

LOEWS CORP
Form 10-Q
August 04, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014

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
(State or other jurisdiction of
incorporation or organization)

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

(Address of principal executive offices) (Zip Code)

(212) 521-2000

13-2646102
(I.R.S. Employer
Identification No.)

(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 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 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 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

Class	Outstanding at July 28, 2014
Common stock, \$0.01 par value	381,108,162 shares

Table of Contents

INDEX

	<u>Page No.</u>
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Consolidated Condensed Balance Sheets June 30, 2014 and December 31, 2013</u>	3
<u>Consolidated Condensed Statements of Income Three and six months ended June 30, 2014 and 2013</u>	4
<u>Consolidated Condensed Statements of Comprehensive Income Three and six months ended June 30, 2014 and 2013</u>	5
<u>Consolidated Condensed Statements of Equity Six months ended June 30, 2014 and 2013</u>	6
<u>Consolidated Condensed Statements of Cash Flows Six months ended June 30, 2014 and 2013</u>	7
<u>Notes to Consolidated Condensed Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	42
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	69
<u>Item 4. Controls and Procedures</u>	69
<u>Part II. Other Information</u>	70
<u>Item 1. Legal Proceedings</u>	70
<u>Item 1A. Risk Factors</u>	70
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	70
<u>Item 6. Exhibits</u>	71

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED BALANCE SHEETS****(Unaudited)**

	June 30, 2014	December 31, 2013
(Dollar amounts in millions, except per share data)		
Assets:		
Investments:		
Fixed maturities, amortized cost of \$37,346 and \$39,426	\$ 40,585	\$ 41,320
Equity securities, cost of \$825 and \$881	864	871
Limited partnership investments	3,561	3,420
Other invested assets	665	562
Short term investments	7,276	6,772
Total investments	52,951	52,945
Cash	277	294
Receivables	8,441	9,338
Property, plant and equipment	14,133	13,524
Goodwill	355	357
Assets of discontinued operations	4,406	1,041
Other assets	1,681	1,635
Deferred acquisition costs of insurance subsidiaries	650	624
Separate account business		181
Total assets	\$ 82,894	\$ 79,939
Liabilities and Equity:		
Insurance reserves:		
Claim and claim adjustment expense	\$ 23,996	\$ 24,089
Future policy benefits	8,696	10,471
Unearned premiums	3,851	3,718
Policyholders funds	27	116
Total insurance reserves	36,570	38,394

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Payable to brokers	815	134
Short term debt	974	819
Long term debt	9,828	9,525
Deferred income taxes	996	716
Liabilities of discontinued operations	3,946	632
Other liabilities	4,410	4,632
Separate account business		181
Total liabilities	57,539	55,033
Commitments and contingent liabilities		
Preferred stock, \$0.10 par value:		
Authorized 100,000,000 shares		
Common stock, \$0.01 par value:		
Authorized 1,800,000,000 shares		
Issued 387,476,248 and 387,210,096 shares	4	4
Additional paid-in capital	3,608	3,607
Retained earnings	15,633	15,508
Accumulated other comprehensive income	807	339
	20,052	19,458
Less treasury stock, at cost (4,471,870 shares)	(195)	
Total shareholders equity	19,857	19,458
Noncontrolling interests	5,498	5,448
Total equity	25,355	24,906
Total liabilities and equity	\$ 82,894	\$ 79,939

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents**Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED STATEMENTS OF INCOME****(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
(In millions, except per share data)				
Revenues:				
Insurance premiums	\$ 1,811	\$ 1,800	\$ 3,617	\$ 3,564
Net investment income	597	535	1,174	1,134
Investment gains (losses):				
Other-than-temporary impairment losses	(5)	(16)	(7)	(34)
Portion of other-than-temporary impairment losses recognized in Other comprehensive income (loss)				
Net impairment losses recognized in earnings	(5)	(16)	(7)	(34)
Other net investment gains (losses)	(9)	2	35	39
Total investment gains (losses)	(14)	(14)	28	5
Contract drilling revenues	650	745	1,335	1,445
Other	549	550	1,127	1,086
Total	3,593	3,616	7,281	7,234
Expenses:				
Insurance claims and policyholders' benefits	1,441	1,485	2,887	2,881
Amortization of deferred acquisition costs	335	335	664	663
Contract drilling expenses	395	369	765	744
Other operating expenses	750	753	1,657	1,532
Interest	126	108	248	211
Total	3,047	3,050	6,221	6,031
Income before income tax	546	566	1,060	1,203
Income tax expense	(145)	(163)	(248)	(323)
Income from continuing operations	401	403	812	880
Discontinued operations, net	(186)	9	(413)	(70)
Net income	215	412	399	810
Amounts attributable to noncontrolling interests	(99)	(143)	(224)	(299)

Net income attributable to Loews Corporation	\$ 116	\$ 269	\$ 175	\$ 511
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Net income attributable to Loews Corporation:

Income from continuing operations	\$ 303	\$ 261	\$ 568	\$ 583
Discontinued operations, net	(187)	8	(393)	(72)
Net income	\$ 116	\$ 269	\$ 175	\$ 511

Basic and diluted net income per share:

Income from continuing operations	\$ 0.79	\$ 0.67	\$ 1.47	\$ 1.49
Discontinued operations, net	(0.49)	0.02	(1.02)	(0.18)
Net income	\$ 0.30	\$ 0.69	\$ 0.45	\$ 1.31

Dividends per share	\$ 0.0625	\$ 0.0625	\$ 0.125	\$ 0.125
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Weighted-average shares outstanding:

Shares of common stock	385.72	388.79	386.53	390.08
Dilutive potential shares of common stock	0.65	0.83	0.68	0.80
Total weighted-average shares outstanding assuming dilution	386.37	389.62	387.21	390.88

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents**Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
(In millions)				
Net income	\$ 215	\$ 412	\$ 399	\$ 810
Other comprehensive income (loss), after tax				
Changes in:				
Net unrealized gains (losses) on investments with other-than-temporary impairments	2	(8)	14	6
Net other unrealized gains (losses) on investments	270	(585)	507	(647)
Total unrealized gains (losses) on available-for-sale investments	272	(593)	521	(641)
Discontinued operations	10	11	15	(5)
Unrealized gains (losses) on cash flow hedges		(1)	3	(6)
Pension liability	(53)	5	(54)	9
Foreign currency	42	(13)	36	(74)
Other comprehensive income (loss)	271	(591)	521	(717)
Comprehensive income (loss)	486	(179)	920	93
Amounts attributable to noncontrolling interests	(126)	(83)	(277)	(225)
Total comprehensive income (loss) attributable to Loews Corporation	\$ 360	\$ (262)	\$ 643	\$ (132)

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents**Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED STATEMENTS OF EQUITY****(Unaudited)**

	Loews Corporation Shareholders							Common Stock Held in Treasury	Noncontrolling Interests
	Total	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income				
(In millions)									
Balance, January 1, 2013	\$ 24,676	\$ 4	\$ 3,595	\$ 15,192	\$ 678	\$ (10)	\$ 5,217		
Net income	810			511			299		
Other comprehensive loss	(717)				(643)		(74)		
Dividends paid	(292)			(49)			(243)		
Issuance of equity securities by subsidiary	337		51		2		284		
Purchase of Loews treasury stock	(177)					(177)			
Issuance of Loews common stock	3		3						
Stock-based compensation	7		(6)				13		
Other	(5)						(5)		
Balance, June 30, 2013	\$ 24,642	\$ 4	\$ 3,643	\$ 15,654	\$ 37	\$ (187)	\$ 5,491		
Balance, January 1, 2014	\$ 24,906	\$ 4	\$ 3,607	\$ 15,508	\$ 339	\$ -	\$ 5,448		
Net income	399			175			224		
Other comprehensive income	521				468		53		
Dividends paid	(232)			(48)			(184)		
Purchases of subsidiary stock from noncontrolling	(83)		(8)				(75)		

interests

Purchases of Loews treasury stock														
		(195)					(195)							
Issuance of Loews common stock		5		5										
Stock-based compensation		14		4				10						
Other		20			(2)			22						
Balance, June 30, 2014	\$	25,355	\$	4	\$	3,608	\$	15,633	\$	807	\$	(195)	\$	5,498

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents**Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(Unaudited)**

Six Months Ended June 30	2014	2013
(In millions)		
Operating Activities:		
Net income	\$ 399	\$ 810
Adjustments to reconcile net income to net cash provided (used) by operating activities, net	1,112	613
Changes in operating assets and liabilities, net:		
Receivables	(142)	(180)
Deferred acquisition costs	(10)	(43)
Insurance reserves	234	198
Other assets	(178)	(70)
Other liabilities	(106)	54
Trading securities	(117)	(879)
Net cash flow operating activities	1,192	503
Investing Activities:		
Purchases of fixed maturities	(4,921)	(5,656)
Proceeds from sales of fixed maturities	2,919	3,143
Proceeds from maturities of fixed maturities	1,954	1,820
Purchases of equity securities	(11)	(33)
Proceeds from sales of equity securities	14	60
Purchases of limited partnership investments	(109)	(203)
Proceeds from sales of limited partnership investments	118	169
Purchases of property, plant and equipment	(1,152)	(1,150)
Dispositions	30	24
Change in short term investments	3	616
Other, net	(4)	(83)
Net cash flow investing activities	(1,159)	(1,293)
Financing Activities:		
Dividends paid	(48)	(49)
Dividends paid to noncontrolling interests	(184)	(243)
Purchases of subsidiary stock from noncontrolling interests	(88)	
Purchases of Loews treasury stock	(182)	(180)
Issuance of Loews common stock	5	3
Proceeds from sale of subsidiary stock	4	370
Principal payments on debt	(331)	(742)

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Issuance of debt	766	1,598
Other, net	17	(23)
Net cash flow financing activities	(41)	734
Effect of foreign exchange rate on cash	2	(6)
Transfer of cash to assets of discontinued operations	(11)	(2)
Net change in cash	(17)	(64)
Cash, beginning of period	294	226
Cash, end of period	\$ 277	\$ 162

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

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 51% 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 53% 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 June 30, 2014 and December 31, 2013, the results of operations and comprehensive income for the three and six months ended June 30, 2014 and 2013 and changes in shareholders' equity and cash flows for the six months ended June 30, 2014 and 2013.

Net income for the second quarter and first half 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 2013 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 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 2.2 million, 1.4 million, 2.1 million and 1.7 million shares were not included in the diluted weighted average shares amounts for the three and six months ended June 30, 2014 and 2013 due to the exercise price being greater than the average stock price.

Updated accounting guidance not yet adopted In April of 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. Under the new accounting guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. The update also requires new disclosures for discontinued operations and disposals that do not meet the definition of a discontinued operation. The new accounting guidance is to be applied prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014, and will not have a material impact on the Company's consolidated financial statements.

In May of 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the new accounting guidance is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new accounting guidance provides a five-step analysis of transactions to determine when and how revenue is recognized and requires enhanced disclosures about revenue. This update is effective for annual reporting periods beginning after December 15, 2016, including interim periods, and can be adopted either retrospectively or as a cumulative effect adjustment at the date of adoption. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated financial statements.

Table of Contents**2. Acquisitions and Divestitures**

Continental Assurance Company (CAC) On August 1, 2014, CNA closed the previously announced sale of the majority of its run-off annuity and pension deposit business through the sale of the common stock of CAC. The business sold, which was previously reported within the Life & Group Non-Core segment, is reported as discontinued operations in the Consolidated Condensed Statements of Income for the three and six months ended June 30, 2014 and 2013 and the assets and liabilities are presented as discontinued operations on the Consolidated Condensed Balance Sheet as of June 30, 2014. The Company has elected not to present these assets and liabilities as discontinued operations for the comparative period in the Consolidated Condensed Balance Sheets.

The sales agreement included a 100% coinsurance agreement on a separate small block of annuity business outside of CAC. The assets and liabilities related to the coinsurance agreement do not qualify for discontinued operations presentation, therefore they are not reflected as discontinued operations on the Consolidated Condensed Balance Sheet as of June 30, 2014.

HighMount In May of 2014, the Company announced that HighMount Exploration & Production LLC (HighMount), its natural gas and oil exploration and production subsidiary, is pursuing strategic alternatives, including a potential sale of the business. In furtherance of that pursuit, the Company initiated an auction process and expects to sell HighMount, therefore the assets and liabilities of HighMount have been reclassified as discontinued operations on the Consolidated Condensed Balance Sheets as of June 30, 2014 and December 31, 2013, and are reported at estimated fair value. In the second quarter of 2014, the Company recognized an impairment charge of \$259 million (\$167 million after tax) related to the excess carrying value of HighMount over the estimated fair value, less costs to sell. The Company measured estimated fair value using an estimated sale price arrived at by assessing market response in the auction process in relation to valuation models provided by HighMount's financial advisors, which are Level 3 inputs of the fair value hierarchy. The impairment charge is subject to adjustment in future periods, which could be positive or negative, reflecting the final sale price and transaction costs. The assets and liabilities of HighMount consist primarily of natural gas and oil reserves, related liabilities and long term debt. The results of operations of HighMount have been reclassified as discontinued operations in the Consolidated Condensed Statements of Income for the three and six months ended June 30, 2014 and 2013.

See Note 14 for further discussion of discontinued operations.

Bluegrass Project As discussed in Note 2 of the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, Boardwalk Pipeline executed a series of agreements in 2013 with The Williams Companies, Inc. to develop the Bluegrass Project, a joint venture project that would develop a pipeline to transport natural gas liquids. The open season for capacity on the pipeline ended in the first quarter of 2014, and although discussions with potential customers continued throughout the first quarter, Boardwalk Pipeline was unable to obtain sufficient firm customer commitments to support the project. Further, delays in the development of the project and other factors have resulted in escalations in the estimated costs to complete the project. Considering these factors, the Company determined that it would no longer make capital investments in the Bluegrass Project. In the first quarter of 2014, the Company expensed the previously capitalized project costs that had been incurred, resulting in a charge of \$94 million (\$55 million after tax and noncontrolling interests), inclusive of a \$10 million charge recorded by Boardwalk Pipeline Partners, LP. This charge was recorded within Other operating expenses on the Consolidated Condensed Statements of Income. The Company does not expect to incur significant additional charges related to this joint venture project.

Loews Hotels In 2014, Loews Hotels added three properties to its portfolio. Loews Hotels has a joint venture interest in the Cabana Bay Beach Resort, an 1,800 guestroom hotel at Universal Orlando, Florida, which opened in March of

2014. In July of 2014, Loews Hotels purchased the Loews Chicago O Hare Hotel, a 556 guestroom hotel, and the Loews Minneapolis Hotel, a 255 guestroom hotel, for a total cost of approximately \$190 million funded with a combination of cash and debt. Construction continues on the Loews Chicago Hotel, a 400 guestroom hotel, which Loews Hotels agreed to purchase upon completion of development, expected to occur in late 2014. The Loews Chicago Hotel is planned to open in early 2015.

Table of Contents**3. Investments**

Net investment income is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
(In millions)				
Fixed maturity securities	\$ 451	\$ 454	\$ 903	\$ 911
Short term investments	1	1	2	3
Limited partnership investments	116	84	203	230
Equity securities	3	3	5	6
Income (loss) from trading portfolio (a)	30	1	70	(2)
Other	10	6	18	12
Total investment income	611	549	1,201	1,160
Investment expenses	(14)	(14)	(27)	(26)
Net investment income	\$ 597	\$ 535	\$ 1,174	\$ 1,134

(a) Includes net unrealized gains (losses) related to changes in fair value on trading securities still held of \$40, \$(30), \$60 and \$(43) for the three and six months ended June 30, 2014 and 2013.

Investment gains (losses) are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
(In millions)				
Fixed maturity securities	\$ (19)	\$ (7)	\$ 19	\$ 20
Equity securities		(2)	5	(15)
Derivative instruments	1	(5)	1	(3)
Short term investments and other	4		3	3
Investment gains (losses) (a)	\$ (14)	\$ (14)	\$ 28	\$ 5

- (a) Includes gross realized gains of \$20, \$38, \$78 and \$79 and gross realized losses of \$39, \$47, \$54 and \$74 on available-for-sale securities for the three and six months ended June 30, 2014 and 2013.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
(In millions)				
Fixed maturity securities available-for-sale:				
Corporate and other bonds	\$ 2	\$ 5	\$ 3	\$ 8
Asset-backed:				
Residential mortgage-backed	1	3	2	3
Other asset-backed	1	1	1	1
Total asset-backed	2	4	3	4
Total fixed maturities available-for-sale	4	9	6	12
Equity securities available-for-sale:				
Common stock	1	2	1	2
Preferred stock		5		20
Total equity securities available-for-sale	1	7	1	22
Net OTTI losses recognized in earnings	\$ 5	\$ 16	\$ 7	\$ 34

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

June 30, 2014	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	\$ 17,276	\$ 1,852	\$ 30	\$19,098	
States, municipalities and political subdivisions	11,215	1,178	70	12,323	
Asset-backed:					
Residential mortgage-backed	4,882	202	14	5,070	\$ (51)
Commercial mortgage-backed	1,999	107	7	2,099	(3)
Other asset-backed	1,172	16	3	1,185	

Total asset-backed	8,053	325	24	8,354	(54)
U.S. Treasury and obligations of government-sponsored enterprises	61	6	1	66	
Foreign government	533	18	1	550	
Redeemable preferred stock	39	3		42	
Fixed maturities available-for-sale	37,177	3,382	126	40,433	(54)
Fixed maturities, trading	169		17	152	
Total fixed maturities	37,346	3,382	143	40,585	(54)
Equity securities:					
Common stock	46	14		60	
Preferred stock	129	5		134	
Equity securities available-for-sale	175	19	-	194	-
Equity securities, trading	650	119	99	670	
Total equity securities	825	138	99	864	-
Total	\$ 38,171	\$ 3,520	\$ 242	\$41,449	\$ (54)

Table of Contents

December 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	\$ 19,352	\$ 1,645	\$ 135	\$ 20,862	
States, municipalities and political subdivisions	11,281	548	272	11,557	
Asset-backed:					
Residential mortgage-backed	4,940	123	92	4,971	\$ (37)
Commercial mortgage-backed	1,995	90	22	2,063	(3)
Other asset-backed	945	13	3	955	
Total asset-backed	7,880	226	117	7,989	(40)
U.S. Treasury and obligations of government-sponsored enterprises	139	6	1	144	
Foreign government	531	15	3	543	
Redeemable preferred stock	92	10		102	
Fixed maturities available-for-sale	39,275	2,450	528	41,197	(40)
Fixed maturities, trading	151		28	123	
Total fixed maturities	39,426	2,450	556	41,320	(40)
Equity securities:					
Common stock	36	9		45	
Preferred stock	143	1	4	140	
Equity securities available-for-sale	179	10	4	185	-
Equity securities, trading	702	119	135	686	
Total equity securities	881	129	139	871	-
Total	\$ 40,307	\$ 2,579	\$ 695	\$ 42,191	\$ (40)

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 June 30, 2014 and December 31, 2013, the net unrealized gains on investments included in AOCI were net of Shadow Adjustments of \$841 million and \$478 million. 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 through Other comprehensive income (loss) (Shadow Adjustments).

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

June 30, 2014	Less than 12 Months		12 Months or Longer		Total	
	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	\$ 813	\$ 12	\$ 548	\$ 18	\$ 1,361	\$ 30
States, municipalities and political subdivisions	316	2	587	68	903	70
Asset-backed:						
Residential mortgage-backed	125	1	332	13	457	14
Commercial mortgage-backed	205	2	171	5	376	7
Other asset-backed	269	3	12		281	3
Total asset-backed	599	6	515	18	1,114	24
U.S. Treasury and obligations of government-sponsored enterprises	2	1	4		6	1
Foreign government	39	1	9		48	1
Total fixed maturity securities	1,769	22	1,663	104	3,432	126
Preferred stock	10		2		12	
Total	\$ 1,779	\$ 22	\$ 1,665	\$ 104	\$ 3,444	\$ 126

Table of Contents

December 31, 2013	Less than		12 Months		Total	
	12 Months		or Longer			
	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	\$ 3,592	\$ 129	\$ 72	\$ 6	\$ 3,664	\$ 135
States, municipalities and political subdivisions	3,251	197	129	75	3,380	272
Asset-backed:						
Residential mortgage-backed	1,293	29	343	63	1,636	92
Commercial mortgage-backed	640	22			640	22
Other asset-backed	269	3			269	3
Total asset-backed	2,202	54	343	63	2,545	117
U.S. Treasury and obligations of government-sponsored enterprises	13	1			13	1
Foreign government	111	3			111	3
Total fixed maturity securities	9,169	384	544	144	9,713	528
Preferred stock	87	4			87	4
Total	\$ 9,256	\$ 388	\$ 544	\$ 144	\$ 9,800	\$ 532

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 securities with unrealized losses, 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, 2014.

The following table summarizes the activity for the three and six months ended June 30, 2014 and 2013 related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held at June 30, 2014 and 2013 for which a portion of an OTTI loss was recognized in Other comprehensive income (loss).

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
(In millions)				

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Beginning balance of credit losses on fixed maturity securities	\$ 69	\$ 92	\$ 74	\$ 95
Additional credit losses for securities for which an OTTI loss was previously recognized		1		1
Reductions for securities sold during the period	(3)	(4)	(5)	(7)
Reductions for securities the Company intends to sell or more likely than not will be required to sell			(3)	
Ending balance of credit losses on fixed maturity securities	\$ 66	\$ 89	\$ 66	\$ 89

Table of Contents**Contractual Maturity**

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at June 30, 2014 and December 31, 2013. 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.

	June 30, 2014		December 31, 2013	
	Cost or Amortized Cost	Estimated Fair Value	Cost or Amortized Cost	Estimated Fair Value
(In millions)				
Due in one year or less	\$ 2,832	\$ 2,883	\$ 2,420	\$ 2,455
Due after one year through five years	9,251	9,893	9,496	10,068
Due after five years through ten years	11,206	11,792	11,667	11,954
Due after ten years	13,888	15,865	15,692	16,720
Total	\$ 37,177	\$ 40,433	\$ 39,275	\$ 41,197

Investment Commitments

As of June 30, 2014, the Company had committed approximately \$348 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 June 30, 2014, the Company had commitments to purchase or fund additional amounts of \$244 million and sell \$158 million under the terms of such securities.

4. 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. 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. Prices obtained from third-party pricing services or brokers are not adjusted by the Company.

Table of Contents

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 performs an independent analysis of the inputs and assumptions used to price individual securities and (v) pricing validation, where prices received are compared to prices independently estimated by the Company.

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 and assets and liabilities of discontinued operations measured on a nonrecurring basis at June 30, 2014 are summarized in the tables below:

June 30, 2014	Level 1	Level 2	Level 3	Total
(In millions)				
Fixed maturity securities:				
Corporate and other bonds	\$ 34	\$ 18,870	\$ 194	\$ 19,098
States, municipalities and political subdivisions		12,244	79	12,323
Asset-backed:				
Residential mortgage-backed		4,885	185	5,070
Commercial mortgage-backed		2,040	59	2,099
Other asset-backed		559	626	1,185
Total asset-backed		7,484	870	8,354
U.S. Treasury and obligations of government-sponsored enterprises	62	4		66
Foreign government	60	490		550
Redeemable preferred stock	30	12		42
Fixed maturities available-for-sale	186	39,104	1,143	40,433
Fixed maturities, trading		61	91	152
Total fixed maturities	\$ 186	\$ 39,165	\$ 1,234	\$ 40,585
Equity securities available-for-sale	\$ 137	\$ 55	\$ 2	\$ 194
Equity securities, trading	666		4	670
Total equity securities	\$ 803	\$ 55	\$ 6	\$ 864
Short term investments	\$ 6,575	\$ 606		\$ 7,181

Other invested assets	102	45	147
Receivables		7	7
Life settlement contracts		\$ 86	86
Payable to brokers	(579)	(1)	(580)
Assets of discontinued operations		3,593	4,406
Liabilities of discontinued operations		(3,343)	(3,946)

Table of Contents

December 31, 2013	Level 1	Level 2	Level 3	Total
(In millions)				
Fixed maturity securities:				
Corporate and other bonds	\$ 33	\$ 20,625	\$ 204	\$ 20,862
States, municipalities and political subdivisions		11,486	71	11,557
Asset-backed:				
Residential mortgage-backed		4,640	331	4,971
Commercial mortgage-backed		1,912	151	2,063
Other asset-backed		509	446	955
Total asset-backed		7,061	928	7,989
U.S. Treasury and obligations of government-sponsored enterprises	116	28		144
Foreign government	81	462		543
Redeemable preferred stock	45	57		102
Fixed maturities available-for-sale	275	39,719	1,203	41,197
Fixed maturities, trading		43	80	123
Total fixed maturities	\$ 275	\$ 39,762	\$ 1,283	\$ 41,320
Equity securities available-for-sale	\$ 126	\$ 48	\$ 11	\$ 185
Equity securities, trading	678		8	686
Total equity securities	\$ 804	\$ 48	\$ 19	\$ 871
Short term investments	\$ 6,134	\$ 563		\$ 6,697
Other invested assets		54		54
Receivables		3		3
Life settlement contracts			\$ 88	88
Separate account business	9	171	1	181
Payable to brokers	(40)	(1)	(3)	(44)
Assets of discontinued operations	28	2	2	32
Liabilities of discontinued operations		(6)	(2)	(8)

Table of Contents

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 and six months ended June 30, 2014 and 2013:

2014	Balance, April	Net Realized Gains (Losses) and Net Chang in Unrealized Gains (Losses) Included in					Transfers into Level 3		Transfers out of Level 3		Balance, June 30	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at June 30
		Net Income	OCI	Purchases	Sales	Settlements	Level 3	Level 3	June 30	June 30		
(In millions)												
Fixed maturity securities:												
Corporate and other bonds	\$ 189	\$ 1		\$ 21	\$ (6)	\$ (5)	\$ 5	\$ (11)		\$ 194		
States, municipalities and political subdivisions	86	1	\$ 1	1	(10)					79		
Asset-backed:												
Residential mortgage-backed	359	(24)	47	22	(174)	(19)		(26)		185		
Commercial mortgage-backed	126	1	1		(60)	(1)	12	(20)		59		
Other asset-backed	439		4	229	(28)	(18)				626	\$ (1)	
Total asset-backed	924	(23)	52	251	(262)	(38)	12	(46)		870	(1)	
Fixed maturities available-for-sale	1,199	(21)	53	273	(278)	(43)	17	(57)		1,143	(1)	
Fixed maturities, trading	85	6								91	6	
	\$ 1,284	\$ (15)	\$ 53	\$ 273	\$ (278)	\$ (43)	\$ 17	\$ (57)		\$ 1,234	\$ 5	

Total fixed maturities

Equity securities available-for-sale	\$	2										\$	2					
Equity securities trading		2	\$	1		\$	1						4	\$	1			
Total equity securities	\$	4	\$	1	\$	-	\$	1	\$	-	\$	-	\$	-	\$	6	\$	1

Life settlement contracts	\$	87	\$	12									\$	86	\$	1
Derivative financial instruments, net		(4)		1				\$	1				\$	2		-

Table of Contents

	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses)						Transfers		Unrealized Gains (Losses) Recognized in	
	Balance	Included in	Included in	Purchases	Sales	Settlements	into Level	out of Level	Balance, Held at	Net Income on Level 3 Assets and Liabilities
2013	April	Net Income	OCI				3	3	June 30	June 30
(In millions)										
Fixed maturity securities:										
Corporate and other bonds										
	\$ 283	\$ 1	\$ (3)	\$ 13	\$ (54)	\$ (6)		\$ (32)	\$ 202	\$ (1)
States, municipalities and political subdivisions										
	129		4	37	(32)	(3)	\$ 5		140	
Asset-backed:										
Residential mortgage-backed										
	450	(1)	(1)	50	(10)	(21)	4	(43)	428	(2)
Commercial mortgage-backed										
	177		4	5		(2)	21	(40)		