CNA FINANCIAL CORP
Form 10-Q
July 31, 2012

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

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

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

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

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

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

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

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

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

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

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

Class	Outstanding at July 27, 2012
Common Stock, Par value $2.50	269,397,139

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

Periods ended June 30	Three Months		Six Months	
(In millions, except per share data)	2012	2011	2012	2011
Revenues				
Net earned premiums	$1,668	$1,595	$3,317	$3,210
Net investment income	470	517	1,118	1,137
Net realized investment gains (losses), net of participating policyholders' interests:				
Other-than-temporary impairment losses	(12)	(41)	(27)	(61)
Portion of other-than-temporary impairments recognized in Other comprehensive income	(11)	(21)	(23)	(42)
Net other-than-temporary impairment losses recognized in earnings	(23)	(62)	(50)	(103)
Other net realized investment gains	45	77	108	131
Net realized investment gains, net of participating policyholders' interests	22	15	58	28
Other revenues	86	71	154	138
Total revenues	2,246	2,198	4,647	4,513
Claims, Benefits and Expenses				
Insurance claims and policyholders' benefits	1,348	1,367	2,729	2,731
Amortization of deferred acquisition costs	309	286	604	583
Other operating expenses	316	326	635	603
Interest	43	43	85	89
Total claims, benefits and expenses	2,016	2,022	4,053	4,006
Income from continuing operations before income tax	230	176	594	507
Income tax expense	(64)	(47)	(178)	(148)
Income from continuing operations	166	129	416	359
Loss from discontinued operations, net of income tax benefit of -, $0, - and $0	—	—	—	(1)
Net income	166	129	416	358
Net (income) loss attributable to noncontrolling interests	—	(5)	—	(14)
Net income attributable to CNA	$166	$124	$416	$344
Income Attributable to CNA Common Stockholders				
Income from continuing operations attributable to CNA common stockholders	$166	$124	$416	$345
Loss from discontinued operations attributable to CNA common stockholders	—	—	—	(1)
Income attributable to CNA common stockholders	$166	$124	$416	$344

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

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Periods ended June 30	Three Months		Six Months	
(In millions, except per share data)	2012	2011	2012	2011
Basic Earnings Per Share Attributable to CNA Common Stockholders				
Income from continuing operations attributable to CNA common stockholders	$0.62	$0.46	$1.55	$1.28
Loss from discontinued operations attributable to CNA common stockholders	—	—	—	—
Income attributable to CNA common stockholders	$0.62	$0.46	$1.55	$1.28
Diluted Earnings Per Share Attributable to CNA Common Stockholders				
Income from continuing operations attributable to CNA common stockholders	$0.62	$0.46	$1.54	$1.28
Loss from discontinued operations attributable to CNA common stockholders	—	—	—	—
Income attributable to CNA common stockholders	$0.62	$0.46	$1.54	$1.28
Dividends per share	$0.15	$0.10	$0.30	$0.20
Weighted Average Outstanding Common Stock and Common Stock Equivalents				
Basic	269.4	269.3	269.4	269.3
Diluted	269.8	269.6	269.7	269.6

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 June 30	Three Months		Six Months	
(In millions)	2012	2011	2012	2011
Other Comprehensive Income, Net of Tax				
Changes in:				
Net unrealized gains (losses) on investments with other-than-temporary impairments	$(3)	$1	$37	$39
Net unrealized gains on other investments	121	300	339	322
Net unrealized gains on investments	118	301	376	361
Foreign currency translation adjustment	(17)	5	4	30
Pension and postretirement benefits	3	1	9	2
Net unrealized gains on discontinued operations and other	—	—	—	1
Allocation to participating policyholders	(1)	(1)	(2)	(1)
Other comprehensive income, net of tax	103	306	387	393
Net income	166	129	416	358
Comprehensive income	269	435	803	751
Other comprehensive (income) loss attributable to noncontrolling interests related to changes in net unrealized (gains) losses on investments	—	(10)	—	(8)
Net (income) loss attributable to noncontrolling interests	—	(5)	—	(14)
Comprehensive (income) loss attributable to noncontrolling interests	—	(15)	—	(22)
Total comprehensive income attributable to CNA	$269	$420	$803	$729

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)	June 30, 2012	December 31, 2011
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of $37,885 and $37,345)	$41,367	$39,937
Equity securities at fair value (cost of $252 and $288)	290	304
Limited partnership investments	2,242	2,245
Other invested assets	11	12
Mortgage loans	339	234
Short term investments	1,752	1,641
Total investments	46,001	44,373
Cash	100	75
Reinsurance receivables (less allowance for uncollectible receivables of $71 and $91)	5,751	6,001
Insurance receivables (less allowance for uncollectible receivables of $110 and $112)	1,794	1,614
Accrued investment income	446	436
Deferred acquisition costs	584	552
Deferred income taxes	127	415
Property and equipment at cost (less accumulated depreciation of $428 and $420)	310	309
Goodwill and other intangible assets	139	139
Other assets (includes $0 and $130 due from Loews Corporation)	877	779
Separate account business	370	417
Total assets	$56,499	$55,110
Liabilities and Equity		
Liabilities:		
Insurance reserves:		
Claim and claim adjustment expenses	$24,007	$24,303
Unearned premiums	3,478	3,250
Future policy benefits	10,352	9,810
Policyholders' funds	167	191
Participating policyholders' funds	71	68
Short term debt	83	83
Long term debt	2,526	2,525
Other liabilities (includes $18 and $0 due to Loews Corporation)	3,231	2,975
Separate account business	370	417
Total liabilities	44,285	43,622
Commitments and contingencies (Notes C, G and I)		
Equity:		
Common stock ($2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; 269,397,139 and 269,274,900 shares outstanding)	683	683
Additional paid-in capital	2,141	2,141
Retained earnings	8,643	8,308
Accumulated other comprehensive income	867	480
Treasury stock (3,643,104 and 3,765,343 shares), at cost	(99)	(102)
Notes receivable for the issuance of common stock	(21)	(22)
Total CNA stockholders' equity	12,214	11,488
Total liabilities and equity	$56,499	$55,110

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)
Six months ended June 30

(In millions)	2012	2011
Cash Flows from Operating Activities		
Net income	$416	$358
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Loss from discontinued operations	—	1
Loss on disposal of property and equipment	1	8
Deferred income tax expense	81	96
Trading portfolio activity	(44)	(9)
Net realized investment gains, net of participating policyholders’ interests	(58)	(28)
Equity method investees	(8)	(108)
Amortization of investments	(33)	(37)
Depreciation	39	38
Changes in:		
Receivables, net	70	139
Accrued investment income	(10)	(11)
Deferred acquisition costs	(17)	(19)
Insurance reserves	121	93
Other assets	43	37
Other liabilities	12	(153)
Other, net	5	9
Total adjustments	202	56
Net cash flows provided by operating activities-continuing operations	$618	$414
Net cash flows provided (used) by operating activities-discontinued operations	$—	$(2)
Net cash flows provided by operating activities-total	$618	$412
Cash Flows from Investing Activities		
Purchases of fixed maturity securities	$(5,169)	$(6,200)
Proceeds from fixed maturity securities:		
Sales	3,303	4,112
Maturities, calls and redemptions	1,566	1,825
Purchases of equity securities	(27)	(44)
Proceeds from sales of equity securities	61	153
Origination of mortgage loans	(109)	(112)
Change in short term investments	(123)	514
Change in other investments	13	(131)
Purchases of property and equipment	(42)	(24)
Other, net	17	2
Net cash flows provided (used) by investing activities-continuing operations	$(510)	$95
Net cash flows provided (used) by investing activities-discontinued operations	$—	$2
Net cash flows provided (used) by investing activities-total	$(510)	$97

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

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Six months ended June 30 (In millions)	2012	2011
Cash Flows from Financing Activities		
Acquisition of CNA Surety noncontrolling interest	$—	$(426)
Dividends paid to common stockholders	(81)	(54)
Proceeds from the issuance of debt	—	396
Repayment of debt	—	(409)
Stock options exercised	1	2
Other, net	(3)	(13)
Net cash flows used by financing activities-continuing operations	$(83)	$(504)
Net cash flows provided (used) by financing activities-discontinued operations	$—	$—
Net cash flows used by financing activities-total	$(83)	$(504)
Effect of foreign exchange rate changes on cash	$—	$2
Net change in cash	$25	$7
Cash, beginning of year	75	77
Cash, end of period	$100	$84
Cash-continuing operations	$100	$84
Cash-discontinued operations	—	—
Cash-total	$100	$84

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)
Six months ended June 30

(In millions)	2012	2011
Common Stock		
Balance, beginning of period	$683	$683
Balance, end of period	683	683
Additional Paid-in Capital		
Balance, beginning of period, as previously reported	2,146	2,200
Cumulative effect adjustment from accounting change for deferred acquisition costs, net of tax	(5)	—
Balance, beginning of period, as adjusted	2,141	2,200
Stock-based compensation	—	1
Acquisition of CNA Surety noncontrolling interest	—	(65)
Other	—	2
Balance, end of period	2,141	2,138
Retained Earnings		
Balance, beginning of period, as previously reported	8,382	7,876
Cumulative effect adjustment from accounting change for deferred acquisition costs, net of tax	(74)	(72)
Balance, beginning of period, as adjusted	8,308	7,804
Dividends paid to common stockholders	(81)	(54)
Net income attributable to CNA	416	344
Balance, end of period	8,643	8,094
Accumulated Other Comprehensive Income		
Balance, beginning of period, as previously reported	470	326
Cumulative effect adjustment from accounting change for deferred acquisition costs, net of tax	10	—
Balance, beginning of period, as adjusted	480	326
Other comprehensive income attributable to CNA	387	385
Acquisition of CNA Surety noncontrolling interest	—	19
Balance, end of period	867	730
Treasury Stock		
Balance, beginning of period	(102)	(105)
Stock-based compensation	3	3
Balance, end of period	(99)	(102)
Notes Receivable for the Issuance of Common Stock		
Balance, beginning of period	(22)	(26)
Decrease in notes receivable for the issuance of common stock	1	3
Balance, end of period	(21)	(23)
Total CNA Stockholders' Equity	12,214	11,520
Noncontrolling Interests		
Balance, beginning of period, as previously reported	—	570
Cumulative effect adjustment from accounting change for deferred acquisition costs, net of tax	—	(7)
Balance, beginning of period, as adjusted	—	563
Net income	—	14
Other comprehensive income	—	8
Acquisition of CNA Surety noncontrolling interest	—	(429)

Other	—	(12)
Balance, end of period	—	144
Total Equity	$12,214	$11,664

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. General

Basis of Presentation

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

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

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

Noncontrolling Interests

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

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

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

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

For the three and six months ended June 30, 2012, the adoption of the new accounting guidance resulted in an approximate $1 million and $3 million decrease in Net income attributable to CNA and a $0.01 decrease in Basic and Diluted earnings per share attributable to CNA common stockholders in both periods.

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

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

The impacts on the Company's Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2011 were a $64 million and $112 million decrease in Amortization of deferred acquisition costs, a $67 million and $119 million increase in Other operating expenses, no impact and a $1 million decrease in Income tax expense, and a $1 million decrease in Net income attributable to noncontrolling interests for both periods, resulting in a $2 million and $5 million decrease in Net income attributable to CNA, and a $0.01 and $0.02 decrease in Basic and Diluted earnings per share attributable to CNA common stockholders. There were no changes to net cash flows from operating, investing or financing activities for the comparative periods presented as a result of the adoption of the new accounting standard.

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Note B. Earnings Per Share

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

For the three and six months ended June 30, 2012, approximately 410 thousand and 368 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 622 thousand and 735 thousand potential shares attributable to exercises under stock-based employee compensation plans were not included in the calculation of diluted earnings per share because the effect would have been antidilutive.

For the three and six months ended June 30, 2011, approximately 352 thousand and 329 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 931 thousand and 1.0 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 June 30	Three Months		Six Months	
(In millions)	2012	2011	2012	2011
Fixed maturity securities	$505	$505	$1,021	$1,011
Short term investments	2	2	3	4
Limited partnership investments	(35)	11	95	125
Equity securities	2	6	6	12
Mortgage loans	5	2	8	4
Trading portfolio (a)	4	3	11	6
Other	2	3	3	5
Gross investment income	485	532	1,147	1,167
Investment expense	(15)	(15)	(29)	(30)
Net investment income	$470	$517	$1,118	$1,137

(a) There were no net unrealized gains (losses) related to changes in fair value of trading securities still held included in net investment income for the three or six months ended June 30, 2012 or 2011.

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

Net Realized Investment Gains (Losses)

Periods ended June 30	Three Months		Six Months	
(In millions)	2012	2011	2012	2011
Net realized investment gains (losses):				
Fixed maturity securities:				
Gross realized gains	$49	$89	$118	$177
Gross realized losses	(32)	(69)	(71)	(137)
Net realized investment gains (losses) on fixed maturity securities	17	20	47	40
Equity securities:				
Gross realized gains	2	1	5	6
Gross realized losses	(2)	(3)	(4)	(8)
Net realized investment gains (losses) on equity securities	—	(2)	1	(2)
Derivatives	1	—	—	(1)
Short term investments and other (a) (b)	4	(3)	10	(9)
Net realized investment gains (losses), net of participating policyholders' interests	$22	$15	$58	$28

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

(b) Includes net unrealized gains (losses) related to changes in the fair value of securities for which the fair value option has been elected. There were no net unrealized gains (losses) for the three months ended June 30, 2012 or 2011. There were no net unrealized gains (losses) for the six months ended June 30, 2012 as compared with unrealized gains of $1 million for the same period in 2011.

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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 June 30	Three Months		Six Months	
(In millions)	2012	2011	2012	2011
Fixed maturity securities available-for-sale:				
Corporate and other bonds	$6	$15	$16	$24
Asset-backed:				
Residential mortgage-backed	15	46	29	74
U.S. Treasury and obligation of government-sponsored enterprises	—	—	1	—
Total fixed maturity securities available-for-sale	21	61	46	98
Equity securities available-for-sale:				
Common stock	2	1	4	4
Preferred stock	—	—	—	1
Total equity securities available-for-sale	2	1	4	5
Net OTTI losses recognized in earnings	$23	$62	$50	$103

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

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

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

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.

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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

June 30, 2012 (In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
Fixed maturity securities available-for-sale:					
Corporate and other bonds	$19,350	$2,209	$79	$21,480	$—
States, municipalities and political subdivisions	9,225	1,225	66	10,384	—
Asset-backed:					
Residential mortgage-backed	5,817	215	141	5,891	42
Commercial mortgage-backed	1,514	82	27	1,569	(2)
Other asset-backed	1,046	20	1	1,065	—
Total asset-backed	8,377	317	169	8,525	40
U.S. Treasury and obligations of government-sponsored enterprises	172	12	—	184	—
Foreign government	616	23	—	639	—
Redeemable preferred stock	101	10	—	111	—
Total fixed maturity securities available-for-sale	37,841	3,796	314	41,323	$40
Total fixed maturity securities trading	44	—	—	44	
Equity securities available-for-sale:					
Common stock	27	21	—	48	
Preferred stock	225	17	—	242	
Total equity securities available-for-sale	252	38	—	290	
Total	$38,137	$3,834	$314	$41,657	

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

The net unrealized gains on investments included in the tables above are recorded as a component of AOCI. When presented in AOCI, these amounts are net of tax and any required Shadow Adjustments. At June 30, 2012 and December 31, 2011, the net unrealized gains on investments included in AOCI were net of Shadow Adjustments of $940 million and $723 million. To the extent that unrealized gains on fixed income securities supporting certain products within the Life & Group Non-Core segment would result in a premium deficiency if realized, a related decrease in Deferred acquisition costs and/or increase in Insurance reserves is recorded, net of tax, as a reduction through Other comprehensive income (Shadow Adjustments).

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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

	Less than 12 Months		12 Months or Longer		Total	
June 30, 2012 (In millions)	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities available-for-sale:						
Corporate and other bonds	$1,550	$53	$192	$26	$1,742	$79
States, municipalities and political subdivisions	174	2	301	64	475	66
Asset-backed:						
Residential mortgage-backed	276	13	923	128	1,199	141
Commercial mortgage-backed	158	5	153	22	311	27
Other asset-backed	181	1	—	—	181	1
Total asset-backed	615	19	1,076	150	1,691	169
Total	$2,339	$74	$1,569	$240	$3,908	$314

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

The amount of pretax net realized gains on available-for-sale securities reclassified out of AOCI into earnings was $15 million and $47 million for the three and six months ended June 30, 2012 and $20 million and $41 million for the three and six months ended June 30, 2011.

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

Periods ended June 30	Three Months		Six Months	
(In millions)	2012	2011	2012	2011
Beginning balance of credit losses on fixed maturity securities	$100	$113	$92	$141
Additional credit losses for securities for which an OTTI loss was previously recognized	10	8	21	18
Credit losses for securities for which an OTTI loss was not previously recognized	1	—	2	1
Reductions for securities sold during the period	(4)	(21)	(8)	(46)
Reductions for securities the Company intends to sell or more likely than not will be required to sell	(8)	(18)	(8)	(32)
Ending balance of credit losses on fixed maturity securities	$99	$82	$99	$82

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 June 30, 2012 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 Investor Services, Inc. (Moody's) in that order of preference. If a security is not rated by these providers, the Company formulates an internal rating.

Asset-Backed Securities

Asset-backed securities include residential mortgage-backed securities, both agency and non-agency, commercial mortgage-backed securities, and other asset-backed securities. The fair value of total asset-backed holdings at June 30, 2012 was $8,525 million which was comprised of 2,034 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.

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The gross unrealized losses on residential mortgage-backed securities included $63 million related to securities guaranteed by a U.S. government agency or sponsored enterprise and $78 million related to non-agency structured securities. Non-agency structured securities included 94 securities that had at least one trade lot in a gross unrealized loss position and the aggregate severity of the gross unrealized loss was approximately 9% of amortized cost. Commercial mortgage-backed securities included 44 securities that had at least one trade lot in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 8% of amortized cost.
The following table summarizes asset-backed securities in a gross unrealized loss position by ratings distribution at June 30, 2012.
Gross Unrealized Losses by Ratings Distribution
June 30, 2012

(In millions)	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
U.S. Government, Government Agencies, and Government-Sponsored Enterprises	$468	$405	$63
AAA	247	241	6
AA	163	155	8
A	141	134	7
BBB	162	148	14
Non-investment grade	679	608	71
Total	$1,860	$1,691	$169

The Company believes the unrealized losses are primarily attributable to broader economic conditions, changes in interest rates and credit spreads, market illiquidity, 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 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 June 30, 2012.
Contractual Maturity
The following table summarizes available-for-sale fixed maturity securities by contractual maturity at June 30, 2012 and December 31, 2011. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.
Contractual Maturity

	June 30, 2012		December 31, 2011	
(In millions)	Cost or Amortized Cost	Estimated Fair Value	Cost or Amortized Cost	Estimated Fair Value
Due in one year or less	$1,889	$1,904	$1,802	$1,812
Due after one year through five years	13,118	13,728	13,110	13,537
Due after five years through ten years	8,561	9,228	8,410	8,890
Due after ten years	14,273	16,463	14,017	15,692
Total	$37,841	$41,323	$37,339	$39,931

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Investment Commitments

As of June 30, 2012, the Company had committed approximately $141 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases, sales and funding. The purchase and sale of these investments are recorded on the date that the legal agreements are finalized and cash settlements are made. As of June 30, 2012, the Company had commitments to purchase $145 million and sell $124 million of such investments.

The Company has an obligation to fund additional amounts under the terms of current loan participations that may not be recorded until a draw is made. As of June 30, 2012, the Company had obligations on unfunded bank loan participations in the amount of $12 million.

As of June 30, 2012, the Company had mortgage loan commitments of $20 million representing signed loan applications received and accepted. Mortgage loans are recorded once funded.

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Note D. Derivative Financial Instruments

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

Recognized Gains (Losses)				
Periods ended June 30	Three Months		Six Months	
(In millions)	2012	2011	2012	2011
Without hedge designation				
Currency forwards	$1	$—	$—	$(1)
Total without hedge designation	1	—	—	(1)
Trading activities				
Futures sold, not yet purchased	—	—	1	—
Total	$1	$—	$1	$(1)

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

Derivative Financial Instruments			
June 30, 2012	Contractual/	Estimated Fair Value	
(In millions)	Notional Amount	Asset	(Liability)
Without hedge designation			
Credit default swaps - purchased protection	$20	$—	$(1)
Currency forwards	40	—	—
Equity warrants	5	—	—
Total without hedge designation	65	—	(1)
Trading activities			
Futures sold, not yet purchased	48	—	—
Total	$113	$—	$(1)

December 31, 2011	Contractual/	Estimated Fair Value	
(In millions)	Notional Amount	Asset	(Liability)
Without hedge designation			
Credit default swaps - purchased protection	$20	$—	$(1)
Currency forwards	22	1	—
Equity warrants	4	—	—
Total	$46	$1	$(1)

During the three and six months ended June 30, 2012, new derivative transactions entered into totaled $447 million and $779 million in notional value while derivative termination activity totaled $391 million and $712 million. This activity was primarily attributable to interest rate futures and forward commitments for mortgage-backed securities. During the three and six months ended June 30, 2011, new derivative transactions entered into totaled approximately $158 million and $499 million in notional value while derivative termination activity totaled approximately $158 million and $507 million. This activity was primarily attributable to interest rate futures and foreign currency forwards.

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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.

Prices may fall within Level 1, 2 or 3 depending upon the methodologies and inputs used to estimate fair value for each specific security. Prices are determined by a dedicated group within the Investments and Treasury organization, who ultimately report to the Company's CFO. This group is responsible for valuation policies and procedures. 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) deep dives, where the Company independently validates detailed 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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Assets and Liabilities Measured at Fair Value

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

June 30, 2012 (In millions)	Level 1	Level 2	Level 3	Total Assets/(Liabilities) at Fair Value
Assets				
Fixed maturity securities:				
Corporate and other bonds	$—	$21,004	$488	$ 21,492
States, municipalities and political subdivisions	—	10,327	89	10,416
Asset-backed:				
Residential mortgage-backed	—	5,448	443	5,891
Commercial mortgage-backed	—	1,403	166	1,569
Other asset-backed	—	631	434	1,065
Total asset-backed	—	7,482	1,043	8,525
U.S. Treasury and obligations of government-sponsored enterprises	142	42	—	184
Foreign government	120	519	—	639
Redeemable preferred stock	28	56	27	111
Total fixed maturity securities	290	39,430	1,647	41,367
Equity securities	106	91	93	290
Derivative and other financial instruments, included in Other invested assets	—	—	11	11
Short term investments	1,225	271	4	1,500
Life settlement contracts, included in Other assets	—	—	116	116
Separate account business	12	355	3	370
Total assets	$1,633	$40,147	$1,874	$ 43,654
Liabilities				
Derivative financial instruments, included in Other liabilities	$—	$—	$(1)	$ (1)
Total liabilities	$—	$—	$(1)	$ (1)

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December 31, 2011 (In millions)	Level 1	Level 2	Level 3	Total Assets/(Liabilities) at Fair Value
Assets				
Fixed maturity securities:				
Corporate and other bonds	$—	$20,402	$482	$ 20,884
States, municipalities and political subdivisions	—	9,611	171	9,782
Asset-backed:				
Residential mortgage-backed	—	5,323	452	5,775
Commercial mortgage-backed	—	1,295	59	1,354
Other asset-backed	—	612	343	955
Total asset-backed	—	7,230	854	8,084
U.S. Treasury and obligations of government-sponsored enterprises	451	42	—	493
Foreign government	92	544	—	636
Redeemable preferred stock	5	53	—	58
Total fixed maturity securities	548	37,882	1,507	39,937
Equity securities	124	113	67	304
Derivative and other financial instruments, included in Other invested assets	—	1	11	12
Short term investments	1,106	508	27	1,641
Life settlement contracts, included in Other assets	—	—	117	117
Separate account business	21	373	23	417
Total assets	$1,799	$38,877	$1,752	$ 42,428
Liabilities				
Derivative financial instruments, included in Other liabilities	$—	$—	$(1)	$ (1)
Total liabilities	$—	$—	$(1)	$ (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 three months ended June 30, 2012 and 2011.

Level 3 (In millions)	Balance at April 1, 2012	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 June 30, 2012	Unrealized gains (losses) on Level 3 assets and liabilities held at June 30, 2012 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	$486	$ 3	$ 2	$ 68	$(27)	$ (13)	$ 9	$(40)	$488	$ —
States, municipalities and political subdivisions	173	—	1	—	—	(85)	—	—	89	—
Asset-backed:										
Residential mortgage-backed	447	1	(18)	22	—	(9)	—	—	443	—
Commercial mortgage-backed	105	2	4	87	(12)	(4)	—	(16)	166	—
Other asset-backed	384	2	(1)	182	(99)	(34)	—	—	434	—
Total asset-backed	936	5	(15)	291	(111)	(47)	—	(16)	1,043	—
Redeemable preferred stock	53	—	—	—	(26)	—	—	—	27	—
Total fixed maturity securities	1,648	8	(12)	359	(164)	(145)	9	(56)	1,647	—
Equity securities	74	—	19	15	(15)	—	—	—	93	(1)
Derivative and other financial instruments, net	10	—	—	—	—	—	—	—	10	—
Short term investments	—	—	—	4	—	—	—	—	4	—
Life settlement contracts	115	20	—	—	—	(19)	—	—	116	3
Separate account business	4	—	—	—	(1)	—	—	—	3	—
Total	$1,851	$ 28	$ 7	$ 378	$(180)	$ (164)	$ 9	$(56)	$1,873	$ 2

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Level 3 (In millions)	Balance at April 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 June 30, 2011	Unrealized gains (losses) on Level 3 assets and liabilities held at June 30, 2011 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	$577	$ (2)	$ 2	$ 304	$(30)	$ (70)	$31	$—	$812	$ (3)
States, municipalities and political subdivisions	188	—	(1)	—	—	(8)	—	—	179	—
Asset-backed:										
Residential mortgage-backed	738	(13)	12	50	(57)	(19)	—	(24)	687	(15)
Commercial mortgage-backed	88	—	2	5	—	—	—	—	95	—
Other asset-backed	445	1	—	127	(44)	(24)	—	(14)	491	—
Total asset-backed	1,271	(12)	14	182	(101)	(43)	—	(38)	1,273	(15)
Total fixed maturity securities	2,036	(14)	15	486	(131)	(121)	31	(38)	2,264	(18)
Equity securities	30	(1)	—	4	(2)	—	5	—	36	(1)
Derivative and other financial instruments, net	8	1	—	—	—	—	—	—	9	1
Short term investments	27	—	—	—	—	(21)	—	—	6	—
Life settlement contracts	127	6	—	—	—	(4)	—	—	129	3
Separate account business	39	—	—	—	(2)	—	—	—	37	—
Total	$2,267	$ (8)	$ 15	$ 490	$(135)	$ (146)	$36	$(38)	$2,481	$ (15)

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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 six months ended June 30, 2012 and 2011.

Level 3 (In millions)	Balance at January 1, 2012	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 June 30, 2012	Unrealized gains (losses) on Level 3 assets and liabilities held at June 30, 2012 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	$ 482	$ 6	$ 6	$ 147	$ (113)	$ (32)	$ 42	$ (50)	$ 488	$ —
States, municipalities and political subdivisions	171	—	3	—	—	(85)	—	—	89	—
Asset-backed:										
Residential mortgage-backed	452	2	(22)	60	—	(16)	—	(33)	443	—
Commercial mortgage-backed	59	2	8	129	(12)	(4)	—	(16)	166	—
Other asset-backed	343	6	3	358	(176)	(59)	—	(41)	434	—
Total asset-backed	854	10	(11)	547	(188)	(79)	—	(90)	1,043	—
Redeemable preferred stock	—	—	—	53	(26)	—	—	—	27	—
Total fixed maturity securities	1,507	16	(2)	747	(327)	(196)	42	(140)	1,647	—
Equity securities	67	—	16	26	(16)	—	—	—	93	(3)
Derivative and other financial instruments, net	10	—	—	—	—	—	—	—	10	—
Short term investments	27	—	—	16	—	(39)	—	—	4	—
Life settlement contracts	117	23	—	—	—	(24)	—	—	116	3
Separate account business	23	—	—	—	(20)	—	—	—	3	—
Total	$ 1,751	$ 39	$ 14	$ 789	$ (363)	$ (259)	$ 42	$ (140)	$ 1,873	$ —

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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) included in other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at June 30, 2011	Unrealized gains (losses) on Level 3 assets and liabilities held at June 30, 2011 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	$624	$ 2	$ (3)	$ 346	$(50)	$ (97)	$40	$(50)	$812	$ (3)
States, municipalities and political subdivisions	266	—	—	—	—	(87)	—	—	179	—
Asset-backed:										
Residential mortgage-backed	767	(12)	14	97	(83)	(41)	—	(55)	687	(15)
Commercial mortgage-backed	73	3	18	5	(4)	—	—	—	95	—
Other asset-backed	359	5	—	327	(131)	(55)	—	(14)	491	—
Total asset-backed	1,199	(4)	32	429	(218)	(96)	—	(69)	1,273	(15)
Redeemable preferred stock	3	3	(3)	—	(3)	—	—	—	—	—
Total fixed maturity securities	2,092	1	26	775	(271)	(280)	40	(119)	2,264	(18)
Equity securities	26	(2)	(1)	19	(11)	—	5	—	36	(4)
Derivative and other financial instruments, net	25	3	—	—	(19)	—	—	—	9	1
Short term investments	27	—	—	12	—	(23)	—	(10)	6	—
Life settlement contracts	129	9	—	—	—	(9)	—	—	129	3
Separate account business	41	—	—	—	(4)	—	—	—	37	—
Total	$2,340	$ 11	$ 25	$ 806	$(305)	$ (312)	$45	$(129)	$2,481	$ (18)

* Net realized and unrealized gains and losses shown above are reported in Net income (loss) as follows:

Major Category of Assets and Liabilities	Consolidated Statements of Operations Line Items
Fixed maturity securities available-for-sale	Net realized investment gains (losses)
Fixed maturity securities trading	Net investment income
Equity securities	Net realized investment gains (losses)
Derivative financial instruments held in a trading portfolio	Net investment income
Derivative financial instruments not held in a trading portfolio and fair value option financial instruments	Net realized investment gains (losses)
Life settlement contracts	Other revenues

Securities shown in the Level 3 tables on the previous pages 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 or six months ended June 30, 2012 or 2011. The Company's policy is to recognize transfers between levels at the beginning of quarterly reporting periods.

Valuation Methodologies and Inputs

The following section describes the valuation methodologies and relevant inputs used to measure different financial instruments at fair value, including an indication of the level in the fair value hierarchy in which the instruments are generally classified.

Fixed Maturity Securities

Fixed maturity securities are valued using methodologies that model information generated by market transactions involving identical or comparable assets, as well as discounted cash flow methodologies. Common inputs include: prices from recently executed transactions of similar securities, broker/dealer quotes, benchmark yields, spreads off benchmark yields, interest rates, and U.S. Treasury or swap curves. Specifically for asset-backed securities, key inputs include prepayment and default projections based on past performance of the underlying collateral and current market data.

Level 1 securities include highly liquid U.S. and foreign government bonds, and redeemable preferred stock, valued using quoted market prices. Level 2 securities include most other fixed maturity securities as the significant inputs are observable in the marketplace. Securities are generally assigned to Level 3 in cases where broker/dealer quotes are significant inputs to the valuation and there is a lack of transparency as to whether these quotes are based on information that is observable in the marketplace. Level 3 securities also include tax-exempt auction rate certificates and private placement debt securities. Fair value of auction rate securities is determined utilizing a pricing model with three primary inputs. The interest rate and spread inputs are observable from like instruments while the expected call date assumption is unobservable due to the uncertain nature of principal prepayments prior to maturity. Fair value of private placement debt securities is determined using internal models with inputs that are not market observable.

Equity Securities

Level 1 equity securities include publicly traded securities valued using quoted market prices. Level 2 securities are primarily non-redeemable preferred stocks and common stocks valued using pricing for similar securities, recently executed transactions, broker/dealer quotes and other pricing models utilizing market observable inputs. Level 3 securities are priced using internal models with inputs that are not market observable.

Derivative and Other Financial Instruments

Exchange traded derivatives, primarily futures, are valued using quoted market prices and are classified within Level 1 of the fair value hierarchy. Level 2 derivatives primarily include currency forwards valued using observable market forward rates. Over-the-counter derivatives, principally interest rate swaps, total return swaps, credit default

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swaps, equity warrants and options, are valued using inputs including broker/dealer quotes and are classified within Level 3 of the valuation hierarchy due to a lack of transparency as to whether these quotes are based on information that is observable in the marketplace. Other financial instruments consist of Level 3 securities for which the fair value option has been elected which contain embedded derivatives and are priced using either broker/dealer quotes or internal models with inputs that are not market observable.

Short Term Investments

The valuation of securities that are actively traded or have quoted prices are classified as Level 1. These securities include money market funds and treasury bills. Level 2 primarily includes commercial paper, for which all inputs are market observable. Fixed maturity securities purchased within one year of maturity are classified consistent with fixed maturity securities discussed above. Short term investments as presented in the tables above differ from the amounts presented on the Condensed Consolidated Balance Sheets because certain short term investments, such as time deposits, are not measured at fair value.

Life Settlement Contracts

The fair values of life settlement contracts are determined as the present value of the anticipated death benefits less anticipated premium payments based on contract terms that are distinct for each insured, as well as the Company's own assumptions for mortality, premium expense, and the rate of return that a buyer would require on the contracts, as no comparable market pricing data is available.

Separate Account Business

Separate account business includes fixed maturity securities, equities and short term investments. The valuation methodologies and inputs for these asset types have been described above.

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 these unobservable inputs is neither provided nor reasonably available to the Company.

Assets (In millions)	Fair Value at June 30, 2012	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Fixed maturity securities	$122	Discounted cash flow	Expected call date	0.3 - 4.7 years (3.5 years)
			Spreads off benchmark yields	225-325 bps (269 bps)
	$34	Market approach	Private offering price	$97.25 - $100.08 ($99.16)
Equity securities	$93	Market approach	Private offering price	$0.10 - $4,023 per share ($268.85 per share)
Life settlement contracts	$116	Discounted cash flow	Discount rate risk premium	9%
			Mortality assumption	65% - 928% (185%)

For fixed maturity securities, an increase to the expected call date assumption or credit spreads off benchmark yields 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 carrying amount and estimated fair value of the Company's financial instrument assets and liabilities which are not measured at fair value on the Condensed Consolidated Balance Sheets are listed in the tables below.

June 30, 2012	Carrying	Estimated Fair Value			
(In millions)	Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Notes receivable for the issuance of common stock	$21	$—	$—	$21	$21
Mortgage loans	339	—	—	352	352
Financial liabilities					
Premium deposits and annuity contracts	$105	$—	$—	$109	$109
Short term debt	83	—	83	—	83
Long term debt	2,526	—	2,835	—	2,835

December 31, 2011	Carrying	Estimated
(In millions)	Amount	Fair Value
Financial assets		
Notes receivable for the issuance of common stock	$22	$22
Mortgage loans	234	247
Financial liabilities		
Premium deposits and annuity contracts	$109	$114
Short term debt	83	84
Long term debt	2,525	2,679

The following methods and assumptions were used to estimate the fair value of these financial assets and liabilities.

The fair values of Notes receivable for the issuance of common stock were estimated using discounted cash flows utilizing interest rates currently offered for obligations securitized with similar collateral, adjusted for specific note receivable risk.

The fair values of Mortgage loans were based on the present value of the expected future cash flows discounted at the current interest rate for origination of similar quality loans, adjusted for specific loan risk.

Premium deposits and annuity contracts were valued based on cash surrender values or estimated fair values of policyholder liabilities, net of amounts ceded related to sold business.

The Company's senior notes and debentures were valued based on observable market prices. The fair value for other debt was estimated using discounted cash flows based on current incremental borrowing rates for similar borrowing arrangements.

The carrying amounts reported on the Condensed Consolidated Balance Sheets for Cash, Short term investments not carried at fair value, Accrued investment income and certain other assets and other liabilities approximate fair value due to the short term nature of these items. These assets and liabilities are not listed in the tables above.

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Note F. Claim and Claim Adjustment Expense Reserves

The Company's property and casualty insurance claim and claim adjustment expense reserves represent the estimated amounts necessary to resolve all outstanding claims, including IBNR claims as of the reporting date. The Company's reserve projections are based primarily on detailed analysis of the facts in each case, the Company's experience with similar cases and various historical development patterns. Consideration is given to such historical patterns as field reserving trends and claims settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions including inflation, and public attitudes. All of these factors can affect the estimation of claim and claim adjustment expense reserves.

Establishing claim and claim adjustment expense reserves, including claim and claim adjustment expense reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the cost of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims, such as property damage claims, tend to be more reasonably estimable than long-tail claims, such as workers' compensation, general liability and professional liability claims. Adjustments to prior year reserve estimates, if necessary, are reflected in the results of operations in the period that the need for such adjustments is determined. There can be no assurance that the Company's ultimate cost for insurance losses will not exceed current estimates.

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company's results of operations and/or equity. The Company reported catastrophe losses, net of reinsurance, of $68 million and $96 million for the three and six months ended June 30, 2012. Catastrophe losses in 2012 related primarily to U.S. storms. The Company reported catastrophe losses, net of reinsurance, of $100 million and $155 million for the three and six months ended June 30, 2011.

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Net Prior Year Development

The following tables and discussion include the net prior year development recorded for CNA Specialty, CNA Commercial and Corporate & Other Non-Core.

Net Prior Year Development

Three months ended June 30, 2012 (In millions)	CNA Specialty	CNA Commercial	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(35)	$(13)	$(4)	$(52)
Pretax (favorable) unfavorable premium development	(5)	(19)	1	(23)
Total pretax (favorable) unfavorable net prior year development	$(40)	$(32)	$(3)	$(75)

Three months ended June 30, 2011 (In millions)	CNA Specialty	CNA Commercial	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(52)	$(50)	$(9)	$(111)
Pretax (favorable) unfavorable premium development	(1)	40	—	39
Total pretax (favorable) unfavorable net prior year development	$(53)	$(10)	$(9)	$(72)

Six months ended June 30, 2012 (In millions)	CNA Specialty	CNA Commercial	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(41)	$(27)	$(2)	$(70)
Pretax (favorable) unfavorable premium development	(14)	(36)	2	(48)
Total pretax (favorable) unfavorable net prior year development	$(55)	$(63)	$—	$(118)

Six months ended June 30, 2011 (In millions)	CNA Specialty	CNA Commercial	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(67)	$(57)	$(6)	$(130)
Pretax (favorable) unfavorable premium development	(8)	32	(1)	23
Total pretax (favorable) unfavorable net prior year development	$(75)	$(25)	$(7)	$(107)

For the three and six months ended June 30, 2012, favorable premium development was recorded for CNA Commercial primarily due to premium adjustments on auditable policies arising from increased exposures.

For the three and six months ended June 30, 2011, unfavorable premium development was recorded due to a reduction of ultimate premium estimates relating to retrospectively rated policies, partially offset by premium adjustments on auditable policies due to increased exposures.

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CNA Specialty

The following table provides further detail of the net prior year claim and allocated claim adjustment expense reserve development (development) recorded for the CNA Specialty segment for the three and six months ended June 30, 2012 and 2011.

Periods ended June 30	Three Months		Six Months	
(In millions)	2012	2011	2012	2011
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Medical Professional Liability	$(9)	$(20)	$(15)	$(34)
Other Professional Liability	(6)	(27)	(2)	(21)
Surety	—	(3)	1	(3)
Warranty	—	(2)	(1)	(12)
Other	(20)	—	(24)	3
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(35)	$(52)	$(41)	$(67)

Three Month Comparison

2012

Favorable development for medical professional liability was primarily due to a decrease in incurred loss severity in accident years 2008 through 2010.

Other includes standard property and casualty coverages provided to CNA Specialty customers. Favorable development for other coverages was primarily due to favorable loss emergence in property and workers' compensation coverages in accident years 2005 and subsequent.

2011

Favorable development for medical professional liability was primarily due to favorable case incurred emergence in primary institutions in accident years 2008 and prior.

Favorable development for other professional liability was driven by better than expected loss emergence in life agents coverages.

Six Month Comparison

2012

Favorable development for medical professional liability was primarily due to a decrease in incurred loss severity in accident years 2008 through 2010 and reductions in the estimated frequency of large losses in accident years 2008 and prior.

Favorable development for other coverages was primarily due to favorable loss emergence in property and workers' compensation coverages in accident years 2005 and subsequent.

2011

Favorable development for medical professional liability was primarily due to favorable case incurred emergence in accident years 2008 and prior.

Favorable development for other professional liability was driven by better than expected loss emergence in life agents coverages.

Favorable development in warranty was driven by favorable policy year experience on an aggregate stop loss policy covering the Company's non-insurance warranty subsidiary.

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CNA Commercial

The following table provides further detail of development recorded for the CNA Commercial segment for the three and six months ended June 30, 2012 and 2011.

Periods ended June 30	Three Months		Six Months	
(In millions)	2012	2011	2012	2011
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Commercial Auto	$2	$(44)	$2	$(34)
General Liability	(13)	—	(5)	22
Workers' Compensation	8	28	(11)	36
Property and Other	(10)	(34)	(13)	(81)
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(13)	$(50)	$(27)	$(57)

Three Month Comparison

2012

Favorable development for general liability coverages was primarily related to favorable loss emergence in accident years 2005 and prior.

Favorable development for property and marine coverages was due to a favorable outcome on an individual claim in accident year 2005 and favorable loss emergence in non-catastrophe losses in accident year 2010.

2011

Favorable development for commercial auto coverages was due to lower than expected severity on bodily injury claims in accident years 2006 and prior.

Unfavorable development for workers' compensation primarily reflected higher than expected severity on risk management claims, in accident years 2006 and prior.

Favorable development for property coverages was due to favorable loss emergence related to catastrophe claims in accident year 2008 and non-catastrophe claims in accident years 2009 and prior.

Six Month Comparison

2012

Overall, favorable development for workers' compensation reflects favorable experience in accident years 2001 and prior. Unfavorable development was recorded in accident year 2010 related to increased medical severity and in accident year 2011 related to favorable premium development.

Favorable development for property and marine coverages was due to a favorable outcome on an individual claim in accident year 2005 and favorable loss emergence in non-catastrophe losses in accident year 2010.

2011

Favorable development for commercial auto coverages was due to lower than expected severity on bodily injury claims in accident years 2006 and prior.

The unfavorable development in the general liability coverages was primarily due to two large claim outcomes on umbrella claims in accident year 2001.

Unfavorable development for workers' compensation primarily reflected higher than expected severity on risk management claims, in accident years 2006 and prior.

Favorable development for property coverages was due to lower than expected frequency in commercial multi-peril coverages primarily in accident year 2010, a favorable settlement on an individual claim in accident year 2003 in the equipment breakdown book, favorable loss emergence related to catastrophe claims in accident year 2008 and favorable loss emergence related to non-catastrophe claims in accident years 2009 and prior.

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Note G. Legal Proceedings and Contingent Liabilities

The Company is a party to routine litigation incidental to its business, which, based on the facts and circumstances currently known, is not material to the Condensed Consolidated Financial Statements.

Note H. Benefit Plans

The components of net periodic cost (benefit) are presented in the following table.

Net Periodic Cost (Benefit)

Periods ended June 30	Three Months		Six Months	
(In millions)	2012	2011	2012	2011
Pension cost (benefit)				
Service cost	$3	$3	$6	$7
Interest cost on projected benefit obligation	33	36	67	73
Expected return on plan assets	(42)	(43)	(85)	(86)
Amortization of net actuarial (gain) loss	9	6	19	12
Net periodic pension cost (benefit)	$3	$2	$7	$6
Postretirement cost (benefit)				
Interest cost on projected benefit obligation	$1	$1	$1	$2
Amortization of prior service credit	(5)	(4)	(9)	(9)
Amortization of net actuarial (gain) loss	—	(1)	—	—
Net periodic postretirement cost (benefit)	$(4)	$(4)	$(8)	$(7)

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Note I. Commitments, Contingencies, and Guarantees

Commitments and Contingencies

The Company holds an investment in a real estate joint venture. In the normal course of business, the Company, on a joint and several basis with other unrelated insurance company shareholders, has committed to continue funding the operating deficits of this joint venture. Additionally, the Company and the other unrelated shareholders, on a joint and several basis, have guaranteed an operating lease for an office building, which expires in 2016. The guarantee of the operating lease is a parallel guarantee to the commitment to fund operating deficits; consequently, the separate guarantee to the lessor is not expected to be triggered as long as the joint venture continues to be funded by its shareholders which provide liquidity to make its annual lease payments.

In the event that the other parties to the joint venture are unable to meet their commitments in funding the operations of this joint venture, the Company would be required to assume the obligation for the entire office building operating lease. The Company does not believe it is likely that it will be required to do so. However, the maximum potential future lease payments and other related costs at June 30, 2012 that the Company could be required to pay under this guarantee, in excess of amounts already recorded, were approximately $125 million. If the Company were required to assume the entire lease obligation, the Company would have the right to pursue reimbursement from the other shareholders and the right to all sublease revenues.

The Company has entered into a limited number of contracts with minimum payments, primarily related to outsourced services and software. Estimated future minimum payments under these contracts, which amounted to approximately $15 million at June 30, 2012, were $7 million in 2012, $2 million in 2013, and $6 million thereafter.

Guarantees

In the course of selling business entities and assets to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging from nine months following the applicable closing date to the expiration of the relevant statutes of limitation. As of June 30, 2012, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was $758 million.

In addition, the Company has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of June 30, 2012, the Company had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser's ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire, or until the agreed-upon contract terms expire.

As of June 30, 2012 and December 31, 2011, the Company had recorded liabilities of approximately $14 million and $15 million related to indemnification agreements and management believes that it is not likely that any future indemnity claims will be significantly greater than the amounts recorded.

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Note J. Business Segments

The Company's core property and casualty commercial insurance operations are reported in two business segments: CNA Specialty and CNA Commercial. The Company's non-core operations are managed in two segments: Life & Group Non-Core and Corporate & Other Non-Core.

The accounting policies of the segments are the same as those described in Note A of the Consolidated Financial Statements within CNAF's Annual Report on Form 10-K for the year ended December 31, 2011, other than the accounting for deferred acquisition costs, as further discussed in Note A herein. The Company manages most of its assets on a legal entity basis, while segment operations are conducted across legal entities. As such, only insurance and reinsurance receivables, insurance reserves and deferred acquisition costs are readily identifiable by individual segment. Distinct investment portfolios are not maintained for each individual segment; accordingly, allocation of assets to each segment is not performed. Therefore, net investment income and realized investment gains or losses are allocated primarily based on each segment's net carried insurance reserves, as adjusted. All significant intersegment income and expense has been eliminated. Income taxes have been allocated on the basis of the taxable income of the segments.

In the following tables, certain financial measures are presented to provide information used by management to monitor the Company's operating performance. Management utilizes these financial measures to monitor the Company's insurance operations and investment portfolio. Net operating income, which is derived from certain income statement amounts, is used by management to monitor performance of the Company's insurance operations. The Company's investment portfolio is monitored by management through analysis of various factors including unrealized gains and losses on securities, portfolio duration and exposure to market and credit risk. Based on such analyses, the Company may recognize an OTTI loss on an investment security in accordance with its policy, or sell a security, which may produce realized gains and losses.

Net operating income (loss) is calculated by excluding from net income (loss) attributable to CNA the after-tax effects of 1) net realized investment gains or losses, 2) income or loss from discontinued operations and 3) any cumulative effects of changes in accounting guidance. The calculation of net operating income excludes net realized investment gains or losses because net realized investment gains or losses are largely discretionary, except for some losses related to OTTI, and are generally driven by economic factors that are not necessarily consistent with key drivers of underwriting performance, and are therefore not considered an indication of trends in insurance operations.

The significant components of the Company's continuing operations and selected balance sheet items are presented in the following tables.

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Three months ended June 30, 2012 (In millions)	CNA Specialty	CNA Commercial	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Operating revenues						
Net earned premiums	$ 719	$ 809	$ 139	$ 2	$ (1)	$ 1,668
Net investment income	112	151	201	6	—	470
Other revenues	57	11	16	2	—	86
Total operating revenues	888	971	356	10	(1)	2,224
Claims, Benefits and Expenses						
Net incurred claims and benefits	448	591	323	(20)	—	1,342
Policyholders’ dividends	1	3	2	—	—	6
Amortization of deferred acquisition costs	154	147	8	—	—	309
Other insurance related expenses	77	135	36	1	(1)	248
Other expenses	50	10	4	47	—	111
Total claims, benefits and expenses	730	886	373	28	(1)	2,016
Op						