issued and outstanding held by Loews Corporation)	1,000	1,000
Common stock ($2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; and 269,074,878 and 269,026,759 shares outstanding)	683	683
Additional paid-in capital	2,198	2,177
Retained earnings	7,484	7,264
Accumulated other comprehensive loss	(11)	(325)
Treasury stock (3,965,365 and 4,013,484 shares), at cost	(107)	(109)
Notes receivable for the issuance of common stock	(30)	(30)
Total CNA stockholders equity	11,217	10,660
Noncontrolling interests	507	506
Total equity	11,724	11,166
Total liabilities and equity	$ 55,679	$ 55,298

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)

Three months ended March 31 (In millions)	**2010**	**2009**
Cash Flows from Operating Activities		
Net income (loss)	$ 255	$ (185)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Deferred income tax expense (benefit)	45	(139)
Trading portfolio activity	99	(3)
Net realized investment (gains) losses, net of participating policyholders interests	(34)	532
Equity method investees	13	104
Amortization of investments	(33)	(58)
Depreciation	21	21
Changes in:		
Receivables, net	264	223
Accrued investment income	(41)	(31)
Deferred acquisition costs	(1)	(7)
Insurance reserves	(135)	(139)
Other assets	(7)	(31)
Other liabilities	(74)	(97)
Other, net	(3)	6
Total adjustments	114	381
Net cash flows provided by operating activities-continuing operations	$ 369	$ 196
Net cash flows used by operating activities-discontinued operations	$ (5)	$ (9)
Net cash flows provided by operating activities-total	$ 364	$ 187
Cash Flows from Investing Activities		
Purchases of fixed maturity securities	$ (5,351)	$ (7,079)
Proceeds from fixed maturity securities:		
Sales	2,737	7,046
Maturities, calls and redemptions	846	827
Purchases of equity securities	(42)	(134)
Proceeds from sales of equity securities	25	146
Change in short term investments	1,474	(1,041)
Change in other investments	(51)	55
Purchases of property and equipment	(12)	(17)
Other, net		38
Net cash flows used by investing activities-continuing operations	$ (374)	$ (159)
Net cash flows provided by investing activities-discontinued operations	$ 5	$ 9

Net cash flows used by investing activities-total	$ (369)	$ (150)

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

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Three months ended March 31 (In millions)	**2010**	**2009**
Cash Flows from Financing Activities		
Dividends paid to Loews Corporation for 2008 Senior Preferred	$ (25)	$ (31)
Policyholders investment contract net deposits (withdrawals)	(2)	(7)
Other, net	(11)	12
Net cash flows used by financing activities-continuing operations	$ (38)	$ (26)
Net cash flows provided (used) by financing activities-discontinued operations	$	$
Net cash flows used by financing activities-total	$ (38)	$ (26)
Effect of foreign exchange rate changes on cash-continuing operations	(2)	(2)
Net change in cash	(45)	9
Cash, beginning of year	140	85
Cash, end of period	$ 95	$ 94
Cash-continuing operations	$ 95	$ 94
Cash-discontinued operations		
Cash-total	$ 95	$ 94

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)

Three months ended March 31 (In millions)	2010	2009
Preferred Stock		
Balance, beginning and end of period	$ 1,000	$ 1,250
Common Stock		
Balance, beginning and end of period	683	683
Additional Paid-in Capital		
Balance, beginning of period	2,177	2,174
Stock-based compensation	(1)	1
Other	22	
Balance, end of period	2,198	2,175
Retained Earnings		
Balance, beginning of period	7,264	6,845
Dividends paid to Loews Corporation for 2008 Senior Preferred	(25)	(31)
Net income (loss) attributable to CNA	245	(195)
Balance, end of period	7,484	6,619
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	(325)	(3,924)
Other comprehensive income attributable to CNA	314	388
Balance, end of period	(11)	(3,536)
Treasury Stock		
Balance, beginning of period	(109)	(109)
Stock based compensation	2	
Balance, end of period	(107)	(109)
Notes Receivable for the Issuance of Common Stock		
Balance, beginning of period	(30)	(42)
Decrease in notes receivable for the issuance of common stock		12
Balance, end of period	(30)	(30)

Total CNA Stockholders Equity	11,217	7,052
Noncontrolling Interests		
Balance, beginning of period	506	420
Net income	10	10
Other comprehensive income	9	5
Other	(18)	2
Balance, end of period	507	437
Total Equity	$ 11,724	$ 7,489

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

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Notes to Condensed Consolidated Financial Statements (Unaudited)

Note A. 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 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 (CIC), Continental Assurance Company (CAC) and CNA Surety Corporation (CNA Surety). The Company owned approximately 62% of the outstanding common stock of CNA Surety as of March 31, 2010. Loews Corporation (Loews) owned approximately 90% of the outstanding common stock of CNAF as of March 31, 2010.

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 Form 10-K filed with the Securities and Exchange Commission (SEC) for the year ended December 31, 2009. 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 March 31, 2010 and for the three months ended March 31, 2010 and 2009 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. All significant intercompany amounts have been eliminated.

Note B. Accounting Standards Updates

Adopted

Variable Interest Entities

In June 2009, the Financial Accounting Standards Board (FASB) issued updated accounting guidance which amended the requirements for determination of the primary beneficiary of a variable interest entity, required an ongoing assessment of whether an entity is the primary beneficiary and required enhanced interim and annual disclosures. The updated accounting guidance was effective for annual reporting periods beginning after November 15, 2009, except for investment company type entities for which the requirements under this guidance have been deferred indefinitely. The adoption of this updated accounting guidance as of January 1, 2010 had no impact on the Company s financial condition or results of operations.

Recognition and Presentation of Other-Than-Temporary Impairments

In April 2009, the FASB issued updated accounting guidance, which amended the other-than-temporary impairment (OTTI) loss model for fixed maturity securities. A fixed maturity security is impaired if the fair value of the security is less than its amortized cost basis, which is its cost adjusted for accretion, amortization and previously recorded OTTI losses. The updated accounting guidance requires an OTTI loss equal to the difference between fair value and amortized cost to be recognized in earnings if the Company intends to sell the fixed maturity security or if it is more likely than not the Company will be required to sell the fixed maturity security before recovery of its amortized cost basis.

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The remaining fixed maturity securities in an unrealized loss position are evaluated to determine if a credit loss exists. If the Company does not expect to recover the entire amortized cost basis of a fixed maturity security, the security is deemed to be other-than-temporarily impaired for credit reasons. For these securities, the bifurcation of OTTI losses into a credit component and a non-credit component is required by the updated accounting guidance. The credit component is recognized in earnings and represents the difference between the present value of the future cash flows that the Company expects to collect and a fixed maturity security s amortized cost basis. The non-credit component is recognized in other comprehensive income and represents the difference between fair value and the present value of the future cash flows that the Company expects to collect.

Prior to the adoption of the updated accounting guidance, OTTI losses were not bifurcated between credit and non-credit components. The difference between fair value and amortized cost was recognized in earnings for all securities for which the Company did not expect to recover the amortized cost basis, or for which the Company did not have the ability and intent to hold until recovery of fair value to amortized cost.

Recently issued accounting standards to be adopted

Scope Exception Related To Credit Derivatives

In March 2009, the FASB issued updated accounting guidance which amends the accounting and reporting requirements related to derivatives to provide clarifying language regarding when embedded credit derivative features, including those in collateralized debt obligations (CDOs) and synthetic CDOs, are considered embedded derivatives subject to potential bifurcation. The updated accounting guidance is effective for the first quarter beginning after June 15, 2010. The Company is currently assessing the impact this updated accounting guidance will have on its financial condition and results of operations.

Note C. Earnings (Loss) Per Share

Earnings (loss) per share attributable to the Company s common stockholders is based on weighted average outstanding 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 months ended March 31, 2010, approximately 170 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 1.3 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 March 31, 2009, as a result of the net loss, none of the 2.0 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.

The 2008 Senior Preferred Stock (2008 Senior Preferred) was issued in November 2008 and accrues cumulative dividends at an initial rate of 10% per year. If declared, dividends are payable quarterly and any dividends not declared or paid when due will be compounded quarterly.

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Note D. Investments

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

Net Investment Income

Three months ended March 31	**2010**	**2009**
(In millions)		
Fixed maturity securities	$ 510	$ 475
Short term investments	6	10
Limited partnerships	72	(70)
Equity securities	10	14
Trading portfolio (a)	4	
Other	2	3
Gross investment income	604	432
Investment expense	(14)	(12)
Net investment income	$ 590	$ 420

(a) There were no net unrealized gains (losses) on trading securities still held included in net investment income for the three months ended March 31, 2010. As of March 31, 2009, the Company did not have a trading portfolio.

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

Net Realized Investment Gains (Losses)

Three months ended March 31	**2010**	**2009**
(In millions)		
Net realized investment gains (losses):		
Fixed maturity securities:		
Gross realized gains	$ 98	$ 104
Gross realized losses	(71)	(462)

Net realized investment gains (losses) on fixed maturity securities	27	(358)
Equity securities:		
Gross realized gains	4	4
Gross realized losses	(1)	(220)
Net realized investment gains (losses) on equity securities	3	(216)
Derivatives		31
Short term investments and other	4	11
Net realized investment gains (losses), net of participating policyholders interests	$ 34	$ (532)

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The components of net OTTI losses recognized in earnings by asset type are summarized in the following table.

Three months ended March 31	**2010**	**2009**
(In millions)		
Fixed maturity securities available-for-sale:		
Asset-backed securities:		
Residential mortgage-backed securities	$ 26	$ 149
Commercial mortgage-backed securities	2	16
Other asset-backed securities		31
Total asset-backed securities	28	196
States, municipalities and political subdivisions tax-exempt securities	14	
Corporate and other taxable bonds	18	190
Redeemable preferred stock		9
Total fixed maturity securities available-for-sale	60	395
Equity securities available-for-sale:		
Common stock		3
Preferred stock		216
Total equity securities available-for-sale		219
Net OTTI losses recognized in earnings	$ 60	$ 614

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 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. In order 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 an OTTI loss in Other comprehensive income.

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, credit support from lower level tranches and impacts of rating

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agency downgrades. The discount rate utilized is either the yield at acquisition or, for lower rated structured securities, the current yield.

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.

Prior to the adoption of the updated accounting guidance related to OTTI in the second quarter of 2009 as further discussed in Note B, the Company applied the impairment model described in the paragraph above to both fixed maturity and equity securities.

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

Summary of Fixed Maturity and Equity Securities

March 31, 2010	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses: Less than 12 Months	Gross Unrealized Losses: 12 Months or Greater	Estimated Fair Value	Unrealized OTTI Losses
(In millions)						
Fixed maturity securities available-for-sale:						
U.S. Treasury securities and obligations of government agencies	$ 165	$ 16	$ 1	$	$ 180	$
Asset-backed securities:						
Residential mortgage-backed securities	7,303	83	43	406	6,937	265
Commercial mortgage-backed securities	820	13	3	101	729	
Other asset-backed securities	811	17	1	18	809	
Total asset-backed securities	8,934	113	47	525	8,475	265
States, municipalities and political subdivisions tax-exempt securities	6,458	191	24	316	6,309	
Corporate and other taxable bonds	21,518	1,276	35	131	22,628	26
Redeemable preferred stock	51	9			60	
	37,126	1,605	107	972	37,652	$ 291

Total fixed maturity securities available-for-sale					
Total fixed maturity securities trading	59				59
Equity securities available-for-sale:					
Common stock	79	15		2	92
Preferred stock	572	49		32	589
Total equity securities available-for-sale	651	64		34	681
Total	$ 37,836	$ 1,669	$ 107	$ 1,006	$ 38,392

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Summary of Fixed Maturity and Equity Securities

December 31, 2009	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	Gross Unrealized Losses 12 Months or Greater	Estimated Fair Value	Unrealized OTTI Losses
(In millions)						
Fixed maturity securities available-for-sale:						
U.S. Treasury securities and obligations of government agencies	$ 184	$ 16	$ 1	$	$ 199	$
Asset-backed securities:						
Residential mortgage-backed securities	7,469	72	43	561	6,937	246
Commercial mortgage-backed securities	709	10	1	134	584	3
Other asset-backed securities	858	14	1	39	832	
Total asset-backed securities	9,036	96	45	734	8,353	249
States, municipalities and political subdivisions tax-exempt securities	7,142	201	25	325	6,993	
Corporate and other taxable bonds	19,015	1,123	50	249	19,839	26
Redeemable preferred stock	51	4		1	54	
Total fixed maturity securities available-for-sale	35,428	1,440	121	1,309	35,438	$ 275
Total fixed maturity securities trading	174				174	
Equity securities available-for-sale:						
Common stock	61	14	1	1	73	
Preferred stock	572	40		41	571	
	633	54	1	42	644	

Total equity securities available-for-sale					
Total	$ 36,235	$ 1,494	$ 122	$ 1,351	$ 36,256

The amount of pretax net unrealized gains on available-for-sale securities reclassified out of Accumulated other comprehensive income (AOCI) into earnings was $32 million for the three months ended March 31, 2010.

Activity for the three months ended March 31, 2010 related to the pretax fixed maturity credit loss component reflected within Retained earnings for securities still held at March 31, 2010 was as follows.

(In millions)	**Three Months ended March 31, 2010**
Beginning balance of credit losses on fixed maturity securities	$ 164
Additional credit losses for which an OTTI loss was previously recognized	11
Additional credit losses for which an OTTI loss was not previously recognized	5
Reductions for securities sold during the period	(9)
Ending balance of credit losses on fixed maturity securities	$ 171

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 March 31, 2010 Summary of Fixed Maturity and Equity Securities 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 the three major providers, Standard & Poor s (S&P), Moody s Investors Service, Inc. (Moody s) and Fitch Ratings (Fitch) in that order of preference. If a security is not rated by any of the three, 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.

Asset-Backed Securities

The fair value of total asset-backed holdings at March 31, 2010 was $8,475 million which was comprised of 2,141 different asset-backed structured securities. The fair value of these securities does not tend to be influenced by the credit of the issuer but rather the characteristics and projected cash flows of the underlying collateral. 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, 202 have underlying collateral that is 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 include 270 structured securities in a gross unrealized loss position. In addition, there were 60 agency mortgage-backed pass-through securities which are guaranteed by agencies of the U.S. Government in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 9% of amortized cost.

Commercial mortgage-backed securities include 35 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 16% of amortized cost.

Other asset-backed securities include 40 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 6% of amortized cost.

The following table summarizes asset-backed securities in a gross unrealized loss position by ratings distribution at March 31, 2010.

Gross Unrealized Losses by Ratings Distribution
March 31, 2010
(In millions)

Rating	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
U.S. Government Agencies	$ 1,568	$ 1,549	$ 19
AAA	1,933	1,752	181
AA	485	420	65
A	302	243	59
BBB	436	392	44
Non-investment grade and equity tranches	1,330	1,126	204
Total	$ 6,054	$ 5,482	$ 572

The Company believes the unrealized losses are primarily attributable to broader economic conditions, liquidity concerns and wider than historical bid/ask spreads, and are not indicative of the quality of the underlying collateral. 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. Generally, non-investment grade securities consist of investments which were investment grade at the time of purchase but have subsequently been downgraded and primarily consist of holdings senior to the equity tranche. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of principal and interest, collateral shortfalls, or substantial changes in future cash flow expectations; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at March 31, 2010.

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States, Municipalities and Political Subdivisions Tax-Exempt Securities

The tax-exempt portfolio consists primarily of special revenue and assessment bonds, representing 83% of the overall portfolio, followed by general obligation political subdivision bonds at 13% and state general obligation bonds at 4%. The unrealized losses on the Company s investments in tax-exempt municipal securities are due to market conditions in certain sectors or states that continued to lag behind the broader municipal market recovery. Market conditions in the tax-exempt sector continued to improve in the first quarter of 2010. However, yields for certain issuers and types of securities, such as zero coupon bonds, auction rate and tobacco securitizations, continue to be higher than historical norms relative to after-tax returns on other fixed income alternatives. The holdings for all tax-exempt securities in this category include 313 securities in a gross unrealized loss position. The aggregate severity of the total gross unrealized losses was approximately 12% of amortized cost.

The following table summarizes the ratings distribution of tax-exempt securities in a gross unrealized loss position at March 31, 2010.

Gross Unrealized Losses by Ratings Distribution
March 31, 2010
(In millions)

Rating	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
AAA	$ 1,195	$ 1,130	$ 65
AA	801	666	135
A	424	402	22
BBB	480	363	117
Non-investment grade	21	20	1
Total	$ 2,921	$ 2,581	$ 340

The largest exposures at March 31, 2010 as measured by gross unrealized losses were special revenue bonds issued by several states backed by tobacco settlement funds with gross unrealized losses of $105 million, and several separate issues of Puerto Rico sales tax revenue bonds with gross unrealized losses of $79 million. All of these securities are rated investment grade.

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 March 31, 2010.

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Corporate and Other Taxable Bonds

The holdings in this category include 489 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized losses was approximately 3% of amortized cost.

The following table summarizes corporate and other taxable bonds in a gross unrealized loss position by ratings distribution at March 31, 2010.

Gross Unrealized Losses by Ratings Distribution
March 31, 2010
(In millions)

Rating	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
AAA	$ 322	$ 316	$ 6
AA	791	785	6
A	1,368	1,332	36
BBB	1,691	1,617	74
Non-investment grade	680	636	44
Total	$ 4,852	$ 4,686	$ 166

The unrealized losses on corporate and other taxable bonds are attributable to lingering impacts of the broader credit market deterioration primarily in the financial sector of the portfolio. Overall conditions in the corporate bond market have continued to improve in the first quarter of 2010, resulting in improvement in the Company s unrealized position. 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 reco