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CNA FINANCIAL CORP

Form 10-Q

April 29, 2019

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2019-03-31 0000021175 2020-01-01 2019-03-31 0000021175 2019-04-01 2019-03-31 iso4217:USD xbrli:shares  
iso4217:USD xbrli:shares xbrli:pure cna:segments

**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 March 31, 2019  
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** **36-6169860**  
(State or other jurisdiction of (I.R.S. Employer incorporation or organization) Identification No.)

**151 N. Franklin** **60606**  
**Chicago, Illinois**  
(Address of principal executive offices) (Zip Code)

**(312) 822-5000**  
(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 every Interactive Data File required to be submitted 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 such files).

Yes  No

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

Large Accelerated filer Non-accelerated Smaller reporting Emerging growth  
accelerated   company  company

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filer  filer  (Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Class	Outstanding at April 25, 2019
Common Stock, Par value \$2.50	271,539,570

Item Number		Page Number
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Table of Contents**PART I****Item 1. Condensed Consolidated Financial Statements****CNA Financial Corporation****Condensed Consolidated Statements of Operations (Unaudited)****Three months ended March 31**

(In millions, except per share data)

	<b>2019</b>	<b>2018</b>
<b>Revenues</b>		
Net earned premiums	\$ 1,803	\$ 1,785
Net investment income	571	490
Net investment gains:		
Other-than-temporary impairment losses	(14 )	(6 )
Other net investment gains	45	18
Net investment gains	31	12
Non-insurance warranty revenue	281	238
Other revenues	9	10
Total revenues	2,695	2,535
<b>Claims, Benefits and Expenses</b>		
Insurance claims and policyholders' benefits	1,357	1,339
Amortization of deferred acquisition costs	342	296
Non-insurance warranty expense	260	216
Other operating expenses	283	303
Interest	34	35
Total claims, benefits and expenses	2,276	2,189
Income before income tax	419	346
Income tax expense	(77 )	(55 )
<b>Net income</b>	<b>\$ 342</b>	<b>\$ 291</b>
<b>Basic earnings per share</b>	<b>\$ 1.26</b>	<b>\$ 1.07</b>
<b>Diluted earnings per share</b>	<b>\$ 1.25</b>	<b>\$ 1.07</b>
<b>Dividends declared per share</b>	<b>\$ 2.35</b>	<b>\$ 2.30</b>
<b>Weighted Average Outstanding Common Stock and Common Stock Equivalents</b>		
Basic	271.6	271.4
Diluted	272.6	272.4

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

Table of Contents**CNA Financial Corporation****Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)**

Three months ended March 31

(In millions) 2019 2018**Comprehensive Income (Loss)**Net income \$ 342 \$ 291**Other Comprehensive Income (Loss), Net of Tax**

Changes in:

Net unrealized gains on investments with other-than-temporary impairments 4 (9 )Net unrealized gains on other investments 526 (429 )Net unrealized gains on investments 530 (438 )Foreign currency translation adjustment 17 12Pension and postretirement benefits 7 10Other comprehensive income (loss), net of tax 554 (416 )**Total comprehensive income (loss)** **\$ 896 \$(125 )**

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

Table of Contents**CNA Financial Corporation  
Condensed Consolidated Balance Sheets**

(In millions, except share data)	<b>March 31, 2019 (Unaudited)</b>	<b>December 31, 2018</b>
<b>Assets</b>		
Investments:		
Fixed maturity securities at fair value (amortized cost of \$37,940 and \$38,085)	\$ 40,553	\$ 39,546
Equity securities at fair value (cost of \$812 and \$844)	814	780
Limited partnership investments	1,876	1,982
Other invested assets	59	53
Mortgage loans	863	839
Short term investments	1,474	1,286
Total investments	45,639	44,486
Cash	223	310
Reinsurance receivables (less allowance for uncollectible receivables of \$29 and \$29)	4,277	4,426
Insurance receivables (less allowance for uncollectible receivables of \$41 and \$42)	2,435	2,323
Accrued investment income	406	391
Deferred acquisition costs	664	633
Deferred income taxes	217	392
Property and equipment at cost (less accumulated depreciation of \$214 and \$216)	314	324
Goodwill	147	146
Deferred non-insurance warranty acquisition expense	2,576	2,513
Other assets (includes \$- and \$8 due from Loews Corporation)	1,579	1,208
<b>Total assets</b>	<b>\$ 58,477</b>	<b>\$ 57,152</b>
<b>Liabilities</b>		
Insurance reserves:		
Claim and claim adjustment expenses	\$ 21,836	\$ 21,984
Unearned premiums	4,422	4,183
Future policy benefits	11,078	10,597
Long term debt	2,681	2,680
Deferred non-insurance warranty revenue	3,472	3,402
Other liabilities (includes \$31 and \$23 due to Loews Corporation)	3,533	3,089
<b>Total liabilities</b>	<b>47,022</b>	<b>45,935</b>
Commitments and contingencies (Notes C and F)		
<b>Stockholders' Equity</b>		
Common stock (\$2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; 271,527,510 and 271,456,978 shares outstanding)	683	683
Additional paid-in capital	2,184	2,192
Retained earnings	8,976	9,277
Accumulated other comprehensive income (loss)	(324 )	(878 )
Treasury stock (1,512,733 and 1,583,265 shares), at cost	(64 )	(57 )
<b>Total stockholders' equity</b>	<b>11,455</b>	<b>11,217</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 58,477</b>	<b>\$ 57,152</b>

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

Table of Contents**CNA Financial Corporation  
Condensed Consolidated Statements of Cash Flows (Unaudited)**

Three months ended March 31

(In millions)	2019	2018
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 342	\$ 291
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Deferred income tax expense	32	29
Trading portfolio activity	(3 )	(1 )
Net investment (gains)	(31 )	(12 )
Equity method investees	14	(2 )
Net amortization of investments	(25 )	(15 )
Depreciation and amortization	19	20
Changes in:		
Receivables, net	44	(215 )
Accrued investment income	(15 )	(3 )
Deferred acquisition costs	(30 )	(29 )
Insurance reserves	57	311
Other, net	(117 )	(156 )
<b>Net cash flows provided by operating activities</b>	<b>287</b>	<b>218</b>
<b>Cash Flows from Investing Activities</b>		
Dispositions:		
Fixed maturity securities - sales	2,259	2,576
Fixed maturity securities - maturities, calls and redemptions	576	531
Equity securities	64	7
Limited partnerships	186	69
Mortgage loans	35	11
Purchases:		
Fixed maturity securities	(2,447)	(2,690)
Equity securities	(36 )	(98 )
Limited partnerships	(114 )	(62 )
Mortgage loans	(59 )	(36 )
Change in other investments	(6 )	(4 )
Change in short term investments	(177 )	208
Purchases of property and equipment	(8 )	(38 )
Other, net	16	15
<b>Net cash flows provided by investing activities</b>	<b>289</b>	<b>489</b>
<b>Cash Flows from Financing Activities</b>		
Dividends paid to common stockholders	(643 )	(624 )
Repayment of debt	—	(150 )
Purchase of treasury stock	(14 )	—
Other, net	(8 )	(7 )
<b>Net cash flows used by financing activities</b>	<b>(665 )</b>	<b>(781 )</b>
Effect of foreign exchange rate changes on cash	2	1
Net change in cash	(87 )	(73 )
<b>Cash, beginning of year</b>	<b>310</b>	<b>355</b>
<b>Cash, end of period</b>	<b>\$ 223</b>	<b>\$ 282</b>

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



Table of Contents**CNA Financial Corporation**  
**Condensed Consolidated Statements of Stockholders' Equity (Unaudited)**

Three months ended March 31

(In millions)	2019	2018
<b>Common Stock</b>		
Balance, beginning of period	\$ 683	\$ 683
Balance, end of period	683	683
<b>Additional Paid-in Capital</b>		
Balance, beginning of period	2,192	2,175
Stock-based compensation	(8 )	(2 )
Balance, end of period	2,184	2,173
<b>Retained Earnings</b>		
Balance, beginning of period	9,277	9,364
Dividends to common stockholders (\$2.35 and \$2.30 per share)	(643 )	(627 )
Net income	342	291
Balance, end of period	8,976	9,028
<b>Accumulated Other Comprehensive Income (Loss)</b>		
Balance, beginning of period	(878 )	16
Other comprehensive income (loss)	554	(416 )
Balance, end of period	(324 )	(400 )
<b>Treasury Stock</b>		
Balance, beginning of period	(57 )	(60 )
Stock-based compensation	7	1
Purchase of treasury stock	(14 )	—
Balance, end of period	(64 )	(59 )
<b>Total stockholders' equity</b>	<b>\$ 11,455</b>	<b>\$ 11,425</b>

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

Table of Contents**CNA Financial Corporation****Notes to Condensed Consolidated Financial Statements (Unaudited)****Note A. General*****Basis of Presentation***

The Condensed Consolidated Financial Statements include the accounts of CNA Financial Corporation (CNAF) and its subsidiaries. Collectively, CNAF and its subsidiaries are referred to as CNA or the Company. Loews Corporation (Loews) owned approximately 89% of the outstanding common stock of CNAF as of March 31, 2019.

The accompanying Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Intercompany amounts have been eliminated. Certain financial information that is normally included in annual financial statements prepared in accordance with GAAP, including certain financial statement notes, 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 for the year ended December 31, 2018, 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 period. Actual results may differ from those estimates.

The interim financial data as of March 31, 2019 and for the three months ended March 31, 2019 and 2018 is unaudited. However, in the opinion of management, the interim data includes all adjustments, including normal recurring adjustments, 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.

***Recently Adopted Accounting Standards Updates (ASU)***

**ASU 2016-02:** In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases (Topic 842): Accounting for Leases*. The updated accounting guidance requires lessees to recognize on the balance sheet assets and liabilities for the rights and obligations created by the majority of leases, including those historically accounted for as operating leases. On January 1, 2019, the Company adopted the updated guidance using a modified retrospective method. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance. The Company utilized the package of practical expedients allowing the Company to not reassess whether a contract is or contains a lease, lease classification and initial direct costs. The Company also utilized the practical expedient to not separate lease and non-lease components for all leases. Adoption of the updated guidance resulted in the following changes to the Condensed Consolidated Balance Sheet on January 1, 2019:

(In millions)	<b>Balance as of December 31, 2018</b>	<b>Adjustments Due to Adoption of Topic 842</b>	<b>Balance as of January 1, 2019</b>
Property and equipment at cost (less accumulated depreciation)	\$ 324	\$ 2	\$ 326
Other assets	1,208	237	1,445
Other liabilities	3,089	239	3,328

Operating lease right-of-use (ROU) assets, included within Other assets, were reduced by accrued rent and lease incentives of \$75 million previously classified as Other liabilities. The updated guidance did not impact the Condensed Consolidated Statements of Operations. See Note K to the Condensed Consolidated Financial Statements for additional information regarding leases.

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***Accounting Standards Pending Adoption***

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The updated accounting guidance requires changes to the recognition of credit losses on financial instruments not accounted for at fair value through net income. The guidance is effective for interim and annual periods beginning after December 15, 2019. The guidance will be applied using a modified retrospective approach with the cumulative effect recognized as an adjustment to retained earnings. A prospective transition approach is required for debt securities that have recognized an other-than-temporary impairment prior to the effective date. The Company is currently evaluating the effect the guidance will have on the Company's financial statements, but expects the primary changes to be the use of the expected credit loss model for its mortgage loan portfolio, reinsurance and insurance receivables and other financing receivables and the use of the allowance method rather than the write-down method for credit losses within the available-for-sale fixed maturities portfolio. The expected credit loss model will require a financial asset to be presented at the net amount expected to be collected. The allowance method for available-for-sale debt securities will allow the Company to record reversals of credit losses if the estimate of credit losses declines.

In August 2018, the FASB issued ASU 2018-12, *Financial Services-Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. The updated accounting guidance requires changes to the measurement and disclosure of long-duration contracts. The guidance requires entities to annually update cash flow assumptions, including morbidity and persistency, and update discount rate assumptions quarterly using an upper-medium grade fixed-income instrument yield. The effect of changes in cash flow assumptions will be recorded in Net income and the effect of changes in discount rate assumptions will be recorded in Other comprehensive income. This guidance is effective for interim and annual periods beginning after December 15, 2020, and requires restatement of the prior periods presented. Early adoption is permitted. The Company is currently evaluating the method and timing of adoption and the effect the updated guidance will have on its financial statements. The annual updating of cash flow assumptions is expected to increase income statement volatility. The quarterly change in discount rate is expected to increase volatility in the Company's stockholders' equity, but that will be somewhat mitigated because Shadow Adjustments are eliminated under the new guidance. While the requirements of the new guidance represent a material change from existing GAAP, the underlying economics of the business and related cash flows are unchanged.



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**Note B. Earnings (Loss) Per Share**

Earnings (loss) per share 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) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

For the three months ended March 31, 2019 and 2018, approximately 971 thousand and 1,009 thousand potential shares attributable to exercises or conversions into common stock under stock-based employee compensation plans were included in the calculation of diluted earnings per share. For the three months ended March 31, 2018 approximately 9 thousand potential shares attributable to exercises or conversions into common stock under stock-based employee compensation plans were not included in the calculation of diluted earnings per share, because the effect would have been antidilutive. For the three months ended March 31, 2019 there were no antidilutive shares. The Company repurchased 317,508 shares of CNA Financial Corporation common stock at an aggregate cost of \$14 million during the three months ended March 31, 2019. No repurchases were made during 2018.

Table of Contents**Note C. Investments**

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

**Three months ended March 31**

(In millions)	2019	2018
Fixed maturity securities	\$455	\$446
Equity securities	30	10
Limited partnership investments	76	30
Mortgage loans	12	11
Short term investments	10	6
Trading portfolio	2	2
Other	2	—
Gross investment income	587	505
Investment expense	(16 )	(15 )
<b>Net investment income</b>	<b>\$571</b>	<b>\$490</b>

During the three months ended March 31, 2019 and 2018, \$17 million and less than \$1 million of Net investment income was recognized due to the change in fair value of common stock still held as of March 31, 2019 and 2018. Net investment gains (losses) are presented in the following table.

**Three months ended March 31**

(In millions)	2019	2018
Net investment gains (losses):		
Fixed maturity securities:		
Gross gains	\$36	\$69
Gross losses	(42 )	(51 )
Net investment gains (losses) on fixed maturity securities	(6 )	18
Equity securities	42	(15 )
Derivatives	(5 )	5
Short term investments and other	—	4
<b>Net investment gains (losses)</b>	<b>\$31</b>	<b>\$12</b>

During the three months ended March 31, 2019 and 2018, \$42 million of Net investment gains and \$15 million of Net investment losses were recognized due to the change in fair value of non-redeemable preferred stock still held as of March 31, 2019 and 2018.

The components of Other-than-temporary impairment (OTTI) losses recognized in earnings by asset type are presented in the following table.

**Three months ended March 31**

(In millions)	2019	2018
Fixed maturity securities available-for-sale:		
Corporate and other bonds	\$6	\$5
Asset-backed	8	1
<b>OTTI losses recognized in earnings</b>	<b>\$14</b>	<b>\$6</b>

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The following tables present a summary of fixed maturity securities.

<b>March 31, 2019</b>	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>	<b>Unrealized OTTI Losses (Gains)</b>
(In millions)					
Fixed maturity securities available-for-sale:					
Corporate and other bonds	\$ 19,296	\$ 1,269	\$ 99	\$ 20,466	\$ —
States, municipalities and political subdivisions	9,279	1,299	—	10,578	—
Asset-backed:					
Residential mortgage-backed	4,760	92	20	4,832	(22 )
Commercial mortgage-backed	2,026	53	7	2,072	—
Other asset-backed	1,877	25	12	1,890	(3 )
Total asset-backed	8,663	170	39	8,794	(25 )
U.S. Treasury and obligations of government-sponsored enterprises	162	3	1	164	—
Foreign government	502	12	1	513	—
Redeemable preferred stock	10	—	—	10	—
Total fixed maturity securities available-for-sale	37,912	2,753	140	40,525	\$ (25 )
Total fixed maturity securities trading	28	—	—	28	
<b>Total fixed maturity securities</b>	<b>\$ 37,940</b>	<b>\$ 2,753</b>	<b>\$ 140</b>	<b>\$ 40,553</b>	
<b>December 31, 2018</b>					
(In millions)					
Fixed maturity securities available-for-sale:					
Corporate and other bonds	\$ 18,764	\$ 791	\$ 395	\$ 19,160	\$ —
States, municipalities and political subdivisions	9,681	1,076	9	10,748	—
Asset-backed:					
Residential mortgage-backed	4,815	68	57	4,826	(20 )
Commercial mortgage-backed	2,200	28	32	2,196	—
Other asset-backed	1,975	11	24	1,962	—
Total asset-backed	8,990	107	113	8,984	(20 )
U.S. Treasury and obligations of government-sponsored enterprises	156	3	—	159	—
Foreign government	480	5	4	481	—
Redeemable preferred stock	10	—	—	10	—
Total fixed maturity securities available-for-sale	38,081	1,982	521	39,542	\$ (20 )
Total fixed maturity securities trading	4	—	—	4	
<b>Total fixed maturity securities</b>	<b>\$ 38,085</b>	<b>\$ 1,982</b>	<b>\$ 521</b>	<b>\$ 39,546</b>	

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. To the extent that unrealized gains on fixed income securities supporting certain products within the Life & Group segment would result in a premium deficiency if realized, a related increase in Insurance reserves is recorded, net of tax, as a reduction of net unrealized gains through Other comprehensive income (loss) (Shadow Adjustments). As of March 31, 2019 and December 31, 2018, the net unrealized gains on investments included in AOCI were correspondingly reduced by Shadow Adjustments of \$1,458 million and \$1,078 million.

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The following tables present the estimated fair value and gross unrealized losses of fixed maturity securities in a gross unrealized loss position by the length of time in which the securities have continuously been in that position.

	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
<b>March 31, 2019</b>						
(In millions)						
Fixed maturity securities available-for-sale:						
Corporate and other bonds	\$ 1,656	\$ 39	\$ 1,743	\$ 60	\$ 3,399	\$ 99
States, municipalities and political subdivisions	14	—	3	—	17	—
Asset-backed:						
Residential mortgage-backed	94	—	1,494	20	1,588	20
Commercial mortgage-backed	184	2	236	5	420	7
Other asset-backed	450	10	95	2	545	12
Total asset-backed	728	12	1,825	27	2,553	39
U.S. Treasury and obligations of government-sponsored enterprises	48	1	14	—	62	1
Foreign government	32	1	27	—	59	1
<b>Total</b>	<b>\$ 2,478</b>	<b>\$ 53</b>	<b>\$ 3,612</b>	<b>\$ 87</b>	<b>\$ 6,090</b>	<b>\$ 140</b>
<b>December 31, 2018</b>						
(In millions)						
Fixed maturity securities available-for-sale:						
Corporate and other bonds	\$ 8,543	\$ 340	\$ 825	\$ 55	\$ 9,368	\$ 395
States, municipalities and political subdivisions	517	8	5	1	522	9
Asset-backed:						
Residential mortgage-backed	1,932	23	1,119	34	3,051	57
Commercial mortgage-backed	728	10	397	22	1,125	32
Other asset-backed	834	21	125	3	959	24
Total asset-backed	3,494	54	1,641	59	5,135	113
U.S. Treasury and obligations of government-sponsored enterprises	21	—	19	—	40	—
Foreign government	114	2	124	2	238	4
<b>Total</b>	<b>\$ 12,689</b>	<b>\$ 404</b>	<b>\$ 2,614</b>	<b>\$ 117</b>	<b>\$ 15,303</b>	<b>\$ 521</b>

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Based on current facts and circumstances, the Company believes the unrealized losses presented in the March 31, 2019 securities in a gross unrealized loss position table above are not indicative of the ultimate collectibility of the current amortized cost of the securities, but rather are attributable to changes in interest rates, credit spreads and other factors. 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 as of March 31, 2019.

The following table presents the activity related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held as of March 31, 2019 and 2018 for which a portion of an OTTI loss was recognized in Other comprehensive income (loss).

**Three months ended March 31**

(In millions)	2019	2018
Beginning balance of credit losses on fixed maturity securities	\$ 18	\$ 27
Reductions for securities sold during the period	(1 )	( 2 )
<b>Ending balance of credit losses on fixed maturity securities</b>	<b>\$ 17</b>	<b>\$ 25</b>

***Contractual Maturity***

The following table presents available-for-sale fixed maturity securities by contractual maturity.

(In millions)	March 31, 2019		December 31, 2018	
	Cost or Amortized Cost	Estimated Fair Value	Cost or Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 1,144	\$ 1,155	\$ 1,350	\$ 1,359
Due after one year through five years	7,718	7,992	7,979	8,139
Due after five years through ten years	16,874	17,374	16,859	16,870
Due after ten years	12,176	14,004	11,893	13,174
<b>Total</b>	<b>\$ 37,912</b>	<b>\$ 40,525</b>	<b>\$ 38,081</b>	<b>\$ 39,542</b>

Actual maturities may differ from contractual maturities because certain securities may be called or prepaid. Securities not due at a single date are allocated based on weighted average life.

***Derivative Financial Instruments***

The Company holds an embedded derivative on a funds withheld liability with a notional value of \$174 million and \$172 million as of March 31, 2019 and December 31, 2018 and a fair value of \$(2) million and \$4 million as of March 31, 2019 and December 31, 2018. The embedded derivative on the funds withheld liability is accounted for separately and reported with the funds withheld liability in Other liabilities on the Condensed Consolidated Balance Sheets.

***Investment Commitments***

As of March 31, 2019, the Company had committed approximately \$597 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

As of March 31, 2019, the Company had mortgage loan commitments of \$9 million representing signed loan applications received and accepted.

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. Purchases and sales of privately placed debt securities are recorded once funded. As of March 31, 2019, the Company had commitments to purchase or fund additional amounts of \$283 million and sell \$150 million under the terms of such securities.

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**Note D. 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 methodology 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 a methodology 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.

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 may include i) the review of pricing service methodologies or broker pricing qualifications, ii) back-testing, where past fair value estimates are compared to actual transactions executed in the market on similar dates, iii) exception reporting, where period-over-period changes in price are reviewed and challenged with the pricing service or broker based on exception criteria, iv) deep dives, 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.

Table of Contents**Assets and Liabilities Measured at Fair Value**

Assets and liabilities measured at fair value on a recurring basis are presented in the following tables. Corporate bonds and other includes obligations of the U.S. Treasury, government-sponsored enterprises, foreign governments and redeemable preferred stock.

<b>March 31, 2019</b>		<b>Total</b>			
(In millions)	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Assets/Liabilities at Fair Value</b>	
<b>Assets</b>					
Fixed maturity securities:					
Corporate bonds and other	\$ 203	\$ 20,707	\$ 253	\$ 21,163	
States, municipalities and political subdivisions	—	10,596	—	10,596	
Asset-backed	—	8,610	184	8,794	
<b>Total fixed maturity securities</b>	<b>203</b>	<b>39,913</b>	<b>437</b>	<b>40,553</b>	
Equity securities:					
Common stock	136	—	4	140	
Non-redeemable preferred stock	50	608	16	674	
<b>Total equity securities</b>	<b>186</b>	<b>608</b>	<b>20</b>	<b>814</b>	
Short term and other	253	1,126	—	1,379	
<b>Total assets</b>	<b>\$ 642</b>	<b>\$ 41,647</b>	<b>\$ 457</b>	<b>\$ 42,746</b>	
<b>Liabilities</b>					
Other liabilities	\$—	\$ 2	\$—	\$ 2	
<b>Total liabilities</b>	<b>\$—</b>	<b>\$ 2</b>	<b>\$—</b>	<b>\$ 2</b>	
<b>December 31, 2018</b>		<b>Total</b>			
(In millions)	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Assets/Liabilities at Fair Value</b>	
<b>Assets</b>					
Fixed maturity securities:					
Corporate bonds and other	\$ 196	\$ 19,396	\$ 222	\$ 19,814	
States, municipalities and political subdivisions	—	10,748	—	10,748	
Asset-backed	—	8,787	197	8,984	
<b>Total fixed maturity securities</b>	<b>196</b>	<b>38,931</b>	<b>419</b>	<b>39,546</b>	
Equity securities:					
Common stock	144	—	4	148	
Non-redeemable preferred stock	48	570	14	632	
<b>Total equity securities</b>	<b>192</b>	<b>570</b>	<b>18</b>	<b>780</b>	
Short term and other	216	949	—	1,165	
<b>Total assets</b>	<b>\$ 604</b>	<b>\$ 40,450</b>	<b>\$ 437</b>	<b>\$ 41,491</b>	
<b>Liabilities</b>					
Other liabilities	\$—	\$(4 )	\$—	\$(4 )	
<b>Total liabilities</b>	<b>\$—</b>	<b>\$(4 )</b>	<b>\$—</b>	<b>\$(4 )</b>	

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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).

Level 3 (In millions)	Corporate bonds and other	States, municipalities and political subdivisions	Asset-backed	Equity securities	Total
Balance as of January 1, 2019	\$ 222	\$ —	\$ 197	\$ 18	\$ 437
Total realized and unrealized investment gains (losses):					
Reported in Net investment gains (losses)	—	—	—	2	2
Reported in Other comprehensive income (loss)	8	—	3	—	11
Total realized and unrealized investment gains (losses)	8	—	3	2	13
Purchases	56	—	20	—	76
Sales	—	—	—	—	—
Settlements	(2 )	—	(4 )	—	(6 )
Transfers into Level 3	—	—	5	—	5
Transfers out of Level 3	(31 )	—	(37 )	—	(68 )
Balance as of March 31, 2019	\$ 253	\$ —	\$ 184	\$ 20	\$ 457
Unrealized gains (losses) on Level 3 assets and liabilities held as of March 31, 2019 recognized in Net income (loss)	\$ —	\$ —	\$ —	\$ 2	\$ 2
Unrealized gains (losses) on Level 3 assets and liabilities held as of March 31, 2019 recognized in Other comprehensive income (loss)	7	—	3	—	10
Level 3 (In millions)	Corporate bonds and other	States, municipalities and political subdivisions	Asset-backed	Equity securities	Total
Balance as of January 1, 2018	\$ 98	\$ 1	\$ 335	\$ 20	\$ 454
Total realized and unrealized investment gains (losses):					
Reported in Net investment gains (losses)	(1 )	—	7	(2 )	4
Reported in Other comprehensive income (loss)	—	—	(5 )	—	(5 )
Total realized and unrealized investment gains (losses)	(1 )	—	2	(2 )	(1 )
Purchases	—	—	30	—	30
Sales	—	—	(72 )	—	(72 )
Settlements	(2 )	—	(6 )	—	(8 )
Transfers into Level 3	5	—	—	—	5
Transfers out of Level 3	—	—	(10 )	—	(10 )
Balance as of March 31, 2018	\$ 100	\$ 1	\$ 279	\$ 18	\$ 398
Unrealized gains (losses) on Level 3 assets and liabilities held as of March 31, 2018 recognized in Net income (loss)	\$ —	\$ —	\$ —	\$ (2 )	\$ (2 )

Securities may be transferred in or out of levels within the fair value hierarchy based on the availability of observable market information and quoted prices used to determine the fair value of the security. The availability of observable market information and quoted prices varies based on market conditions and trading volume.



Table of Contents***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***

Level 1 securities include highly liquid and exchange traded 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. All classes of Level 2 fixed maturity securities are valued using a methodology based on information generated by market transactions involving identical or comparable assets, a discounted cash flow methodology, or a combination of both when necessary. Common inputs for all classes of fixed maturity securities include prices from recently executed transactions of similar securities, marketplace 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. Fixed maturity securities are primarily 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 private placement debt securities whose fair value 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 valued using pricing for similar securities, recently executed transactions and other pricing models utilizing market observable inputs. Level 3 securities are primarily priced using broker/dealer quotes and internal models with inputs that are not market observable.

***Short Term and Other Invested Assets***

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 Consolidated Balance Sheets because certain short term investments, such as time deposits, are not measured at fair value.

As of March 31, 2019 and December 31, 2018, there were approximately \$54 million and \$48 million of overseas deposits within other invested assets, which can be redeemed at net asset value in 90 days or less. Overseas deposits are excluded from the fair value hierarchy because their fair value is recorded using the net asset value per share (or equivalent) practical expedient.

***Derivative Financial Investments***

Level 2 investments primarily include the embedded derivative on the funds withheld liability. The embedded derivative on funds withheld liability is valued using the change in fair value of the assets supporting the funds withheld liability, which are fixed maturity securities valued with observable inputs.

Table of Contents**Significant Unobservable Inputs**

The following tables present 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 tables 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. The weighted average rate is calculated based on fair value.

March 31, 2019	Estimated Fair Value (In millions)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Fixed maturity securities	\$ 293	Discounted cash flow	Credit spread	1% - 5% (3%)

  

December 31, 2018	Estimated Fair Value (In millions)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Fixed maturity securities	\$ 228	Discounted cash flow	Credit spread	1% - 12% (3%)

For fixed maturity securities, an increase to the credit spread assumptions would result in a lower fair value measurement.

**Financial Assets and Liabilities Not Measured at Fair Value**

The carrying amount and estimated fair value of the Company's financial assets and liabilities which are not measured at fair value on the Condensed Consolidated Balance Sheets are presented in the following tables.

March 31, 2019 (In millions)	Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3 Total
<b>Assets</b>				
Mortgage loans	\$ 863	\$—	\$—	\$ 868 \$ 868
Note receivable	20	—	—	20 20
<b>Liabilities</b>				
Long term debt	\$ 2,681	\$—	\$—	\$ 2,792 \$ 2,792

  

December 31, 2018 (In millions)	Carrying Amount	Estimated Fair Value		
		Level 1	Level 2	Level 3 Total
<b>Assets</b>				
Mortgage loans	\$ 839	\$—	\$—	\$ 827 \$ 827
Note receivable	35	—	—	35 35
<b>Liabilities</b>				
Long term debt	\$ 2,680	\$—	\$—	\$ 2,731 \$ 2,731

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

The fair value of the note receivable was based on the present value of the expected future cash flows discounted at the current interest rate for origination of similar notes, adjusted for specific credit risk. The note receivable is included within Other assets on the Condensed Consolidated Balance Sheets.

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 E. Claim and Claim Adjustment Expense Reserves**

Property and casualty insurance claim and claim adjustment expense reserves represent the estimated amounts necessary to resolve all outstanding claims, including incurred but not reported (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 historical patterns such as claim reserving trends and settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions and 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 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 our results of operations and/or equity. The Company reported catastrophe losses, net of reinsurance, of \$58 million and \$34 million for the three months ended March 31, 2019 and 2018. Net catastrophe losses in the first quarter of 2019 and 2018 related primarily to U.S. weather related events.

Table of Contents***Liability for Unpaid Claim and Claim Adjustment Expenses***

The following table presents a reconciliation between beginning and ending claim and claim adjustment expense reserves, including claim and claim adjustment expense reserves of the Life & Group segment.

**For the three months ended March 31**

(In millions)	2019	2018
Reserves, beginning of year:		
Gross	\$21,984	\$22,004
Ceded	4,019	3,934
Net reserves, beginning of year	17,965	18,070
Net incurred claim and claim adjustment expenses:		
Provision for insured events of current year	1,309	1,246
Increase (decrease) in provision for insured events of prior years	8	(34 )
Amortization of discount	50	47
Total net incurred <sup>(1)</sup>	1,367	1,259
Net payments attributable to:		
Current year events	(100 )	(91 )
Prior year events	(1,309 )	(