S&P Global
Market Intelligence

CNA Financial Corporation NYSE:CNA

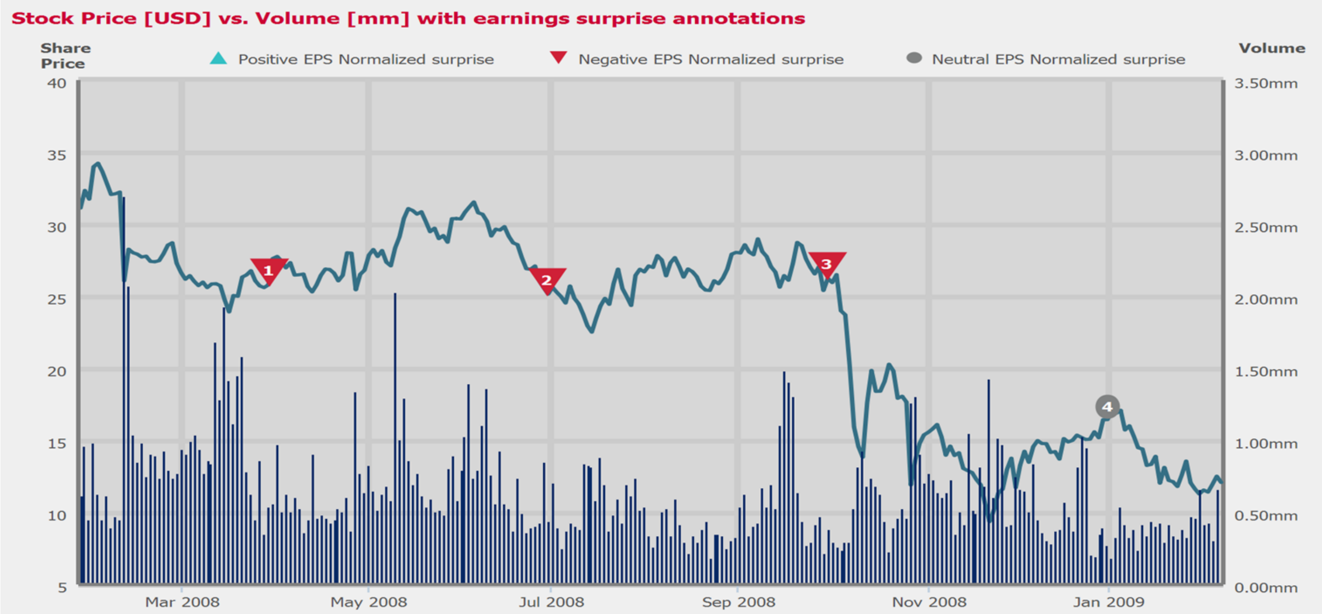
FQ1 2009 Earnings Call Transcripts

Monday, May 04, 2009 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2009-			-FQ2 2009-	-FY 2009-	-FY 2010-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.30	0.44	▲46.67	0.70	2.21	3.05
Revenue	-	-	▲(17.26 %)	-	-	-
Revenue (mm)	1924.00	1592.00	-	-	7372.50	7486.00

Currency: USD
Consensus as of Apr-20-2009 5:47 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2008	1.01	0.82	▼1 (18.81 %)
FQ2 2008	0.96	0.93	▼2 (3.12 %)
FQ3 2008	0.69	0.31	▼3 (55.07 %)
FQ4 2008	0.45	(0.15)	NM

Table of Contents

Call Participants

EXECUTIVES

D. Craig Mense

Nancy M. Bufalino

Richard W. Scott

Thomas F. Motamed

ANALYSTS

Daniel Johnson
Citadel Investment Group

Jeffrey Payne
Private Management Group

Richard L. Greenberg
Donald Smith & Co.

Robert Glasspiegel
Langen McAlenney

Presentation

Operator

Good day and welcome to the CNA Financial Corporation's first quarter 2009 earnings conference call. Today's call is being recorded. At this time I'd like to turn the conference over to Nancy Bufalino.

Nancy M. Bufalino

Good morning and welcome to the discussion of CNA's first quarter 2009 financial results. Hopefully everyone has had an opportunity to review the press release and financial supplement which were released earlier this morning and can be found on the CNA website.

With us this morning are Tom Motamed our Chairman and CEO and Craig Mense our CFO. Tom and Craig will provide some prepared remarks about our first quarter results, and Tom will followup with some comments about CNA's strategy going forward. We will then open it up for questions.

Before we get started, I'd like to advise everyone that during this call there may be forward-looking statements made and references to non-GAAP financial measures. Please see the sections of the earnings release headed financial measures and forward-looking statements for further detail. In addition, the forward-looking statements speak only as of today, May 4, 2009. CNA expressly disclaims any obligation to update or revise any forward-looking statements made during this call.

This call is being recorded and webcast. During the next week the call may be accessed again on CNA's website at www.cna.com.

With that, I'll turn the call over to CNA's Chairman and CEO, Tom Motamed.

Thomas F. Motamed

Good morning everyone and thank you for joining us. CNA delivered another quarter of steady performance driven by solid results from our core business. Rate trends were favorable, renewal retention improved, and the combined ratio again came in under 100.

The investment side of our business reflects the effect of turmoil in the financial and credit markets, hence the net loss for the quarter. So, I am pleased to note that our unrealized loss portion improved from year end 2008. GAAP equity and book value per common share also improved. Our statutory capital position remains strong and we continue to hold substantial cash and short-term assets at the holding company level. Overall, after 4 months of CNA, I am more confident than ever in our company's financial strength and our franchise in both the specialty and standard lines markets.

Today, we will be covering three major topics. First, CNA's first quarter results, next a review and update on our investment portfolio by Chief Financial Officer, Craig Mense, and finally I will come back on the line after Craig and provide some detail on CNA strategies going forward.

As you read in our press release, our first quarter net operating income was $149 million in 2009 or $0.44 per common share compared to $221 million or $0.82 per common share in 2008. Our operating earnings reflected solid underlying performance in a highly competitive environment, but were dampened by a lower level of net investment income. The net loss for the quarter of $195 million or $0.84 per common share was driven by after tax impairment losses of $399 million.

Turning to our core business, property and casualty operations delivered a first quarter combined ratio of 98.2 compared with 98.1 in the first quarter of 2008. Favorable development improved the first quarter combined ratio by 3.7 points in 2009 versus 1.3 points in 2008.

Current year catastrophe losses added 0.9 and 3.2 points in 2009 and 2008 respectively. Before development and current year catastrophes the combined ratio was 101 in 2009 compared with 96.2 in 2008. The difference was largely due to the impact of rate pressure and several large property losses on the 2009 loss ratio as well as the impact of employee related expenses and lower net earned premium on the expense ratio.

The favorable development is primarily attributable to property and standard lines and liability and specialty lines. I would also point out that property and casualty operations have now had 9 consecutive quarters of favorable development, a trend that confirms our prudent reserving practices.

As for premium volume, net written premiums decreased 1.7%. Excluding currency fluctuation, net written premiums were actually up slightly. In the face of a weak economy, CNA maintained its premium volume through a combination of strong renewal retention and an increase in new business.

Now, let’s take a closer look at specialty lines and standard lines starting with specialty.

Specialty lines delivered a first quarter combined ratio of 91 in 2009 compared with 92.4 in 2008. Favorable development in the quarter had a 5.4 point impact in 2009 versus no impact in 2008. Before development and catastrophe losses, the first quarter combined ratio was 96.3 in 2009 as compared with 92.4 in 2008. Specialty lines first quarter net written premiums declined 2.2% in 2009 versus 2008. Excluding currency fluctuations, specialty net written premium increased about 1%. In addition, we continued to emphasize the importance of expanding our customer base as measured by a 1.1% increase in policy count.

The first quarter ratio of new to loss business 1.4:1; we retained 85.8% of renewal business, 2 points better than first quarter 2008 and continuing a favorable trend over the past few quarters. Renewal rate decreases have also been narrowing. The average first quarter decrease in 2009 was 2% compared with 3% in the same period in 2008.

Competition and specialty remains persistent and strong in most major lines and geographies; however, there is some moderation in rate decreases and even some rate increases in limited instances such as financial institution, E&O, and pockets of the excess and surplus lines marketplace. Overall, I would describe specialty market conditions as consistent with the second half of 2008.

As for standard lines, the first quarter combined ratio was 106.3 in 2009 compared with 104.4 in 2008. Favorable development in the quarter had a 1.7 point impact in 2009 versus 2.6 points in 2008. Before development and catastrophe losses, the first quarter combined ratio was 106.3 in 2009 as compared with 100.2 in 2008.

First quarter net written premiums decreased 1.1%; currency fluctuations had no impact on standard lines premium growth. As is the case in specialty, we are growing our customer base with a 2.1% increase in policy count. The ratio of new to loss business was 1.3:1 in the first quarter; we retained 82.6% of the business available to renew, 2 points better than in the first quarter of 2008. Rate decreases averaged approximately 2%, the lowest in 8 quarters.

With respect to the standard lines marketplace, although we have seen rate decreases level off in the quarter, particularly for property business, overall competition remains strong. It is encouraging, however, that there was little evidence of pressure to broader terms and conditions.

Even with favorable rate trend in the quarter, we did see more signs of decreasing exposures such as payroll sales and insured valuations. Initially, these decreases had been primarily limited to our commercial construction business, but now are spreading to other industry segments as well. These conditions will continue to impact overall price and ultimately premium growth.

Turning briefly to expenses, the property and casualty operations first quarter expense ratio was 31.5%. We continued to run at competitive expense levels while also investing in talents and infrastructure.

In summary, our property and casualty operations performed well in the first quarter with a 98.2 combined ratio. We continue to see improvement in the key drivers of growth, rate, retention, and increased policy count. Overall, I like our outlook.

Now, I will turn it over to Craig for a review of our investments results.

D. Craig Mense

Good morning everyone. As Tom outlined, CNA delivered steady operating performance in the first quarter with solid results from our core P&C business. Continuing to deliver a solid operating income is the key financial priority for CNA and one that we feel we are well positioned to achieve. Equally important to us are two additional financial priorities reducing the overall risk and volatility of our investment portfolio and maintaining a strong level of capital adequacy. CNA performed well against all three of these priorities in the first quarter despite the continuing turmoil in the financial market.

With respect to our first quarter operating results, steady underlying operating performance was dampened by lower investment income and higher expenses. First quarter pre-tax investment income was $420 million compared with $434 million in the prior year period. Excluding trading portfolio losses of $77 million in 2008, net investment income declined $91 million period over period. This decrease was primarily driven by our large short-term position which stood at $4.7 billion at quarter end coupled with low short-term yields as well as losses from limited partnerships.

Limited partnership losses were $70 million or a negative 4% return during the quarter compared with LP losses of $39 million or negative 2% return in the first quarter of 2008. The LP losses are largely a carry-over from last year's fourth quarter. You will recall from our last call that approximately 85% of our LPs as measured by reported values report results on a one-month lag or less. This quarter's LP losses were primarily associated with later reporting partnerships. The partnerships on a current or one-month lag basis reported relatively flat results for the quarter.

The decline in net earned premium and the recognition of a higher level of non-cash pension expense has put pressure on our expense ratio. This will likely continue in the short-term, but we expect our improving top-line and disciplined expense management to keep us competitive even as we continue to make targeted investments in people and infrastructure.

The net realized loss in the quarter was driven by after tax impairments of $399 million, this compares to after tax impairments of $56 million in the prior year period. This quarter's impairments were fairly equally distributed across three asset classes; asset-backed and structured products, lower investment grade corporates, and non-redeemable preferred stock.

In the asset-backed and structured products, modeled stress cash flow outcomes led us to impair a number of investments where we could no longer be assured of 100% recovery. It is important to point out that the impairments were marked to today's depressed market value even though we would expect the ultimate recoveries on those assets to be significantly greater.

In the lower investment grade corporates, our decisions were driven by both credit issues and capital efficiency consideration. Market conditions allowed us to reduce our bank loan exposure significantly and reinvest those proceeds in high-grade investments with similar yield improving the capital efficiency in the portfolio. In addition, ordinary portfolio management consideration in an improving but still depressed market contributed to realized losses.

In non-redeemable preferred stock, we impaired our now combined holdings in Bank of America/Merrill Lynch based on the recent downgrades of these securities as well as the size of our combined position and our desire from a risk management perspective to maintain the flexibility to trade out of that position.

It's important to point out that the recognition of all these impairments had a de minimis impact on capital adequacy because for the most part these investments were already held at market value in both our statutory and GAAP financials. We did not early adopt FSP 115-2, the new accounting standard that changes the GAAP impairment model. We will adopt the new standard in the second quarter and are still evaluating its impact, nor did we adopt FSP 157-4, the new standard related to fair value of securities in an inactive market. We don't expect the adoption of FSP 157-4 next quarter to have a significant impact.

Turning to our investment portfolio, we continue to emphasize diversification, quality and liquidity. The average quality of our portfolio remained AA minus consistent with year end. The effective duration of the total portfolio is now 5.2 years, down from 5.8 yeas at year end. Most of the duration decrease can be attributed to the increase in our short-term investments combined with the expectation of faster repayment speed in the asset-backed sector. The effective duration of assets backing our segregated portfolio to match our life-like long-term liabilities was 10 years, which is in line with portfolio targets. The effective duration of the remaining assets backing our P&C liabilities was 3.6 years below our 4 to 5 year target and reflecting our large short-term holdings.

Our unrealized loss position stood at $4.8 billion at quarter end, down from $5.4 billion at year end 2008. As I mentioned before, approximately 44% of our unrealized loss position is in long maturity assets that primarily support long duration liabilities such as our long-term care business.

Our portfolio showed signs of recovery in the first quarter led by tax exemption corporates. Pricing improvements were seen across all sectors except mortgage-backed and asset-backed products. The recovery continued in the month of April when the market value of our core securities increased by approximately $550 million.

Over time, we intend to reduce our investment risk and volatility which we believe will drive more consistent investment performance in the future. We expect to accomplish this through an orderly measured process of investing positive operating cash flow and our substantial portfolio cash flow into targeted asset classes.

We've been putting new money to work largely in investment grade corporates and high-grade munis, a trend that will likely continue for a while. Our liquidity and cash flow continues to be major advantages. We had $5.7 billion in short-term holdings and treasuries at quarter end. In addition, we maintained strong cash and short-term investment balances at the holding company level, approximately $500 million at quarter end.

Positive cash flows from operations and principal payments were $641 million in the first quarter. Our $7.3 billion structured securities portfolio continued to be a substantial source of positive cash flow. The short weighted average life of our holdings continues to service well. These investments are paying down quickly; $465 million of principal repayments in the first quarter with an estimated $1.8 billion for the full year. We are reducing the risk associated with structured securities by effectively running off non-agency structured holdings. Our new purchases are relatively modest and are focused on agency pass-through and agency CMOs.

Our third priority is maintaining a strong level of capital. We did see modest improvement in book value and GAAP equity from year end 2008. In addition, our regulatory capital remained constant with the year end level. We regularly evaluate our capital adequacy against regulatory, internal, and rating agency metrics. Against all these measures, we believe our capital is more than sufficient to support our current ratings.

Before turning the call back over to Tom, I would like to report briefly on our non-core business.

The light group segment produced a first quarter net operating loss of $22 million in 2009 as compared to a loss of $3 million in 2008. The increased loss was primarily the result of adverse investment performance on our remaining pension deposit business. Corporate segment had a first quarter net operating loss of $9 million in 2009 compared with a $5 million of net operating income in 2008. The decline was primarily the result of reduced investment income.

In summary, CNA has steady first quarter as measured by our progress on our key financial priorities. Our disciplined approach to business fundamentals sustained our ability to deliver solid operating results. We continue the process of reducing risk and volatility in our investment portfolio and we continue to demonstrate our ability to maintain strong levels of capital adequacy.

With that, I will turn it back to Tom.

Thomas F. Motamed

In our last conference call I told you that I would be thorough and thoughtful in the assessment of CNA and our direction for the future. So, today I will begin to outline our strategies as they relate to growing the top and bottom lines. To put all of this in context, I have visited 18 branch offices, met with a great many agents and brokers, and spent considerable time with our employees and managers to get a balanced view of our strengths and capabilities. We are now going forward with a set of strategies to drive top and bottom line growth and optimize our property and casualty portfolio.

First, further develop and deepen industry-specific technical expertise while maintaining a broad appetite. Second, manage our mix of business to improve profitability. Third, extend our geographic reach with an expanded US footprint and more focus on international opportunities.

I would now like to walk through these strategies one at a time. With regard to technical expertise and appetite, CNA today has a very strong franchise in several industry segments, including construction and healthcare among others. In these industry segments, we have demonstrated to our agents, brokers, and clients that we have deep expertise in underwriting, risk control, and claim. This approach has translated into strong profitability and market presence which gives us confidence to venture more deeply into other underwriting segments where we have expertise.

We believe that our approach to risk in our strongest businesses is a core competency that can be expanded into other industry segments. Therefore, in addition to the industries in which we already have an edge, like construction and healthcare, we will be focusing on the following core industries; technology, manufacturing, retail, wholesale distributors, business services, commercial real estate, education, financial institutions, and professional services. For each of these industries we will leverage expertise that already exists across CNA. We will cross-sell both commercial and specialty products where it makes sense from a profitability perspective. By taking this approach, CNA will be known as a company that understands its customers and provides products and services they value most.

Everything I have said is in addition to our broad appetite for good risk regardless of industry or size. At the same we believe that developing deeper expertise in selected industries will provide more opportunity for growth and profit.

Moving on to our second strategy; managing the mix. This continues the work begun under my predecessor. In the next few years, specialty businesses will be our major growth engine. These businesses have a long track record of strong profitability. The current dislocation in the specialty marketplace is opening up a range of opportunities such as financial institutions, D&O, and professional liability.

Turning to our standard line businesses; in addition to the industry segments I have just described we will focus our growth strategies on mono line opportunities such as umbrella, marine, property, and equipment breakdown. As these segments become a bigger part of our standard portfolio, we expect to see improvement in our profitability.

The ability to manage our mix is just a nice sounding idea without agents and brokers to make it happen. So, let me now say a few words about distribution. CNA currently does business in the United States with 3000 contracted agents and brokers. This is a relatively small number compared with our competitors. I have been pleasantly surprised with the loyalty and tenure of our agents. It is our desire to increase our volume with each agency that has chosen to do business with us. At the same time, we will look to appoint new agents in cases where our current distribution partners do not have clients or expertise in our expanded industry segments. We will focus on developing relationships with producers for whom we can be a significant marking in our chosen industries.

We also have decided to increase our presence in the excess and surplus lines arena where distribution is dominated by wholesalers. We believe the ability to be an entrepreneurial player in a business where there is freedom from rate and form constraints will afford us a great opportunity to grow and make money, particularly when the pricing in the retail market improves.

Moving on to strategy three; geographic reach. Our US agents consistently tell us that speed is of doing business and personal relationships with local underwriters are important to them. We already have a significant local presence with 32 branch offices in the United States. Our strategy calls for expanding this footprint by opening five new US branches over the next year, adding resources, and increasing authority at the point of sale.

CNA is viewed predominantly as a player in the US market; however, we have operations in Europe, Canada, and Argentina. They account for a relatively small percent of our worldwide net written premium that we believe represent a significant growth opportunity. Our first order of business will be to further develop our European business. We see the opportunity in Europe to strengthen established positions in financial lines, cargo, property and casualty, while also pursuing specialized risks in emerging areas such as healthcare, technology, and renewable energy. We will approach the Canadian market much like our US operations. We're in the early stages of reviewing our Latin American operations and will certainly update you as we complete our analysis.

Now that we've completed our strategic review, we've begun the process of aligning internal resources with our strategies. We will invest where necessary while continuing to focus on disciplined expense management. Overall, we expect a better alignment of resources will result in cost savings and the ability to fund and support our strategies going forward.

In summary, CNA will further develop industry-specific technical expertise while maintaining a broad underwriting appetite. We will manage our mix, expanding our profitable specialty businesses, and improving our returns in standard lines. We will expand our US branch footprint to drive growth with existing and new producers and we will further develop our European operations.

It's an ambitious agenda, but I firmly believe we're up to the challenge. Good things have been happening at CNA for some time now. We have a strong market franchise, a proven record of specialty underwriting excellence, people with leadership in technical talent, and the liquidity and capital resources we need to move forward on our strategies. In our last conference call I said that I joined CNA because I saw a tremendous upside. I see it even more clearly now.
With that, I'll turn it back to the operator. Let's begin the Q&A.

Question and Answer

Operator

(Operator Instructions). We'll take our first question from Robert Glasspiegel - Langen McAlenney.

Robert Glasspiegel
Langen McAlenney

A question for Craig and a question for Tom. My question for Craig; thank you for your April commentary; that was a pre-tax or after-tax number, on the gain, the $550 million?

D. Craig Mense

That's pre-tax Bob.

Robert Glasspiegel
Langen McAlenney

You said $1.8 billion of your topical assets mature in '09, the MBS/CMO/ABS/CDO?

D. Craig Mense

Yes, principal payments were $1.8 billion in '09.

Robert Glasspiegel
Langen McAlenney

What are the unrealized losses on that segment; ballpark?

D. Craig Mense

Of that $1.8 billion, I am not sure; why don't you go onto Tom's question, while I look that up.

Robert Glasspiegel
Langen McAlenney

I am interested in basically any data of what the duration of your underwater assets are and how much of it will we see that you actually did a pretty good job on your asset selection in a relatively quick time period; any data that would report that?

D. Craig Mense

Here are a couple of things you can keep in mind. First, the weighted average life of the entire structured portfolio is something around 3 years, and this quarter as an example, you saw the book value to that portfolio go down $500 million or $600 million, $465 million was principal repayment and some of that was just market value changes.

Robert Glasspiegel
Langen McAlenney

It if goes by maturing, it's good; if it goes down by declines, it's less good.

D. Craig Mense

That's right. I would also tell you that $150 million of that $465 million was from sub-prime in all day. So, all this stuff was paying off relatively quickly and is in something you want to see emerge fairly quickly over time.

Robert Glasspiegel
Langen McAlenney

If you could get back to me on the number on the $1.8 billion, that would be great. Tom, any key hires that you've made; you've been on board for 4 months officially. Typically new management brings in new people at key spots.

Thomas F. Motamed

I would say first of all Bob, we're going to be continually upgrading talent where it's needed. We did hire a new leader in our wholesale, excess, surplus lines area by the name of John Angerami who has a long experience in the P&C industry and in particular did run a wholesale excess surplus lines operations for another carrier, and we're looking to build that out pretty quickly. We will in that area as you probably know hire teams of people because that's the way that business operates. So we are very actively in the marketplace looking for teams to build out our excess surplus lines capability today, but we are looking to upgrade where necessary and we have a lot of searches underway.

Robert Glasspiegel
Langen McAlenney

You are pleased with the overall financial systems talents with the company?

Thomas F. Motamed

Yes. More detail that I could choke a horse. There's lots of information here and a lot of our decisions obviously going forward on strategy are based on the ability to do deep dives and surgical cuttings of the business so that we have pretty good confidence that the areas that we have picked out are going to be profitable for us going forward.

Operator

We'll go next to Daniel Johnson - Citadel Investment Group.

Daniel Johnson
Citadel Investment Group

Two question, one on the business and one on the portfolio. On the business, within the standard lines, if you can look out over the next year or so, looking at pricing, expectations, looking at competitive environment, looking at at-loss inflation scenarios; what's the realistic timeframe for getting the combined back down below 100 and given the trend that is on, does it have a better chance of hitting 110?

Thomas F. Motamed

I guess to start we wouldn't even mention 110 around here. You're going in the wrong direction. Clearly, we're looking at what we call our standard lines portfolio. There are certain areas of the portfolio that are underperforming and we are either taking action in the form of non-renewal or significant rate increases and if that business leaves, so be it, but we're not going to tolerate under-pricing on our portfolio. So, you've seen rate improvement in the quarter over last year's first quarter and improved over year-end 2008; so we continue to push rate. As I said there is no deterioration in terms and conditions which we believe will help us on the loss side over time if we can maintain the portfolio the way we see it. So, we'll continue to push rate in the standard lines. We wrote a lot of new business. New business in the first quarter of '09 was 13% higher than new business in the first quarter of '08. So, we're pretty pleased that we're in the marketplace; we're getting treated favorably in standard lines as well as specialties. So we continue to write new business to replace some of that business we're running off, but quite honestly is not profitable. We believe that the business that we're writing today is priced quite sufficiently to have an underwriting profit well below 100.

Daniel Johnson
Citadel Investment Group

The business you're dropping obviously is not that acceptable in profitability, but for a decent part of the business, aren't we still looking at an upside down gap between most pricing trends and most loss cost trends to drive that backward?

Thomas F. Motamed

Actually frequency is down, mid single digits; so we view that as a favorable trend. Yes, there is loss cost inflation, but frequency down is a good thing because typically when frequency is up that also breeds severity. So we're optimistic that the decline in frequency will help us over time as we grow the business at I'd say better rates than historic rates.

Daniel Johnson
Citadel Investment Group

One last one on this and then onto the investment question; when you look at the book of business today and segregate it between stuff that you think has got a good chance of what you want to stick with, and again this is just within the standard, and compare that to the book where you're not quite so sure that rates or terms or whatever will change sufficient enough to help with the combined; how big is that second book that we're more apt to get out of than try to price up?

Thomas F. Motamed

It's really not a premium issue as much as it is a loss severity issue. We think any shortfall in premium by running this stuff up, we can make up, and we think we get a much better return by getting rid of this stuff because on the loss ratio side it's considerably higher than what our combined ratio is than what we report. So, we'll be shedding bad business and we'll be adding better business, and from a premium standpoint we don't see a decline because of that run-off.

Daniel Johnson
Citadel Investment Group

The question on the asset side for Craig; would you point out if you would an asset class or two you think that performed very well for you in the first quarter; those of us on the outside who deal with aggregated statistics or high-level indices numbers might not fully have appreciated the performance of CNA's relative to such an index?

D. Craig Mense

Let me offer some comments. We also have with us here today Richard Scott who is our new Chief Investment Officer; so when I finish here, for a second, I'd ask Richard if he would like to add any comments, but the two big areas that performed particularly were what I said in my remarks were tax exempts and corporates, particularly high-yield corporate. So, would you like to add anything to that Richard?

Richard W. Scott

Yes, I think when you look at the dynamics of what was going on in the market in the first quarter, municipals which had really been hammered going into the end of last year staged a very strong recovery. Their pricing much more than offset the backup and treasury rates. Corporates rallied in dramatically in terms of spread and in price performance, the lower rated you were, almost invariably the better your price performance was. Rate movement offset the spread movement with regard to most of the very long duration stuff. So the dollar prices didn't change much on that part of the corporate book, but realistically spreads came in quite dramatically during the first quarter. As Craig mentioned, high yield of all types including our relatively significant bank loan portfolio performed quite well and we used frankly the rallying bank loans to make fairly significant sales out of that portfolio during the first quarter.

Daniel Johnson
Citadel Investment Group

How would you say the non-agency prime portfolio performed?

Richard W. Scott

Non-agency prime was probably an underperformer for the quarter relative to the rest of the book.

Daniel Johnson
Citadel Investment Group

Down a couple percent or something bigger would you say?

Richard W. Scott

That's probably fair.

Operator

We'll go next to Jeffrey Payne - Private Management Group.

Jeffrey Payne
Private Management Group

You somewhat answered my question in that last call there. I was trying to get an understanding of the dynamics where you have the realized losses in the quarter, but such a good improvement in the OCI there. Just the dynamics where you have the realized losses in the quarter, but OCI actually showed pretty good improvement.

D. Craig Mense

You do remember that the investments were carried out and we've been very disciplined about always carrying our investments at actual prices and market value. So, those investments were already carried at those lower market values when we decided to recognize the impairment. So, they really had no impact on OCI and the recognition and they had limited impact on regulatory capital because they were also carried as the market values from the regulatory standpoint.

Operator

We'll go next to Richard L. Greenberg - Donald Smith & Co.

Richard L. Greenberg
Donald Smith & Co.

Craig, you filed a $2 billion mix security shelf which included everything including common stock and warrants; I'm just wondering what was the reasoning behind that and could you tell us the scenario barring a further major decline in your credit portfolio, your investment portfolio; under what situation would you possibly issue common stock, convertible stock, warrants, anything dilutive to the current book value?

D. Craig Mense

The reason for the registration was just simply to keep fresh our shelves so that we could in the event that the market conditions improve go to the market for either debt or equity. At this point in time I don't really foresee any circumstances that are going to lead us, again barring as you said a significant decline in assets or asset values, going to the market for additional equity.

Operator

At this time we have no further questions. I would like to turn the conference back over to Nancy Bufalino for any additional or closing remarks.

Nancy M. Bufalino

Thank you, Jessica, and thank you all, for joining us today. Once again, I call your attention to the disclosures concerning forward-looking statements and non-GAAP measures. A taped replay of today's conference call will be available for one week immediately following this call until May 11th. You can see the replay details in our earnings release. We appreciate your participation in today's call. Thank you again for joining us.

Operator

That does conclude today's conference. We thank you for your participation.