LOEWS CORP
Form 10-Q
April 30, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

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

For the Transition Period From __________ to __________

Commission File Number 1-6541

LOEWS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**13-2646102**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

667 Madison Avenue, New York, N.Y. 10065-8087

(Address of principal executive offices) (Zip Code)

(212) 521-2000

(Registrant s telephone number, including area code)

NOT APPLICABLE

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes __X__ No ______

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes __X__ No ______ Not Applicable ______

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. (Check one):

Large accelerated filer _X_ Accelerated filer ____ Non-accelerated filer ____ Smaller reporting company ____

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

Yes ______ No __X__

Class	Outstanding at April 22, 2013
Common stock, $0.01 par value	388,965,441 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(Dollar amounts in millions, except per share data)	March 31, 2013	December 31, 2012
Assets:		
Investments:		
Fixed maturities, amortized cost of $38,668 and $38,324	$ 42,912	$ 42,765
Equity securities, cost of $709 and $893	691	898
Limited partnership investments	3,207	3,090
Other invested assets, primarily mortgage loans	473	460
Short term investments	5,901	5,835
Total investments	53,184	53,048
Cash	179	228
Receivables	9,605	9,366
Property, plant and equipment	14,204	13,935
Goodwill	993	996
Other assets	1,529	1,538
Deferred acquisition costs of insurance subsidiaries	641	598
Separate account business	279	312
Total assets	$ 80,614	$ 80,021
Liabilities and Equity:		
Insurance reserves:		
Claim and claim adjustment expense	$ 24,511	$ 24,763
Future policy benefits	11,469	11,475
Unearned premiums	3,759	3,610
Policyholders funds	154	157
Total insurance reserves	39,893	40,005
Payable to brokers	738	205
Short term debt	19	19
Long term debt	9,418	9,191
Deferred income taxes	895	840
Other liabilities	4,654	4,773
Separate account business	279	312

Total liabilities	**55,896**	55,345
Preferred stock, $0.10 par value:		
Authorized 100,000,000 shares		
Common stock, $0.01 par value:		
Authorized 1,800,000,000 shares		
Issued 392,242,941 and 392,054,766 shares	**4**	4
Additional paid-in capital	**3,589**	3,595
Retained earnings	**15,410**	15,192
Accumulated other comprehensive income	**566**	678
	19,569	19,469
Less treasury stock, at cost (2,344,500 and 249,600 shares)	**(102)**	(10)
Total shareholders equity	**19,467**	19,459
Noncontrolling interests	**5,251**	5,217
Total equity	**24,718**	24,676
Total liabilities and equity	**$ 80,614**	$ 80,021

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

Three Months Ended March 31	**2013**	2012
(In millions, except per share data)		
Revenues:		
Insurance premiums	**$ 1,764**	$ 1,649
Net investment income	**641**	726
Investment gains (losses):		
Other-than-temporary impairment losses	**(18)**	(15)
Portion of other-than-temporary impairment losses recognized in Other comprehensive income (loss)		(12)
Net impairment losses recognized in earnings	**(18)**	(27)
Other net investment gains	**42**	59
Total investment gains	**24**	32
Contract drilling revenues	**700**	755
Other	**605**	582
Total	**3,734**	3,744
Expenses:		
Insurance claims and policyholders benefits	**1,429**	1,381
Amortization of deferred acquisition costs	**328**	295
Contract drilling expenses	**375**	397
Other operating expenses	**982**	819
Interest	**108**	111
Total	**3,222**	3,003
Income before income tax	**512**	741
Income tax expense	**(114)**	(222)
Net income	**398**	519
Amounts attributable to noncontrolling interests	**(156)**	(152)
Net income attributable to Loews Corporation	**$ 242**	$ 367
Basic net income per share	**$ 0.62**	$ 0.93
Diluted net income per share	**$ 0.62**	$ 0.92

Dividends per share	**$ 0.0625**	$ 0.0625
Weighted-average shares outstanding:		
Shares of common stock	**391.39**	396.77
Dilutive potential shares of common stock	**0.77**	0.67
Total weighted-average shares outstanding assuming dilution	**392.16**	397.44

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

Three Months Ended March 31	2013	2012
(In millions)		
Net income	$ 398	$ 519
Other comprehensive income (loss), after tax		
Changes in:		
Net unrealized gains on investments with other-than-temporary impairments	14	40
Net other unrealized gains (losses) on investments	(62)	217
Total unrealized gains (losses) on available-for-sale investments	(48)	257
Unrealized gains (losses) on cash flow hedges	(21)	15
Pension liability	4	7
Foreign currency	(61)	21
Other comprehensive income (loss)	(126)	300
Comprehensive income	272	819
Amounts attributable to noncontrolling interests	(142)	(183)
Total comprehensive income attributable to Loews Corporation	$ 130	$ 636

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

(Unaudited)

		Loews Corporation Shareholders					
(In millions)	**Total**	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Common Stock Held in Treasury**	**Noncontrolling Interests**
Balance, January 1, 2012	$ 23,203	$ 4	$ 3,494	$ 14,890	$ 384	$ -	$ 4,431
Net income	519			367			152
Other comprehensive income	300				269		31
Dividends paid	(133)			(25)			(108)
Issuance of equity securities by subsidiary	222		36		1		185
Issuance of Loews common stock	5		5				
Stock-based compensation	6		5				1
Other	(1)		(2)				1
Balance, March 31, 2012	$ 24,121	$ 4	$ 3,538	$ 15,232	$ 654	$ -	$ 4,693
Balance, January 1, 2013	**$ 24,676**	**$ 4**	**$ 3,595**	**$ 15,192**	**$ 678**	**$ (10)**	**$ 5,217**
Net income	**398**			**242**			**156**
Other comprehensive loss	**(126)**				**(112)**		**(14)**
Dividends paid	**(146)**			**(24)**			**(122)**
Purchase of Loews treasury stock	**(92)**					**(92)**	
Issuance of Loews common stock	**3**		**3**				
Stock-based compensation	**4**		**(9)**				**13**
Other	**1**						**1**
Balance, March 31, 2013	**$ 24,718**	**$ 4**	**$ 3,589**	**$ 15,410**	**$ 566**	**$ (102)**	**$ 5,251**

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

Three Months Ended March 31	**2013**	2012
(In millions)		
Operating Activities:		
Net income	**$ 398**	$ 519
Adjustments to reconcile net income to net cash provided (used) by operating activities, net	**335**	270
Changes in operating assets and liabilities, net:		
Receivables	**(68)**	142
Deferred acquisition costs	**(40)**	(15)
Insurance reserves	**79**	99
Other assets	**(3)**	(6)
Other liabilities	**(101)**	(187)
Trading securities	**8**	(494)
Net cash flow operating activities	**608**	328
Investing Activities:		
Purchases of fixed maturities	**(2,720)**	(2,842)
Proceeds from sales of fixed maturities	**1,409**	1,929
Proceeds from maturities of fixed maturities	**866**	683
Purchases of equity securities	**(12)**	(12)
Proceeds from sales of equity securities	**51**	19
Purchases of limited partnership investments	**(41)**	(66)
Proceeds from sales of limited partnership investments	**58**	97
Purchases of property, plant and equipment	**(602)**	(238)
Dispositions	**5**	41
Change in short term investments	**375**	(88)
Other, net	**(22)**	(36)
Net cash flow investing activities	**(633)**	(513)
Financing Activities:		
Dividends paid	**(24)**	(25)
Dividends paid to noncontrolling interests	**(122)**	(108)
Purchases of treasury shares	**(95)**	
Issuance of common stock	**3**	5
Proceeds from sale of subsidiary stock	**1**	245
Principal payments on debt	**(196)**	(331)
Issuance of debt	**420**	370
Other, net	**(4)**	(2)

Net cash flow financing activities		**(17)**		154
Effect of foreign exchange rate on cash		**(7)**		1
Net change in cash		**(49)**		(30)
Cash, beginning of period		**228**		129
Cash, end of period	**$**	**179**	$	99

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: commercial property and casualty insurance (CNA Financial Corporation (CNA), a 90% owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. (Diamond Offshore), a 50.4% owned subsidiary); transportation and storage of natural gas and natural gas liquids and gathering and processing of natural gas (Boardwalk Pipeline Partners, LP (Boardwalk Pipeline), a 55% owned subsidiary); exploration, production and marketing of natural gas and oil (including condensate and natural gas liquids), (HighMount Exploration & Production LLC (HighMount), a wholly owned subsidiary); and the operation of a chain of hotels (Loews Hotels Holding Corporation (Loews Hotels), a wholly owned subsidiary). Unless the context otherwise requires, the terms Company, Loews and Registrant as used herein mean Loews Corporation excluding its subsidiaries and the term Net income (loss) attributable to Loews Corporation as used herein means Net income (loss) attributable to Loews Corporation shareholders.

In the opinion of management, the accompanying unaudited Consolidated Condensed Financial Statements reflect all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of March 31, 2013 and December 31, 2012 and the results of operations, comprehensive income and changes in shareholders equity and cash flows for the three months ended March 31, 2013 and 2012.

Net income for the first quarter of each of the years is not necessarily indicative of net income for that entire year.

Reference is made to the Notes to Consolidated Financial Statements in the 2012 Annual Report on Form 10-K which should be read in conjunction with these Consolidated Condensed Financial Statements.

The Company presents basic and diluted net income per share on the Consolidated Condensed Statements of Income. Basic net income per share excludes dilution and is computed by dividing net income (loss) attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted net income 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. Stock appreciation rights (SARs) of 2.0 million and 2.2 million shares were not included in the diluted weighted average shares amount for the three months ended March 31, 2013 and 2012 due to the exercise price being greater than the average stock price.

Impairment of Natural Gas and Oil Properties For the three months ended March 31, 2013 and 2012, HighMount recorded a non-cash ceiling test impairment charge of $145 million and $44 million ($92 million and $28 million after tax) related to the carrying value of its natural gas and oil properties. The impairments were recorded within Other operating expenses and as credits to Accumulated depreciation, depletion and amortization. The 2013 write-down was attributable to reduced average natural gas liquids (NGL) and oil prices used in the ceiling test calculation and negative reserve revisions. Had the effects of HighMount s cash flow hedges not been considered in calculating the ceiling limitation, the impairments would have been $195 million and $69 million ($124 million and $44 million after tax) for the three months ended March 31, 2013 and 2012. As a result of the ceiling test impairment charge, HighMount performed a goodwill impairment test and no impairment charge was required.

2. Investments

Net investment income is as follows:

Three Months Ended March 31		**2013**		2012
(In millions)				
Fixed maturity securities	**$**	**499**	$	516
Short term investments		**2**		3

Limited partnership investments	**146**	143
Equity securities	**3**	4
Income (loss) from trading portfolio (a)	**(3)**	70
Other	**6**	4
Total investment income	**653**	740
Investment expenses	**(12)**	(14)
Net investment income	**$ 641**	$ 726

(a) Includes net unrealized gains (losses) related to changes in fair value on trading securities still held of $(15) million and $36 million for the three months ended March 31, 2013 and 2012.

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Investment gains (losses) are as follows:

Three Months Ended March 31	2013	2012
(In millions)		
Fixed maturity securities	$ 32	$ 30
Equity securities	(13)	1
Derivative instruments	2	(1)
Short term investments and other	3	2
Investment gains (a)	$ 24	$ 32

(a) Includes gross realized gains of $46 million and $72 million and gross realized losses of $27 million and $41 million on available-for-sale securities for the three months ended March 31, 2013 and 2012.

The components of other-than-temporary impairment (OTTI) losses recognized in earnings by asset type are as follows:

Three Months Ended March 31	2013	2012
(In millions)		
Fixed maturity securities available-for-sale:		
Corporate and other bonds	$ 3	$ 10
Asset-backed:		
Residential mortgage-backed		14
U.S. Treasury and obligations of government-sponsored enterprises		1
Total fixed maturities available-for-sale	3	25
Equity securities available-for-sale:		
Common stock		2
Preferred stock	15	
Total equity securities available-for-sale	15	2
Net OTTI losses recognized in earnings	$ 18	$ 27

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. CNA follows a consistent and systematic process for determining and recording an OTTI loss. CNA 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 CNA 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 CNA 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: (i) the financial condition and near term prospects of the issuer, (ii) whether the debtor is current on interest and principal payments, (iii) credit ratings of the securities and (iv) general market conditions and industry or sector specific outlook. CNA 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

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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.

CNA 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.

CNA 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: (i) the length of time and the extent to which the fair value has been less than amortized cost, (ii) the financial condition and near term prospects of the issuer, (iii) the intent and ability of CNA to retain its investment for a period of time sufficient to allow for an anticipated recovery in value and (iv) general market conditions and industry or sector specific outlook.

The amortized cost and fair values of securities are as follows:

March 31, 2013	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
(In millions)					
Fixed maturity securities:					
Corporate and other bonds	$ 19,747	$ 2,562	$ 18	$22,291	
States, municipalities and political subdivisions	9,599	1,408	59	10,948	
Asset-backed:					
Residential mortgage-backed	5,518	235	70	5,683	$ (49)
Commercial mortgage-backed	1,853	147	10	1,990	(3)
Other asset-backed	932	23		955	
Total asset-backed	8,303	405	80	8,628	(52)
U.S. Treasury and obligations of government-sponsored enterprises	170	11		181	
Foreign government	528	24		552	
Redeemable preferred stock	123	14	1	136	
Fixed maturities available-for-sale	38,470	4,424	158	42,736	(52)
Fixed maturities, trading	198		22	176	
Total fixed maturities	38,668	4,424	180	42,912	(52)
Equity securities:					
Common stock	38	17		55	
Preferred stock	139	7		146	
Equity securities available-for-sale	177	24	-	201	-
Equity securities, trading	532	51	93	490	
Total equity securities	709	75	93	691	-
Total	$ 39,377	$ 4,499	$ 273	$43,603	$ (52)

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December 31, 2012	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
(In millions)					
Fixed maturity securities:					
Corporate and other bonds	$ 19,530	$ 2,698	$ 21	$ 22,207	
States, municipalities and political subdivisions	9,372	1,455	44	10,783	
Asset-backed:					
Residential mortgage-backed	5,745	246	71	5,920	$ (28)
Commercial mortgage-backed	1,692	147	17	1,822	(3)
Other asset-backed	929	23		952	
Total asset-backed	8,366	416	88	8,694	(31)
U.S. Treasury and obligations of government-sponsored enterprises	172	11	1	182	
Foreign government	588	25		613	
Redeemable preferred stock	113	13	1	125	
Fixed maturities available-for-sale	38,141	4,618	155	42,604	(31)
Fixed maturities, trading	183		22	161	
Total fixed maturities	38,324	4,618	177	42,765	(31)
Equity securities:					
Common stock	38	14		52	
Preferred stock	190	7		197	
Equity securities available-for-sale	228	21	-	249	-
Equity securities, trading	665	80	96	649	
Total equity securities	893	101	96	898	-
Total	$ 39,217	$ 4,719	$ 273	$ 43,663	$ (31)

The net unrealized gains on investments included in the tables above are recorded as a component of Accumulated Other Comprehensive Income (AOCI). When presented in AOCI, these amounts are net of tax and noncontrolling interests and any required Shadow Adjustments. At March 31, 2013 and December 31, 2012, the net unrealized gains on investments included in AOCI were net of Shadow Adjustments of $1.3 billion and $1.4 billion. To the extent that unrealized gains on fixed income securities supporting certain products within CNA s Life & Group Non-Core segment would result in a premium deficiency if realized, a related decrease in Deferred acquisition costs, and/or increase in Insurance reserves is recorded, net of tax and noncontrolling interests, as a reduction of net unrealized gains (losses) through Other comprehensive income (Shadow Adjustments).

The available-for-sale securities in a gross unrealized loss position are as follows:

	Less than 12 Months		**12 Months or Longer**		**Total**	
March 31, 2013	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**
(In millions)						

Fixed maturity securities:						
Corporate and other bonds	**$ 951**	**$ 13**	**$ 50**	**$ 5**	**$ 1,001**	**$ 18**
States, municipalities and political subdivisions	**683**	**16**	**121**	**43**	**804**	**59**
Asset-backed:						
Residential mortgage-backed	**920**	**19**	**347**	**51**	**1,267**	**70**
Commercial mortgage-backed	**155**	**2**	**141**	**8**	**296**	**10**
Total asset-backed	**1,075**	**21**	**488**	**59**	**1,563**	**80**
Redeemable preferred stock	**34**	**1**			**34**	**1**
Total	**$ 2,743**	**$ 51**	**$ 659**	**$ 107**	**$ 3,402**	**$ 158**

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December 31, 2012	Less than 12 Months Estimated Fair Value	Less than 12 Months Gross Unrealized Losses	12 Months or Longer Estimated Fair Value	12 Months or Longer Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
(In millions)						
Fixed maturity securities:						
Corporate and other bonds	$ 846	$ 13	$ 108	$ 8	$ 954	$ 21
States, municipalities and political subdivisions	254	5	165	39	419	44
Asset-backed:						
Residential mortgage-backed	583	5	452	66	1,035	71
Commercial mortgage-backed	85	2	141	15	226	17
Total asset-backed	668	7	593	81	1,261	88
U.S. Treasury and obligations of government- sponsored enterprises	23	1			23	1
Redeemable preferred stock	28	1			28	1
Total	$ 1,819	$ 27	$ 866	$ 128	$ 2,685	$ 155

The amount of pretax net realized gains on available-for-sale securities reclassified out of AOCI into earnings was $19 million and $32 million for the three months ended March 31, 2013 and 2012.

Based on current facts and circumstances, the Company believes the unrealized losses presented in the table above are primarily attributable to broader economic conditions, changes in interest rates and credit spreads, market illiquidity and other market factors, but are not indicative of the ultimate collectibility of the current amortized cost of the securities. The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at March 31, 2013.

The following table summarizes the activity for the three months ended March 31, 2013 and 2012 related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held at March 31, 2013 and 2012 for which a portion of an OTTI loss was recognized in Other comprehensive income.

Three Months Ended March 31	**2013**	2012
(In millions)		
Beginning balance of credit losses on fixed maturity securities	**$ 95**	$ 92
Additional credit losses for securities for which an OTTI loss was previously recognized		11
Credit losses for securities for which an OTTI loss was not previously recognized		1
Reductions for securities sold during the period	**(3)**	(4)
Ending balance of credit losses on fixed maturity securities	**$ 92**	$ 100

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Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at March 31, 2013 and December 31, 2012. 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.

	March 31, 2013		December 3 1, 2012	
	Cost or Amortized Cost	**Estimated Fair Value**	Cost or Amortized Cost	Estimated Fair Value
(In millions)				
Due in one year or less	**$ 1,783**	**$ 1,819**	$ 1,648	$ 1,665
Due after one year through five years	**12,916**	**13,731**	13,603	14,442
Due after five years through ten years	**9,430**	**10,267**	8,726	9,555
Due after ten years	**14,341**	**16,919**	14,164	16,942
Total	**$ 38,470**	**$ 42,736**	$ 38,141	$ 42,604

Investment Commitments

As of March 31, 2013, the Company had committed approximately $247 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases, sales and funding. As of March 31, 2013, the Company had commitments to purchase or fund additional amounts of $167 million and sell $210 million under the terms of such securities.

3. 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 type of financial instruments being measured and the methodologies and inputs used at March 31, 2013 were consistent with those disclosed in the Annual Report on Form 10-K for the year ended December 31, 2012.

Prices may fall within Level 1, 2 or 3 depending upon the methodologies and inputs used to estimate fair value for each specific security. In general, the Company seeks to price securities using third party pricing services. Securities not priced by pricing services are submitted to independent brokers for valuation and, if those are not available, internally developed pricing models are used to value assets using methodologies and inputs the Company believes market participants would use to value the assets.

The Company performs control procedures over information obtained from pricing services and brokers to ensure prices received represent a reasonable estimate of fair value and to confirm representations regarding whether inputs are observable or unobservable. Procedures include (i) the review of pricing service or broker pricing methodologies, (ii) back-testing, where past fair value estimates are compared to actual transactions executed in the market on similar dates, (iii) exception reporting, where changes in price, period-over-period, are reviewed and challenged with the pricing service or broker based on exception criteria, (iv) detailed analysis, where the Company independently validates information regarding inputs and assumptions for individual securities and (v) pricing validation, where prices received are compared to prices independently estimated by the Company.

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The fair values of CNA s life settlement contracts are included in Other assets on the Consolidated Condensed Balance Sheets. Equity options purchased are included in Equity securities, and all other derivative assets are included in Receivables. Derivative liabilities are included in Payable to brokers. Assets and liabilities measured at fair value on a recurring basis are summarized in the tables below:

March 31, 2013	Level 1	Level 2	Level 3	Total
(In millions)				
Fixed maturity securities:				
Corporate and other bonds	$ 28	$ 21,980	$ 283	$ 22,291
States, municipalities and political subdivisions		10,819	129	10,948
Asset-backed:				
Residential mortgage-backed		5,233	450	5,683
Commercial mortgage-backed		1,813	177	1,990
Other asset-backed		559	396	955
Total asset-backed		7,605	1,023	8,628
U.S. Treasury and obligations of government-sponsored enterprises	155	26		181
Foreign government	104	448		552
Redeemable preferred stock	51	59	26	136
Fixed maturities available-for-sale	338	40,937	1,461	42,736
Fixed maturities, trading	4	65	107	176
Total fixed maturities	$ 342	$ 41,002	$ 1,568	$ 42,912
Equity securities available-for-sale	$ 120	$ 62	$ 19	$ 201
Equity securities, trading	487		3	490
Total equity securities	$ 607	$ 62	$ 22	$ 691
Short term investments	$ 5,448	$ 397	$ 5	$ 5,850
Other invested assets		48		48
Receivables		17	7	24
Life settlement contracts			95	95
Separate account business	11	266	2	279
Payable to brokers	(379)	(18)	(5)	(402)

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December 31, 2012	Level 1	Level 2	Level 3	Total
(In millions)				
Fixed maturity securities:				
Corporate and other bonds	$ 6	$ 21,982	$ 219	$ 22,207
States, municipalities and political subdivisions		10,687	96	10,783
Asset-backed:				
Residential mortgage-backed		5,507	413	5,920
Commercial mortgage-backed		1,693	129	1,822
Other asset-backed		584	368	952
Total asset-backed		7,784	910	8,694
U.S. Treasury and obligations of government-sponsored enterprises	158	24		182
Foreign government	140	473		613
Redeemable preferred stock	40	59	26	125
Fixed maturities available-for-sale	344	41,009	1,251	42,604
Fixed maturities, trading		72	89	161
Total fixed maturities	$ 344	$ 41,081	$ 1,340	$ 42,765
Equity securities available-for-sale	$ 117	$ 98	$ 34	$ 249
Equity securities, trading	642		7	649
Total equity securities	$ 759	$ 98	$ 41	$ 898
Short term investments	$ 4,990	$ 799	$ 6	$ 5,795
Other invested assets		58	1	59
Receivables		32	11	43
Life settlement contracts			100	100
Separate account business	4	306	2	312
Payable to brokers	(95)	(11)	(6)	(112)

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The tables below present reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2013 and 2012:

2013	Balance, January 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in OCI	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, March 31	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at March 31
(In millions)										
Fixed maturity securities:										
Corporate and other bonds	$ 219		$ 2	$ 91	$ (17)	$ (20)	$ 26	$ (18)	$ 283	$ (1)
States, municipalities and political subdivisions	96	$ (3)		85	(47)	(2)			129	
Asset-backed:										
Residential mortgage-backed	413	3		61		(11)		(16)	450	
Commercial mortgage-backed	129	1	5	73		(7)		(24)	177	
Other asset-backed	368	3	1	136	(99)	(13)			396	
Total asset-backed	910	7	6	270	(99)	(31)	-	(40)	1,023	-
Redeemable preferred stock	26								26	
Fixed maturities available-for-sale	1,251	4	8	446	(163)	(53)	26	(58)	1,461	(1)
Fixed maturities, trading	89	1		19	(2)				107	1
Total fixed maturities	$ 1,340	$ 5	$ 8	$ 465	$ (165)	$ (53)	$ 26	$ (58)	$ 1,568	$ -
Equity securities available-for-sale	$ 34	$ (15)	$ 1					$ (1)	$ 19	$ (15)
Equity securities trading	7	(3)			$ (1)				3	(3)
Total equity securities	$ 41	$ (18)	$ 1	$ -	$ (1)	$ -	$ -	$ (1)	$ 22	$ (18)
Short term investments	$ 6				$ (1)				$ 5	
Other invested assets	1				(1)				-	
Life settlement contracts	100	$ 7				$ (12)			95	
Separate account business	2								2	
Derivative financial instruments, net	5	3	$ (4)		1	(3)			2	

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2012	Balance, January 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income	Included in OCI	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, March 31	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at March 31
(In millions)										
Fixed maturity securities:										
Corporate and other bonds	$ 482	$ 3	$ 4	$ 78	$ (86)	$ (19)	$ 33	$ (10)	$ 485	
States, municipalities and political subdivisions	171		2						173	
Asset-backed:										
Residential mortgage-backed	452	1	(4)	38		(7)		(33)	447	
Commercial mortgage-backed	59		4	42					105	
Other asset-backed	343	4	4	176	(77)	(25)		(41)	384	
Total asset-backed	854	5	4	256	(77)	(32)	-	(74)	936	
Redeemable preferred stock	-			53					53	
Fixed maturities available-for-sale	1,507	8	10	387	(163)	(51)	33	(84)	1,647	
Fixed maturities, trading	101	(7)		7					101	$ (7)
Total fixed maturities	$ 1,608	$ 1	$ 10	$ 394	$ (163)	$ (51)	$ 33	$ (84)	$ 1,748	$ (7)
Equity securities available-for-sale	$ 67		$ (3)	$ 11	$ (1)				$ 74	$ (2)
Equity securities trading	14	$ (3)							11	(3)
Total equity securities	$ 81	$ (3)	$ (3)	$ 11	$ (1)	$ -	$ -	$ -	$ 85	$ (5)
Short term investments	$ 27			$ 12		$ (39)			$ -	
Other invested assets	11								11	
Life settlement contracts	117	$ 3				(5)			115	$ (1)
Separate account business	23				$ (19)				4	
Derivative financial instruments, net	(15)	(6)	$ 13	1	(5)	4			(8)	1

Net realized and unrealized gains and losses are reported in Net income as follows:

Major Category of Assets and Liabilities	Consolidated Condensed Statements of Income Line Items
Fixed maturity securities available-for-sale	Investment gains (losses)
Fixed maturity securities, trading	Net investment income
Equity securities available-for-sale	Investment gains (losses)
Equity securities, trading	Net investment income

Other invested assets	Investment gains (losses) and Net investment income
Derivative financial instruments held in a trading portfolio	Net investment income
Derivative financial instruments, other	Investment gains (losses) and Other revenues
Life settlement contracts	Other revenues

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Securities shown in the Level 3 tables may be transferred in or out of Level 3 based on the availability of observable market information used to determine the fair value of the security. The availability of observable market information varies based on market conditions and trading volume and may cause securities to move in and out of Level 3 from reporting period to reporting period. There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2013 and 2012. The Company s policy is to recognize transfers between levels at the beginning of quarterly reporting periods.

Significant Unobservable Inputs

The table below presents quantitative information about the significant unobservable inputs utilized by the Company in the fair value measurements of Level 3 assets. Valuations for assets and liabilities not presented in the table below are primarily based on broker/dealer quotes for which there is a lack of transparency as to inputs used to develop the valuations. The quantitative detail of unobservable inputs from these broker quotes is neither provided nor reasonably available to the Company.

March 31, 2013	Fair Value (In millions)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Assets				
Fixed maturity securities	**$ 78**	**Discounted cash flow**	**Expected call date**	**3.0 4.6 years (4.0 years)**
			Credit spread adjustment	**0.02% 0.48% (0.17%)**
	97	**Market approach**	**Private offering price**	**$34.70 $122.09 ($102.97)**
Equity securities	**19**	**Market approach**	**Private offering price**	**$33.73 $3,970.99 per share ($1,114.32 per share)**
Life settlement contracts	**95**	**Discounted cash flow**	**Discount rate risk premium**	**9%**
			Mortality assumption	**69% 883% (209.2%)**
December 31, 2012				
Assets				
Fixed maturity securities	$ 121	Discounted cash flow	Expected call date	3.3 5.3 years (4.3 years)
			Credit spread adjustment	0.02% 0.48% (0.17%)
	72	Market approach	Private offering price	$42.39 $102.32 ($100.11)
Equity securities	34	Market approach	Private offering price	$4.54 $3,842.00 per share ($571.17 per share)
Life settlement contracts	100	Discounted cash flow	Discount rate risk premium	9%
			Mortality assumption	69% 883% (208.9%)

For fixed maturity securities, an increase to the expected call date assumption and credit spread adjustment or decrease in the private offering price would result in a lower fair value measurement. For equity securities, an increase in the private offering price would result in a higher fair value measurement. For life settlement contracts, an increase in the discount rate risk premium or decrease in the mortality assumption would result in a lower fair value measurement.

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Financial Assets and Liabilities Not Measured at Fair Value

The methods and assumptions used to estimate the fair value