LOEWS CORP
Form 10-Q
October 30, 2017
Table of Contents

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 September 30, 2017

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

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

(Address of principal executive offices) (Zip Code)

(212) 521-2000

(Registrant s telephone number, including area code)

NOT APPLICABLE

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

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

Yes ___X___ No ________

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

Yes ___X___ No ________ Not Applicable ________

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 _X_ Accelerated filer ____ Non-accelerated filer ____ Smaller reporting company ____

Emerging growth 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 ___X___

Class	Outstanding at October 20, 2017
Common stock, $0.01 par value	336,631,152 shares

Table of Contents

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(Dollar amounts in millions, except per share data)	September 30, 2017	December 31, 2016
Assets:		
Investments:		
Fixed maturities, amortized cost of $39,230 and $38,947	**$ 42,507**	$ 41,494
Equity securities, cost of $592 and $571	**610**	549
Limited partnership investments	**3,201**	3,220
Other invested assets, primarily mortgage loans	**825**	683
Short term investments	**4,991**	4,765
Total investments	**52,134**	50,711
Cash	**416**	327
Receivables	**7,792**	7,644
Property, plant and equipment	**15,475**	15,230
Goodwill	**648**	346
Other assets	**2,419**	1,736
Deferred acquisition costs of insurance subsidiaries	**643**	600
Total assets	**$ 79,527**	$ 76,594
Liabilities and Equity:		
Insurance reserves:		
Claim and claim adjustment expense	**$ 22,209**	$ 22,343
Future policy benefits	**11,040**	10,326
Unearned premiums	**4,060**	3,762
Total insurance reserves	**37,309**	36,431
Payable to brokers	**324**	150
Short term debt	**194**	110
Long term debt	**11,239**	10,668
Deferred income taxes	**905**	636
Other liabilities	**5,195**	5,238
Total liabilities	**55,166**	53,233
Commitments and contingent liabilities		
Preferred stock, $0.10 par value:		

Authorized 100,000,000 shares		
Common stock, $0.01 par value:		
Authorized 1,800,000,000 shares		
Issued 336,753,017 and 336,621,358 shares	**3**	3
Additional paid-in capital	**3,181**	3,187
Retained earnings	**15,811**	15,196
Accumulated other comprehensive income (loss)	**32**	(223)
	19,027	18,163
Less treasury stock, at cost (123,500 shares)	**(6)**	
Total shareholders equity	**19,021**	18,163
Noncontrolling interests	**5,340**	5,198
Total equity	**24,361**	23,361
Total liabilities and equity	**$ 79,527**	$ 76,594

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

(In millions, except per share data)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Revenues:				
Insurance premiums	**$ 1,806**	$ 1,767	**$ 5,185**	$ 5,196
Net investment income	**557**	561	**1,639**	1,570
Investment gains (losses):				
Other-than-temporary impairment losses	**(5)**	(18)	**(9)**	(56)
Other net investment gains	**21**	63	**102**	74
Total investment gains	**16**	45	**93**	18
Contract drilling revenues	**357**	340	**1,113**	1,141
Other revenues	**785**	574	**2,150**	1,842
Total	**3,521**	3,287	**10,180**	9,767
Expenses:				
Insurance claims and policyholders benefits	**1,480**	1,202	**4,053**	3,949
Amortization of deferred acquisition costs	**309**	314	**926**	926
Contract drilling expenses	**198**	187	**598**	598
Other operating expenses (Note 5)	**1,047**	898	**2,978**	3,416
Interest	**223**	130	**504**	403
Total	**3,257**	2,731	**9,059**	9,292
Income before income tax	**264**	556	**1,121**	475
Income tax expense	**(52)**	(163)	**(240)**	(171)
Net income	**212**	393	**881**	304
Amounts attributable to noncontrolling interests	**(55)**	(66)	**(198)**	60
Net income attributable to Loews Corporation	**$ 157**	$ 327	**$ 683**	$ 364
Basic net income per share	**$ 0.46**	$ 0.97	**$ 2.03**	$ 1.08
Diluted net income per share	**$ 0.46**	$ 0.97	**$ 2.02**	$ 1.08
Dividends per share	**$ 0.0625**	$ 0.0625	**$ 0.1875**	$ 0.1875
Weighted average shares outstanding:				
Shares of common stock	**336.91**	337.18	**336.90**	338.33

Dilutive potential shares of common stock	**0.88**	0.44	**0.83**	0.28
Total weighted average shares outstanding assuming dilution	**337.79**	337.62	**337.73**	338.61

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 September 30,		Nine Months Ended September 30,	
(In millions)	**2017**	2016	**2017**	2016
Net income	**$ 212**	$ 393	**$ 881**	$ 304
Other comprehensive income (loss), after tax				
Changes in:				
Net unrealized gains (losses) on investments with other-than-temporary impairments	**1**	3	**(3)**	7
Net other unrealized gains on investments	**23**	42	**167**	591
Total unrealized gains on available-for-sale investments	**24**	45	**164**	598
Unrealized gains on cash flow hedges	**1**	1	**1**	2
Pension liability	**11**	7	**26**	20
Foreign currency translation	**41**	(24)	**94**	(58)
Other comprehensive income	**77**	29	**285**	562
Comprehensive income	**289**	422	**1,166**	866
Amounts attributable to noncontrolling interests	**(64)**	(70)	**(228)**	(1)
Total comprehensive income attributable to Loews Corporation	**$ 225**	$ 352	**$ 938**	$ 865

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

(Unaudited)

		Loews Corporation Shareholders					
(In millions)	**Total**	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Common Stock Held in Treasury**	**Noncontrolling Interests**
Balance, January 1, 2016	$ 22,810	$ 3	$ 3,184	$ 14,731	$ (357)	$ -	$ 5,249
Net income	304			364			(60)
Other comprehensive income	562				501		61
Dividends paid	(177)			(63)			(114)
Purchases of subsidiary stock from noncontrolling interests	(9)		3				(12)
Purchases of Loews treasury stock	(115)					(115)	
Stock-based compensation	35		33				2
Other	(4)		(13)	(1)			10
Balance, September 30, 2016	$ 23,406	$ 3	$ 3,207	$ 15,031	$ 144	$ (115)	$ 5,136
Balance, January 1, 2017	**$ 23,361**	**$ 3**	**$ 3,187**	**$ 15,196**	**$ (223)**	**$ -**	**$ 5,198**
Net income	**881**			**683**			**198**
Other comprehensive income	**285**				**255**		**30**
Dividends paid	**(180)**			**(63)**			**(117)**
Purchases of Loews treasury stock	**(6)**					**(6)**	
Stock-based compensation	**24**		**(8)**				**32**
Other	**(4)**		**2**	**(5)**			**(1)**
Balance, September 30, 2017	**$ 24,361**	**$ 3**	**$ 3,181**	**$ 15,811**	**$ 32**	**$ (6)**	**$ 5,340**

See accompanying Notes to Consolidated Condensed Financial Statements.

6

Table of Contents

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

Nine Months Ended September 30 **(In millions)**	**2017**	2016
Operating Activities:		
Net income	**$ 881**	$ 304
Adjustments to reconcile net income to net cash provided (used) by operating activities, net	**959**	1,676
Changes in operating assets and liabilities, net:		
Receivables	**19**	(165)
Deferred acquisition costs	**(34)**	(24)
Insurance reserves	**248**	464
Other assets	**(85)**	(80)
Other liabilities	**(116)**	9
Trading securities	**(62)**	(468)
Net cash flow operating activities	**1,810**	1,716
Investing Activities:		
Purchases of fixed maturities	**(6,877)**	(7,472)
Proceeds from sales of fixed maturities	**4,167**	4,239
Proceeds from maturities of fixed maturities	**2,635**	2,263
Purchases of limited partnership investments	**(85)**	(324)
Proceeds from sales of limited partnership investments	**179**	207
Purchases of property, plant and equipment	**(735)**	(1,185)
Acquisitions	**(1,218)**	(79)
Dispositions	**68**	277
Change in short term investments	**(85)**	104
Other, net	**(136)**	124
Net cash flow investing activities	**(2,087)**	(1,846)
Financing Activities:		
Dividends paid	**(63)**	(63)
Dividends paid to noncontrolling interests	**(117)**	(114)
Purchases of subsidiary stock from noncontrolling interests		(8)
Purchases of Loews treasury stock	**(6)**	(115)
Principal payments on debt	**(2,249)**	(2,882)
Issuance of debt	**2,808**	3,226
Other, net	**(16)**	(2)

Net cash flow financing activities		**357**		42
Effect of foreign exchange rate on cash		**9**		(8)
Net change in cash		**89**		(96)
Cash, beginning of period		**327**		440
Cash, end of period	**$**	**416**	$	344

See accompanying Notes to Consolidated Condensed Financial Statements.

7

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 89% owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. (Diamond Offshore), a 53% owned subsidiary); transportation and storage of natural gas and natural gas liquids (Boardwalk Pipeline Partners, LP (Boardwalk Pipeline), a 51% owned subsidiary); the operation of a chain of hotels (Loews Hotels Holding Corporation (Loews Hotels & Co), a wholly owned subsidiary); and the manufacture of rigid plastic packaging solutions (Consolidated Container Company LLC, a 99% 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 normal recurring accruals) necessary to present fairly the Company s financial position as of September 30, 2017 and December 31, 2016, results of operations and comprehensive income for the three and nine months ended September 30, 2017 and 2016 and changes in shareholders equity and cash flows for the nine months ended September 30, 2017 and 2016. Net income (loss) for the third quarter and first nine months of each of the years is not necessarily indicative of net income (loss) for that entire year. These Consolidated Condensed Financial Statements should be read in conjunction with the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2016.

The Company presents basic and diluted net income (loss) per share on the Consolidated Condensed Statements of Income. Basic net income (loss) per share excludes dilution and is computed by dividing net income (loss) attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. 0.4 million and 3.3 million shares for the three months ended September 30, 2017 and 2016 and 0.4 million and 4.7 million shares for the nine months ended September 30, 2017 and 2016 attributable to employee stock-based compensation awards were not included in the diluted weighted average shares outstanding amounts because the effect would have been antidilutive.

Accounting changes In March of 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The updated accounting guidance simplifies the accounting for share-based payment award transactions, including income tax consequences and classification on the statement of cash flows. As of January 1, 2017, the Company adopted the updated accounting guidance and began recognizing excess tax benefits or deficiencies on vesting or settlement of awards as an income tax benefit or expense within net income and the related cash flows classified within operating activities. The change impacted the amount and timing of income tax expense recognition as well as the calculation of diluted earnings per share. The accounting change did not have a material effect on the consolidated financial statements.

Recently issued ASUs 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. The guidance is effective for interim and annual reporting periods beginning after December 15, 2017, and may be adopted either retrospectively or on a modified basis, with a cumulative effect adjustment to the opening balance sheet at the date of adoption. The Company expects to adopt this updated guidance using the modified retrospective method. The standard excludes from its scope the accounting for insurance contracts, financial instruments and certain other agreements that are subject to other guidance in the FASB Accounting Standards Codification, which limits the impact of this change in accounting for the Company. Upon adoption, the Company expects that revenue on CNA s warranty products and services will be recognized more slowly than under the current revenue recognition pattern. The Company also expects that Other revenues and operating expenses will increase significantly for CNA s warranty products to reflect the gross amount paid by consumers to the auto dealers that act as CNA s agents. While the Company continues to evaluate the effect the guidance will have on its consolidated financial statements, the Company expects the adoption of the updated guidance will not have a material effect on its results of operations or financial position.

In January of 2016, the FASB issued ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The updated accounting guidance requires changes to the reporting model for financial instruments. The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company expects the primary change to be the requirement for equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Upon adoption, the Company will recognize an adjustment for the cumulative amount of unrealized investment gains and losses related to available-for-sale equity securities within the opening balances of Retained earnings and Accumulated other comprehensive income (loss). The Company expects the adoption of the updated guidance will not have a material effect on its consolidated financial statements.

In February of 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The updated guidance requires lessees to recognize lease assets and lease liabilities for most operating leases. In addition, the updated guidance requires that lessors separate lease and nonlease components in a contract in accordance with the new revenue guidance in ASU 2014-09. The updated guidance is effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the effect the guidance will have on its consolidated financial statements.

In June of 2016, the FASB issued ASU 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 Company is currently evaluating the effect the guidance will have on its consolidated financial statements, and expects the primary changes to be the use of the expected credit loss model for the mortgage loan portfolio and reinsurance receivables and the presentation of credit losses within the available-for-sale fixed maturities portfolio through an allowance method rather than as a direct write-down. The expected credit loss model will require a financial asset to be presented at the net amount expected to be collected. Under the allowance method for available-for-sale debt securities the Company will record reversals of credit losses if the estimate of credit losses declines.

In October of 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The updated guidance amends the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently evaluating its historical intra-group transactions for the possible effect of the updated guidance. The Company expects to adopt this updated guidance using the modified retrospective approach with a cumulative effect adjustment to the opening balance of Retained earnings with an offset to a deferred income tax liability.

2. Acquisition of Consolidated Container Company

On May 22, 2017, the Company completed the previously announced acquisition of CCC Acquisition Holdings, Inc. for $1.2 billion, subject to closing adjustments. CCC Acquisition Holdings, Inc., through its wholly owned subsidiary, Consolidated Container Company LLC (Consolidated Container), is a rigid plastic packaging and recycled resins manufacturer that provides packaging solutions to end markets such as beverage, food and household chemicals through a network of manufacturing locations across North America. The results of Consolidated Container are included in the Consolidated Condensed Financial Statements since the acquisition date in the Corporate segment. For the three months ended September 30, 2017 and for the period since the acquisition date, Consolidated Container s revenues were $202 million and $293 million and net income was not significant. For the year ended December 31, 2016, Consolidated Container reported total revenues of $788 million.

Table of Contents

The acquisition was funded with approximately $620 million of parent company cash and debt financing proceeds at Consolidated Container of $600 million, as discussed in Note 7. The following table summarizes the preliminary allocation of the purchase price to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair value as of the acquisition date and is subject to change within the measurement period. The primary areas that are not yet finalized relate to working capital at closing and determination of tax bases of net assets acquired.

(In millions)

Cash	**$**	**5**
Property, plant and equipment		**391**
Goodwill		**300**
Other assets:		
Inventory		**57**
Customer relationships		**459**
Trade name		**43**
Other		**122**
Deferred income taxes		**(17)**
Other liabilities:		
Accounts payable		**(52)**
Pension liability		**(27)**
Other		**(58)**
	$	**1,223**

Customer relationships were valued using an income approach, which values the intangible asset at the present value of the related incremental after tax cash flows. The customer relationships intangible asset will be amortized over a useful life of 21 years. The trade name was valued using an income approach, which values the intangible asset based on an estimate of cost savings, or a relief from royalty. The trade name will be amortized over a useful life of 10 years. Goodwill includes value associated with the assembled workforce and Consolidated Container s future growth and profitability. The assets acquired and liabilities assumed as part of the acquisition did not result in a step up of tax basis and approximately $94 million of goodwill is deductible for tax purposes.

Table of Contents

3. Investments

Net investment income is as follows:

(In millions)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Fixed maturity securities	**$ 455**	$ 457	**$ 1,367**	$ 1,352
Limited partnership investments	**67**	91	**206**	98
Short term investments	**5**	3	**13**	8
Equity securities	**1**	1	**4**	8
Income from trading portfolio (a)	**34**	11	**67**	113
Other	**10**	12	**26**	34
Total investment income	**572**	575	**1,683**	1,613
Investment expenses	**(15)**	(14)	**(44)**	(43)
Net investment income	**$ 557**	$ 561	**$ 1,639**	$ 1,570

(a) Net unrealized gains (losses) related to changes in fair value on trading securities still held were $22 and $8 for the three months ended September 30, 2017 and 2016 and $35 and $63 for the nine months ended September 30, 2017 and 2016.

Investment gains (losses) are as follows:

(In millions)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Fixed maturity securities	**$ 16**	$ 47	**$ 92**	$ 34
Equity securities		(3)		(5)
Derivative instruments	**(1)**	1	**(3)**	(12)
Short term investments and other	**1**		**4**	1
Investment gains (a)	**$ 16**	$ 45	**$ 93**	$ 18

(a) Gross realized gains on available-for-sale securities were $34 and $68 for the three months ended September 30, 2017 and 2016 and $140 and $157 for the nine months ended September 30, 2017 and 2016. Gross realized losses on available-for-sale securities were $18 and $24 for the three months ended September 30, 2017 and 2016 and $48 and $128 for the nine months ended September 30, 2017 and 2016.

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

(In millions)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Fixed maturity securities available-for-sale:				
Corporate and other bonds	**$ 4**	$ 14	**$ 8**	$ 43
Asset-backed:				
Residential mortgage-backed	**1**		**1**	1
Other asset-backed				3
Total asset-backed	**1**	-	**1**	4
Total fixed maturities available-for-sale	**5**	14	**9**	47
Equity securities available-for-sale - common stock		4		9
Net OTTI losses recognized in earnings	**$ 5**	$ 18	**$ 9**	$ 56

Table of Contents

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

September 30, 2017 (In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
Fixed maturity securities:					
Corporate and other bonds	**$ 17,965**	**$ 1,645**	**$ 26**	**$ 19,584**	
States, municipalities and political subdivisions	**12,462**	**1,501**	**7**	**13,956**	**$ (14)**
Asset-backed:					
Residential mortgage-backed	**4,906**	**127**	**28**	**5,005**	**(28)**
Commercial mortgage-backed	**1,858**	**55**	**13**	**1,900**	
Other asset-backed	**1,047**	**18**	**4**	**1,061**	
Total asset-backed	**7,811**	**200**	**45**	**7,966**	**(28)**
U.S. Treasury and obligations of government-sponsored enterprises	**115**	**3**	**3**	**115**	
Foreign government	**439**	**10**	**4**	**445**	
Redeemable preferred stock	**18**	**2**		**20**	
Fixed maturities available-for-sale	**38,810**	**3,361**	**85**	**42,086**	**(42)**
Fixed maturities trading	**420**	**2**	**1**	**421**	
Total fixed maturities	**39,230**	**3,363**	**86**	**42,507**	**(42)**
Equity securities:					
Common stock	**16**	**7**	**1**	**22**	
Preferred stock	**102**	**5**		**107**	
Equity securities available-for-sale	**118**	**12**	**1**	**129**	**-**
Equity securities trading	**474**	**86**	**79**	**481**	
Total equity securities	**592**	**98**	**80**	**610**	**-**
Total	**$ 39,822**	**$ 3,461**	**$ 166**	**$ 43,117**	**$ (42)**

December 31, 2016					
Fixed maturity securities:					
Corporate and other bonds	$ 17,711	$ 1,323	$ 76	$ 18,958	$ (1)
States, municipalities and political subdivisions	12,060	1,213	33	13,240	(16)
Asset-backed:					
Residential mortgage-backed	5,004	120	51	5,073	(28)
Commercial mortgage-backed	2,016	48	24	2,040	
Other asset-backed	1,022	8	5	1,025	
Total asset-backed	8,042	176	80	8,138	(28)
U.S. Treasury and obligations of government-sponsored enterprises	83	10		93	
Foreign government	435	13	3	445	
Redeemable preferred stock	18	1		19	
Fixed maturities available-for-sale	38,349	2,736	192	40,893	(45)

Fixed maturities trading	598	3		601	
Total fixed maturities	38,947	2,739	192	41,494	(45)
Equity securities:					
Common stock	13	6		19	
Preferred stock	93	2	4	91	
Equity securities available-for-sale	106	8	4	110	-
Equity securities trading	465	60	86	439	
Total equity securities	571	68	90	549	-
Total	$ 39,518	$ 2,807	$ 282	$ 42,043	$ (45)

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. To the extent that unrealized gains on fixed income securities supporting certain long term care products would result in a premium deficiency if realized, a related increase in

Table of Contents

Insurance reserves is recorded, net of tax and noncontrolling interests, as a reduction of net unrealized gains through Other comprehensive income (Shadow Adjustments). As of September 30, 2017 and December 31, 2016, the net unrealized gains on investments included in AOCI were correspondingly reduced by Shadow Adjustments of $1.2 billion and $909 million (after tax and noncontrolling interests).

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

	Less than 12 Months		12 Months or Longer		Total	
September 30, 2017	**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	**$ 1,216**	**$ 21**	**$ 91**	**$ 5**	**$ 1,307**	**$ 26**
States, municipalities and political subdivisions	**583**	**6**	**56**	**1**	**639**	**7**
Asset-backed:						
Residential mortgage-backed	**1,522**	**25**	**106**	**3**	**1,628**	**28**
Commercial mortgage-backed	**378**	**6**	**138**	**7**	**516**	**13**
Other asset-backed	**129**	**4**	**10**		**139**	**4**
Total asset-backed	**2,029**	**35**	**254**	**10**	**2,283**	**45**
U.S. Treasury and obligations of government-sponsored enterprises	**67**	**3**	**6**		**73**	**3**
Foreign government	**191**	**4**	**5**		**196**	**4**
Total fixed maturity securities	**4,086**	**69**	**412**	**16**	**4,498**	**85**
Equity securities:						
Common stock	**2**	**1**			**2**	**1**
Preferred stock	**16**				**16**	**-**
Total equity securities	**18**	**1**	**-**	**-**	**18**	**1**
Total	**$ 4,104**	**$ 70**	**$ 412**	**$ 16**	**$ 4,516**	**$ 86**
December 31, 2016						
Fixed maturity securities:						
Corporate and other bonds	$ 2,615	$ 61	$ 254	$ 15	$ 2,869	$ 76
States, municipalities and political subdivisions	959	32	23	1	982	33
Asset-backed:						
Residential mortgage-backed	2,136	44	201	7	2,337	51
Commercial mortgage-backed	756	22	69	2	825	24
Other asset-backed	398	5	24		422	5
Total asset-backed	3,290	71	294	9	3,584	80
U.S. Treasury and obligations of government-sponsored enterprises	5				5	-
Foreign government	108	3			108	3

Total fixed maturity securities	6,977		167	571		25	7,548		192
Equity securities	12			13		4	25		4
Total	$ 6,989	$	167	$ 584	$	29	$ 7,573	$	196

Based on current facts and circumstances, the Company believes the unrealized losses presented in the September 30, 2017 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 September 30, 2017.

Table of Contents

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 September 30, 2017 and 2016 for which a portion of an OTTI loss was recognized in Other comprehensive income.

(In millions)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Beginning balance of credit losses on fixed maturity securities	**$ 30**	$ 41	**$ 36**	$ 53
Reductions for securities sold during the period	**(2)**	(2)	**(8)**	(14)
Reductions for securities the Company intends to sell or more likely than not will be required to sell		(1)		(1)
Ending balance of credit losses on fixed maturity securities	**$ 28**	$ 38	**$ 28**	$ 38

Contractual Maturity

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

(In millions)	September 30, 2017 Cost or Amortized Cost	September 30, 2017 Estimated Fair Value	December 31, 2016 Cost or Amortized Cost	December 31, 2016 Estimated Fair Value
Due in one year or less	**$ 1,374**	**$ 1,404**	$ 1,779	$ 1,828
Due after one year through five years	**7,931**	**8,293**	7,566	7,955
Due after five years through ten years	**15,853**	**16,574**	15,892	16,332
Due after ten years	**13,652**	**15,815**	13,112	14,778
Total	**$ 38,810**	**$ 42,086**	$ 38,349	$ 40,893

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.

Table of Contents

Derivative Financial Instruments

A summary of the aggregate contractual or notional amounts and gross estimated fair values related to derivative financial instruments 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. Gross estimated fair values of derivative positions are currently presented in Equity securities, Receivables and Payable to brokers on the Consolidated Condensed Balance Sheets.

	September 30, 2017			December 31, 2016		
	Contractual/ Notional Amount	**Estimated Fair Value Asset**	**(Liability)**	Contractual/ Notional Amount	Estimated Fair Value Asset	(Liability)
(In millions)						
With hedge designation:						
Interest rate swaps	**$ 500**					
Without hedge designation:						
Equity markets:						
Options purchased	**267**	**$ 15**		$ 223	$ 14	
written	**296**		**$ (8)**	267		$ (8)
Futures short	**249**		**(1)**	225	1	
Commodity futures long	**39**			42		
Embedded derivative on funds withheld liability	**170**		**(1)**	174	3	

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 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) detailed analysis, where the Company

Table of Contents

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.

Assets and liabilities measured at fair value on a recurring basis are presented in the following tables:

September 30, 2017 (In millions)	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
Corporate and other bonds		$ 19,465	$ 119	$ 19,584
States, municipalities and political subdivisions		13,955	1	13,956
Asset-backed:				
Residential mortgage-backed		4,829	176	5,005
Commercial mortgage-backed		1,876	24	1,900
Other asset-backed		915	146	1,061
Total asset-backed		7,620	346	7,966
U.S. Treasury and obligations of government-sponsored enterprises	$ 115			115
Foreign government		445		445
Redeemable preferred stock	20			20
Fixed maturities available-for-sale	135	41,485	466	42,086
Fixed maturities trading	9	407	5	421
Total fixed maturities	$ 144	$ 41,892	$ 471	$ 42,507
Equity securities available-for-sale	$ 110		$ 19	$ 129
Equity securities trading	479		2	481
Total equity securities	$ 589	$ -	$ 21	$ 610
Short term investments	$ 4,019	$ 876		$ 4,895
Other invested assets	61	5		66
Payable to brokers	(9)			(9)

Table of Contents

December 31, 2016 (In millions)	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
Corporate and other bonds		$ 18,828	$ 130	$ 18,958
States, municipalities and political subdivisions		13,239	1	13,240
Asset-backed:				
Residential mortgage-backed		4,944	129	5,073
Commercial mortgage-backed		2,027	13	2,040
Other asset-backed		968	57	1,025
Total asset-backed		7,939	199	8,138
U.S. Treasury and obligations of government-sponsored enterprises	$ 93			93
Foreign government		445		445
Redeemable preferred stock	19			19
Fixed maturities available-for-sale	112	40,451	330	40,893
Fixed maturities trading		595	6	601
Total fixed maturities	$ 112	$ 41,046	$ 336	$ 41,494
Equity securities available-for-sale	$ 91		$ 19	$ 110
Equity securities trading	438		1	439
Total equity securities	$ 529	$ -	$ 20	$ 549
Short term investments	$ 3,833	$ 853		$ 4,686
Other invested assets	55	5		60
Receivables	1			1
Life settlement contracts			$ 58	58
Payable to brokers	(44)			(44)

17

Table of Contents

The following tables 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 nine months ended September 30, 2017 and 2016:

		Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses)								Unrealized Gains (Losses) Recognized in Net Income (Loss) on Level 3 Assets and Liabilities Held at
2017	**Balance, July 1**	**Included in Net Income (Loss)**	**Included in OCI**	**Purchases**	**Sales**	**Settlements**	**Transfers into Level 3**	**Transfers out of Level 3**	**Balance, September 30**	**September 30**
(In millions)										
Fixed maturity securities:										
Corporate and other bonds	$ 100	$ 1	$ 1	$ 13		$ (11)	$ 15		$ 119	
States, municipalities and political subdivisions	1								1	
Asset-backed:										
Residential mortgage-backed	123	1	1			(7)	58		176	
Commercial mortgage-backed	13		(1)	12		(2)	2		24	
Other asset-backed	82	(1)	1	27		(4)	41		146	
Total asset-backed	218	-	1	39	$ -	(13)	101	$ -	346	$ -
Fixed maturities available-for-sale	319	1	2	52		(24)	116		466	
Fixed maturities trading	5								5	
Total fixed maturities	$ 324	$ 1	$ 2	$ 52	$ -	$ (24)	$ 116	$ -	$ 471	$ -
Equity securities available-for-sale	$ 19								$ 19	
Equity securities trading	1			$ 1					2	
Total equity securities	$ 20	$ -	$ -	$ 1	$ -	$ -	$ -	$ -	$ 21	$ -
Life settlement contracts	$ 1				$ (1)				$ -	

18

Table of Contents

2016		Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses)								Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at
(In millions)	Balance, July 1	Included in Net Income	Included in OCI	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, September 30	September 30
Fixed maturity securities:										
Corporate and other bonds	$ 242	$ 1	$ 7	$ 16		$ (5)			$ 261	
States, municipalities and political subdivisions	2					(1)			1	
Asset-backed:										
Residential mortgage-backed	134		(1)	5		(1)		$ (58)	79	
Commercial mortgage-backed	11			23		(8)		(2)	24	
Other asset-backed	45			34						