CNA FINANCIAL CORP
Form 10-Q
August 01, 2016

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

FORM 10-Q
[x]
QUARTERLY
REPORT
PURSUANT
TO SECTION
13 OR 15(d)
OF THE
SECURITIES
EXCHANGE
ACT OF 1934
For the quarterly period ended June 30, 2016
OR
[ ]
TRANSITION
REPORT
PURSUANT
TO SECTION
13 OR 15(d)
OF THE
SECURITIES
EXCHANGE
ACT OF 1934
For the transition period from _____ to _____
Commission File Number 1-5823

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

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

(312) 822-5000
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [x] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [x] No [ ]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [x]
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 28, 2016
Common Stock, Par value $2.50	270,483,164

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

Periods ended June 30	Three Months		Six Months	
(In millions, except per share data)	2016	2015	2016	2015
Revenues				
Net earned premiums	$1,730	$1,735	$3,429	$3,422
Net investment income	502	500	937	1,058
Net realized investment gains (losses)				
Other-than-temporary impairment losses	(15)	(31)	(38)	(43)
Other net realized investment gains	31	31	18	53
Net realized investment gains (losses)	16	—	(20)	10
Other revenues	100	92	197	189
Total revenues	2,348	2,327	4,543	4,679
Claims, Benefits and Expenses				
Insurance claims and policyholders' benefits	1,339	1,469	2,747	2,808
Amortization of deferred acquisition costs	305	314	612	617
Other operating expenses	378	341	759	699
Interest	38	39	80	78
Total claims, benefits and expenses	2,060	2,163	4,198	4,202
Income before income tax	288	164	345	477
Income tax expense	(79)	(26)	(70)	(106)
Net income	$209	$138	$275	$371
Basic earnings per share	$0.77	$0.51	$1.02	$1.37
Diluted earnings per share	$0.77	$0.51	$1.02	$1.37
Dividends declared per share	$0.25	$0.25	$2.50	$2.50
Weighted Average Outstanding Common Stock and Common Stock Equivalents				
Basic	270.5	270.3	270.4	270.2
Diluted	270.9	270.7	270.9	270.7

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

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

Periods ended June 30	Three Months		Six Months	
(In millions)	2016	2015	2016	2015
Comprehensive Income (Loss)				
Net income	$209	$138	$275	$371
Other Comprehensive Income (Loss), Net of Tax				
Changes in:				
Net unrealized gains on investments with other-than-temporary impairments	(1)	(4)	4	(5)
Net unrealized gains on other investments	310	(365)	544	(253)
Net unrealized gains on investments	309	(369)	548	(258)
Foreign currency translation adjustment	(48)	49	(34)	(47)
Pension and postretirement benefits	5	42	11	48
Other comprehensive income (loss), net of tax	266	(278)	525	(257)
Total comprehensive income (loss)	$475	$(140)	$800	$114

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

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CNA Financial Corporation
Condensed Consolidated Balance Sheets

(In millions, except share data)	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of $37,838 and $37,253)	$ 41,857	$ 39,572
Equity securities at fair value (cost of $117 and $191)	123	197
Limited partnership investments	2,542	2,548
Other invested assets	33	44
Mortgage loans	610	678
Short term investments	1,384	1,660
Total investments	46,549	44,699
Cash	289	387
Reinsurance receivables (less allowance for uncollectible receivables of $37 and $38)	4,683	4,453
Insurance receivables (less allowance for uncollectible receivables of $45 and $51)	2,368	2,078
Accrued investment income	400	404
Deferred acquisition costs	620	598
Deferred income taxes	293	638
Property and equipment at cost (less accumulated depreciation of $224 and $382)	276	343
Goodwill	147	150
Other assets (includes $2 and $- due from Loews Corporation)	1,281	1,295
Total assets	$ 56,906	$ 55,045
Liabilities		
Insurance reserves:		
Claim and claim adjustment expenses	$ 22,975	$ 22,663
Unearned premiums	3,865	3,671
Future policy benefits	11,140	10,152
Short term debt	—	350
Long term debt	2,708	2,210
Other liabilities (includes $12 and $82 due to Loews Corporation)	4,332	4,243
Total liabilities	45,020	43,289
Commitments and contingencies (Notes C, F and H)		
Stockholders' Equity		
Common stock ($2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; 270,483,164 and 270,274,361 shares outstanding)	683	683
Additional paid-in capital	2,155	2,153
Retained earnings	8,911	9,313
Accumulated other comprehensive income (loss)	210	(315)
Treasury stock (2,557,079 and 2,765,882 shares), at cost	(73)	(78)
Total stockholders’ equity	11,886	11,756
Total liabilities and stockholders' equity	$ 56,906	$ 55,045

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

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

Six months ended June 30		
(In millions)	2016	2015
Cash Flows from Operating Activities		
Net income	$275	$371
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Deferred income tax expense	63	32
Trading portfolio activity	(7)	1
Net realized investment losses (gains)	20	(10)
Equity method investees	230	(48)
Net amortization of investments	(10)	(13)
Depreciation and amortization	39	39
Changes in:		
Receivables, net	(540)	(211)
Accrued investment income	4	8
Deferred acquisition costs	(25)	(8)
Insurance reserves	666	451
Other assets	(106)	(60)
Other liabilities	(27)	(94)
Other, net	31	82
Total adjustments	338	169
Net cash flows provided by operating activities	613	540
Cash Flows from Investing Activities		
Dispositions:		
Fixed maturity securities - sales	3,066	2,859
Fixed maturity securities - maturities, calls and redemptions	1,247	2,304
Equity securities	72	33
Limited partnerships	124	85
Mortgage loans	109	19
Purchases:		
Fixed maturity securities	(4,874)	(5,029)
Equity securities	—	(30)
Limited partnerships	(206)	(78)
Mortgage loans	(41)	(60)
Change in other investments	11	8
Change in short term investments	281	33
Purchases of property and equipment	(65)	(57)
Disposals of property and equipment	107	—
Other, net	2	—
Net cash flows (used) provided by investing activities	$(167)	$87

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

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Six months ended June 30		
(In millions)	2016	2015
Cash Flows from Financing Activities		
Dividends paid to common stockholders	$(677)	$(676)
Proceeds from the issuance of debt	498	—
Repayment of debt	(358)	—
Other, net	(1)	6
Net cash flows used by financing activities	(538)	(670)
Effect of foreign exchange rate changes on cash	(6)	(2)
Net change in cash	(98)	(45)
Cash, beginning of year	387	190
Cash, end of period	$289	$145

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

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CNA Financial Corporation
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)
Six months ended June 30

(In millions)	2016	2015
Common Stock		
Balance, beginning of year	$683	$683
Balance, end of period	683	683
Additional Paid-in Capital		
Balance, beginning of year	2,153	2,151
Stock-based compensation	2	(5)
Balance, end of period	2,155	2,146
Retained Earnings		
Balance, beginning of year	9,313	9,645
Dividends paid to common stockholders	(677)	(676)
Net income	275	371
Balance, end of period	8,911	9,340
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of year	(315)	400
Other comprehensive income (loss)	525	(257)
Balance, end of period	210	143
Treasury Stock		
Balance, beginning of year	(78)	(84)
Stock-based compensation	5	6
Balance, end of period	(73)	(78)
Notes Receivable for the Issuance of Common Stock		
Balance, beginning of year	—	(1)
Decrease in notes receivable for common stock	—	1
Balance, end of period	—	—
Total stockholders' equity	$11,886	$12,234

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

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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 90% of the outstanding common stock of CNAF as of June 30, 2016.
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, including certain financial statement notes, prepared in accordance with GAAP, is not required for interim reporting purposes and has been condensed or omitted. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in CNAF's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2015, 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 June 30, 2016 and for the three and six months ended June 30, 2016 and 2015 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)
In April 2015, the Financial Accounting Standards Board (FASB) issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The updated accounting guidance requires debt issuance costs to be presented as a deduction from the corresponding debt liability instead of the historical presentation as an unamortized debt issuance asset. As of January 1, 2016, the Company adopted the updated accounting guidance retrospectively. The Company adjusted its previously reported financial information included herein to reflect the change in accounting guidance for debt issuance costs. The impacts of adopting the new accounting standard on the Company’s Consolidated Balance Sheet as of December 31, 2015, were a decrease in Other assets and a decrease in Long term debt of $2 million.
In May 2015, the FASB issued ASU No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The updated accounting guidance removes the requirement to categorize assets measured at fair value utilizing the net asset value per share (or equivalent) practical expedient within the fair value hierarchy. As of January 1, 2016, the Company adopted the updated accounting guidance retrospectively. The Company adjusted its previously reported financial information included herein to reflect the change in accounting guidance for assets measured using the net asset value. The impact of adopting the new accounting standard resulted in excluding overseas deposits of $28 million and $27 million from the fair value level disclosure as of June 30, 2016 and December 31, 2015.

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Accounting Standards Pending Adoption

In May 2015, the FASB issued ASU No. 2015-09, Financial Services-Insurance (Topic 944): Disclosures about Short-Duration Contracts. The updated accounting guidance requires enhanced disclosures to provide additional information about insurance liabilities for short-duration contracts. The guidance is effective for annual periods beginning after December 15, 2015, and interim periods within the annual periods beginning after December 15, 2016. The Company is currently evaluating the effect the updated guidance will have on the Company's financial statement disclosures but expects to provide additional incurred and paid claims development information by accident year, quantitative information about claim frequency and the history of claims duration for significant lines of business within the Company’s annual financial statements.

In January 2016, the FASB issued ASU No. 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 is currently evaluating the effect the guidance will have on the Company's financial statements, and expects the primary change for the Company 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.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842): Accounting for Leases. The updated accounting guidance requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by all leases, including those historically accounted for as operating leases. The guidance is effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the effect the updated guidance will have on the Company's financial statements.

In March 2016, the FASB issued ASU No. 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, classification of awards as either equity or liabilities and classification on the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The Company is currently evaluating the effect the updated guidance will have on the Company’s financial statements.

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 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 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. The allowance method for available-for-sale debt securities will allow the Company to record reversals of credit losses when the estimate of credit losses declines.

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Note B. Earnings Per Share

Earnings per share is based on the weighted average number of outstanding common shares. Basic earnings (loss) per share excludes the effect 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 and six months ended June 30, 2016, approximately 409 thousand and 473 thousand potential shares attributable to exercises under stock-based employee compensation plans were included in the calculation of diluted earnings per share. For those same periods, approximately 178 thousand and 180 thousand potential shares attributable to exercises under stock-based employee compensation plans were not included in the calculation of diluted earnings per share because the effect would have been antidilutive.

For the three and six months ended June 30, 2015, approximately 423 thousand and 543 thousand potential shares attributable to exercises under stock-based employee compensation plans were included in the calculation of diluted earnings per share. For those same periods, approximately 238 thousand and 208 thousand potential shares attributable to exercises under stock-based employee compensation plans were not included in the calculation of diluted earnings per share because the effect would have been antidilutive.

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Note C. Investments

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

Periods ended June 30	Three Months		Six Months	
(In millions)	2016	2015	2016	2015
Fixed maturity securities	$449	$452	$895	$895
Equity securities	4	3	7	6
Limited partnership investments	46	48	32	162
Mortgage loans	13	9	22	17
Short term investments	1	—	4	2
Trading portfolio	4	3	6	5
Gross investment income	517	515	966	1,087
Investment expense	(15)	(15)	(29)	(29)
Net investment income	$502	$500	$937	$1,058

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

Periods ended June 30	Three Months		Six Months	
(In millions)	2016	2015	2016	2015
Net realized investment gains (losses):				
Fixed maturity securities:				
Gross realized gains	$40	$36	$85	$69
Gross realized losses	(24)	(48)	(86)	(69)
Net realized investment gains (losses) on fixed maturity securities	16	(12)	(1)	—
Equity securities:				
Gross realized gains	4	—	4	1
Gross realized losses	(1)	(1)	(6)	(2)
Net realized investment gains (losses) on equity securities	3	(1)	(2)	(1)
Derivative financial instruments	(6)	11	(13)	10
Short term investments and other	3	2	(4)	1
Net realized investment gains (losses)	$16	$—	$(20)	$10

Net realized investment losses for the six months ended June 30, 2016 include $8 million related to the redemption of the Company's $350 million senior notes due August 2016.

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

Periods ended June 30	Three Months		Six Months	
(In millions)	2016	2015	2016	2015
Fixed maturity securities available-for-sale:				
Corporate and other bonds	$13	$ 11	$29	$ 16
States, municipalities and political subdivisions	—	13	—	18
Asset-backed:				
Residential mortgage-backed	1	5	1	6
Other asset-backed	1	1	3	1
Total asset-backed	2	6	4	7
Total fixed maturity securities available-for-sale	15	30	33	41
Equity securities available-for-sale -- Common stock	—	—	5	1
Short term investments	—	1	—	1
OTTI losses recognized in earnings	$15	$ 31	$38	$ 43

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The following tables present a summary of fixed maturity and equity securities.

June 30, 2016 (In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
Fixed maturity securities available-for-sale:					
Corporate and other bonds	$ 17,613	$ 1,684	$ 93	$ 19,204	$ (1)
States, municipalities and political subdivisions	11,661	2,114	2	13,773	(25)
Asset-backed:					
Residential mortgage-backed	4,994	215	20	5,189	(21)
Commercial mortgage-backed	2,080	91	8	2,163	—
Other asset-backed	928	8	5	931	—
Total asset-backed	8,002	314	33	8,283	(21)
U.S. Treasury and obligations of government-sponsored enterprises	81	11	—	92	—
Foreign government	438	22	—	460	—
Redeemable preferred stock	33	2	—	35	—
Total fixed maturity securities available-for-sale	37,828	4,147	128	41,847	$ (47)
Total fixed maturity securities trading	10			10	
Equity securities available-for-sale:					
Common stock	20	5	2	23	
Preferred stock	97	6	3	100	
Total equity securities available-for-sale	117	11	5	123	
Total	$ 37,955	$ 4,158	$ 133	$ 41,980	

December 31, 2015 (In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
Fixed maturity securities available-for-sale:					
Corporate and other bonds	$ 17,080	$ 1,019	$ 342	$ 17,757	$ —
States, municipalities and political subdivisions	11,729	1,453	8	13,174	(4)
Asset-backed:					
Residential mortgage-backed	4,935	154	17	5,072	(37)
Commercial mortgage-backed	2,154	55	12	2,197	—
Other asset-backed	923	6	8	921	—
Total asset-backed	8,012	215	37	8,190	(37)
U.S. Treasury and obligations of government-sponsored enterprises	62	5	—	67	—
Foreign government	334	13	1	346	—
Redeemable preferred stock	33	2	—	35	—
Total fixed maturity securities available-for-sale	37,250	2,707	388	39,569	$ (41)
Total fixed maturity securities trading	3			3	
Equity securities available-for-sale:					
Common stock	46	3	1	48	
Preferred stock	145	7	3	149	
Total equity securities available-for-sale	191	10	4	197	
Total	$ 37,444	$ 2,717	$ 392	$ 39,769	

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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 any required Shadow Adjustments. To the extent that unrealized gains on fixed income securities supporting certain products within the Life & Group Non-Core segment would result in a premium deficiency if realized, a related 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 June 30, 2016 and December 31, 2015, the net unrealized gains on investments included in AOCI were correspondingly reduced by Shadow Adjustments of $1,682 million and $1,111 million.

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

June 30, 2016	Less than 12 Months		12 Months or Longer		Total	
(In millions)	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities available-for-sale:						
Corporate and other bonds	$1,032	$ 43	$562	$ 50	$1,594	$ 93
States, municipalities and political subdivisions	68	2	10	—	78	2
Asset-backed:						
Residential mortgage-backed	293	8	234	12	527	20
Commercial mortgage-backed	386	7	118	1	504	8
Other asset-backed	306	5	5	—	311	5
Total asset-backed	985	20	357	13	1,342	33
Foreign government	8	—	5	—	13	—
Total fixed maturity securities available-for-sale	2,093	65	934	63	3,027	128
Equity securities available-for-sale:						
Common stock	4	2	—	—	4	2
Preferred stock	23	3	—	—	23	3
Total equity securities available-for-sale	27	5	—	—	27	5
Total	$2,120	$ 70	$934	$ 63	$3,054	$ 133

December 31, 2015	Less than 12 Months		12 Months or Longer		Total	
(In millions)	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities available-for-sale:						
Corporate and other bonds	$4,882	$ 302	$162	$ 40	$5,044	$ 342
States, municipalities and political subdivisions	338	8	75	—	413	8
Asset-backed:						
Residential mortgage-backed	963	9	164	8	1,127	17
Commercial mortgage-backed	652	10	96	2	748	12
Other asset-backed	552	8	5	—	557	8
Total asset-backed	2,167	27	265	10	2,432	37
U.S. Treasury and obligations of government-sponsored enterprises	4	—	—	—	4	—
Foreign government	54	1	—	—	54	1
Redeemable preferred stock	3	—	—	—	3	—
Total fixed maturity securities available-for-sale	7,448	338	502	50	7,950	388
Equity securities available-for-sale:						
Common stock	3	1	—	—	3	1
Preferred stock	13	3	—	—	13	3
Total equity securities available-for-sale	16	4	—	—	16	4
Total	$7,464	$ 342	$502	$ 50	$7,966	$ 392

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Based on current facts and circumstances, the Company believes the unrealized losses presented in the June 30, 2016 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 June 30, 2016.

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 June 30, 2016 and 2015 for which a portion of an OTTI loss was recognized in Other comprehensive income (loss).

Periods ended June 30	Three Months		Six Months	
(In millions)	2016	2015	2016	2015
Beginning balance of credit losses on fixed maturity securities	$48	$61	$53	$62
Reductions for securities sold during the period	(7)	(2)	(12)	(3)
Ending balance of credit losses on fixed maturity securities	$41	$59	$41	$59

Contractual Maturity

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

	June 30, 2016		December 31, 2015	
(In millions)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$1,817	$ 1,855	$1,574	$ 1,595
Due after one year through five years	8,616	9,114	7,721	8,070
Due after five years through ten years	14,583	15,466	14,652	14,915
Due after ten years	12,812	15,412	13,303	14,989
Total	$37,828	$ 41,847	$37,250	$ 39,569

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 funds withheld liability with a notional value of $177 million and $179 million as of June 30, 2016 and December 31, 2015 and a fair value of $8 million and $(5) million as of June 30, 2016 and December 31, 2015. The embedded derivative on 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 June 30, 2016, the Company had committed approximately $365 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

As of June 30, 2016, the Company had mortgage loan commitments of $59 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 June 30, 2016, the Company had commitments to purchase or fund additional amounts of $198 million and sell $95 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 include i) the review of pricing service or broker pricing methodologies, ii) back-testing, where past fair value estimates are compared to actual transactions executed in the market on similar dates, iii) exception reporting, where 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.

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Assets and Liabilities Measured at Fair Value

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

June 30, 2016 (In millions)	Level 1	Level 2	Level 3	Total Assets/Liabilities at Fair Value
Assets				
Fixed maturity securities:				
Corporate and other bonds	$—	$18,972	$242	$ 19,214
States, municipalities and political subdivisions	—	13,771	2	13,773
Asset-backed:				
Residential mortgage-backed	—	5,055	134	5,189
Commercial mortgage-backed	—	2,152	11	2,163
Other asset-backed	—	886	45	931
Total asset-backed	—	8,093	190	8,283
U.S. Treasury and obligations of government-sponsored enterprises	91	1	—	92
Foreign government	—	460	—	460
Redeemable preferred stock	35	—	—	35
Total fixed maturity securities	126	41,297	434	41,857
Equity securities	104	—	19	123
Other invested assets	—	5	—	5
Short term investments	339	950	—	1,289
Life settlement contracts, included in Other assets	—	—	67	67
Total assets	$569	$42,252	$520	$ 43,341
Liabilities				
Other liabilities	$—	$8	$—	$ 8
Total liabilities	$—	$8	$—	$ 8

December 31, 2015 (In millions)	Level 1	Level 2	Level 3	Total Assets/Liabilities at Fair Value
Assets				
Fixed maturity securities:				
Corporate and other bonds	$—	$17,592	$168	$ 17,760
States, municipalities and political subdivisions	—	13,172	2	13,174
Asset-backed:				
Residential mortgage-backed	—	4,938	134	5,072
Commercial mortgage-backed	—	2,175	22	2,197
Other asset-backed	—	868	53	921
Total asset-backed	—	7,981	209	8,190
U.S. Treasury and obligations of government-sponsored enterprises	66	1	—	67
Foreign government	—	346	—	346
Redeemable preferred stock	35	—	—	35
Total fixed maturity securities	101	39,092	379	39,572
Equity securities	177	—	20	197
Other invested assets	—	17	—	17
Short term investments	448	1,134	—	1,582
Life settlement contracts, included in Other assets	—	—	74	74
Total assets	$726	$40,243	$473	$ 41,442
Liabilities				
Other liabilities	$—	$(5)	$—	$ (5)

Total liabilities	$—	$(5)	$—	$ (5)

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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)	Balance as of April 1, 2016	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in Net income (loss)*	Net change in unrealized appreciation (depreciation) included in Other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance as of June 30, 2016	Unrealized gains (losses) on Level 3 assets and liabilities held as of June 30, 2016 recognized in Net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	$ 193	$ 1	$ 3	$ 94	$ (20)	$ (7)	$ —	$ (22)	$ 242	$ —
States, municipalities and political subdivisions	2	—	—	—	—	—	—	—	2	—
Asset-backed:										
Residential mortgage-backed	128	1	(1)	10	—	(4)	—	—	134	—
Commercial mortgage-backed	27	—	—	—	—	(9)	3	(10)	11	—
Other asset-backed	50	—	2	35	(25)	(1)	—	(16)	45	—
Total asset-backed	205	1	1	45	(25)	(14)	3	(26)	190	—
Total fixed maturity securities	400	2	4	139	(45)	(21)	3	(48)	434	—
Equity securities	19	—	—	—	—	—	—	—	19	—
Life settlement contracts	72	6	—	—	—	(11)	—	—	67	(3)
Total	$ 491	$ 8	$ 4	$ 139	$ (45)	$ (32)	$ 3	$ (48)	$ 520	$ (3)

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Level 3 (In millions)	Balance as of April 1, 2015	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in Net income (loss)*	Net change in unrealized appreciation (depreciation) included in Other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance as of June 30, 2015	Unrealized gains (losses) on Level 3 assets and liabilities held as of June 30, 2015 recognized in Net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	$ 186	$ (2)	$ (1)	$ —	$ —	$ (7)	$ —	$ (35)	$ 141	$ (3)
States, municipalities and political subdivisions	86	—	—	—	—	(1)	—	—	85	—
Asset-backed:										
Residential mortgage-backed	232	1	(2)	—	—	(11)	—	(13)	207	—
Commercial mortgage-backed	64	1	(1)	9	—	(1)	17	(2)	87	—
Other asset-backed	553	2	1	47	(90)	(17)	—	(6)	490	—
Total asset-backed	849	4	(2)	56	(90)	(29)	17	(21)	784	—
Total fixed maturity securities	1,121	2	(3)	56	(90)	(37)	17	(56)	1,010	(3)
Equity securities	13	—	3	—	—	—	—	—	16	—
Life settlement contracts	79	4	—	—	—	(8)	—	—	75	(2)
Total	$ 1,213	$ 6	$ —	$ 56	$ (90)	$ (45)	$ 17	$ (56)	$ 1,101	$ (5)

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Level 3 (In millions)	Balance as of January 1, 2016	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in Net income (loss)*	Net change in unrealized appreciation (depreciation) included in Other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance as of June 30, 2016	Unrealized gains (losses) on Level 3 assets and liabilities held as of June 30, 2016 recognized in Net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	$ 168	$ —	$ 7	$ 147	$ (36)	$ (10)	$ —	$ (34)	$ 242	$ —
States, municipalities and political subdivisions	2	—	—	—	—	—	—	—	2	—
Asset-backed:										
Residential mortgage-backed	134	2	(1)	10	—	(9)	—	(2)	134	—
Commercial mortgage-backed	22	—	—	9	—	(9)	3	(14)	11	—
Other asset-backed	53	—	2	35	(25)	(1)	2	(21)	45	—
Total asset-backed	209	2	1	54	(25)	(19)	5	(37)	190	—
Total fixed maturity securities	379	2	8	201	(61)	(29)	5	(71)	434	—
Equity securities	20	—	(1)	—	—	—	—	—	19	—
Life settlement contracts	74	10	—	—	—	(17)	—	—	67	(3)
Total	$ 473	$ 12	$ 7	$ 201	$ (61)	$ (46)	$ 5	$ (71)	$ 520	$ (3)

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Level 3 (In millions)	Balance as of January 1, 2015	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in Net income (loss)*	Net change in unrealized appreciation (depreciation) included in Other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance as of June 30, 2015	Unrealized gains (losses) on Level 3 assets and liabilities held as of June 30, 2015 recognized in Net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	$ 162	$ (1)	$ (1)	$ 12	$ (12)	$ (21)	$ 37	$ (35)	$ 141	$ (3)
States, municipalities and political subdivisions	94	1	—	—	—	(10)	—	—	85	—
Asset-backed:										
Residential mortgage-backed	189	2	(2)	72	—	(21)	—	(33)	207	—
Commercial mortgage-backed	83	2	—	15	—	(2)	17	(28)	87	—
Other asset-backed	655	3	10	82	(234)	(20)	—	(6)	490	—
Total asset-backed	927	7	8	169	(234)	(43)	17	(67)	784	—
Total fixed maturity securities	1,183	7	7	181	(246)	(74)	54	(102)	1,010	(3)
Equity securities	16	—	—	—	—	—	—	—	16	—
Life settlement contracts	82	17	—	—	—	(24)	—	—	75	(1)
Total	$ 1,281	$ 24	$ 7	$ 181	$ (246)	$ (98)	$ 54	$ (102)	$ 1,101	$ (4)

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*Net realized and unrealized gains and losses from Level 3 securities and derivatives are reported in Net income (loss) as follows:

Major Category of Assets and Liabilities	Condensed Consolidated Statements of Operations Line Items
Fixed maturity securities available-for-sale (1)	Net realized investment gains (losses)
Fixed maturity securities trading	Net investment income
Equity securities (1)	Net realized investment gains (losses)
Other invested assets - Derivative financial instruments held in a trading portfolio	Net investment income
Other invested assets - Derivative financial instruments not held in a trading portfolio	Net realized investment gains (losses)
Life settlement contracts	Other revenues
Other liabilities - Derivative financial instruments	Net realized investment gains (losses)

(1) Unrealized gains and losses are reported within AOCI.

Securities shown on the previous pages 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. During the three and six months ended June 30, 2016 and 2015 there were no transfers between Level 1 and Level 2. The Company's policy is to recognize transfers between levels at the beginning of quarterly reporting periods.

Valuation Methodologies and Inputs

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

Fixed Maturity Securities

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 non-redeemable preferred stocks and common stocks 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.

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Other invested assets - Federal Home Loan Bank of Chicago (FHLBC) Stock
The fair value of FHLBC stock is equal to par because it can only be redeemed by the FHLBC at par or sold to another member of the FHLBC at par and is classified as Level 2.
Short Term Investments
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 valued consistent with fixed maturity securities discussed above. Short term investments as presented in the tables above differ from the amounts presented on the Condensed Consolidated Balance Sheets because certain short term investments, such as time deposits, are not measured at fair value.
Life Settlement Contracts
The fair values of life settlement contracts are determined as the present value of the anticipated death benefits less anticipated premium payments based on contract terms that are distinct for each insured, as well as the Company's own assumptions for mortality, premium expense and the rate of return that a buyer would require on the contracts, as no comparable market pricing data is available.
Derivative Financial Investments
Level 2 securities primarily include the embedded derivative on 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.
Other invested assets - Overseas Deposits
As of June 30, 2016 and December 31, 2015, there were approximately $28 million and $27 million respectively of overseas deposits, 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.
Significant Unobservable Inputs
The following tables present quantitative information about the significant unobservable inputs utilized by the Company in the fair value measurement 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.

June 30, 2016	Estimated Fair Value (In millions)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Fixed maturity securities	$ 226	Discounted cash flow	Credit spread	1% - 40% (6%)
Life settlement contracts	67	Discounted cash flow	Discount rate risk premium	9%
			Mortality assumption	55% - 1676% (162%)

December 31, 2015	Estimated Fair Value (In millions)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Fixed maturity securities	$ 138	Discounted cash flow	Credit spread	3% - 184% (6%)
Life settlement contracts	74	Discounted cash flow	Discount rate risk premium	9%
			Mortality assumption	55% - 1676% (164%)

For fixed maturity securities, an increase to the credit spread assumptions would result in a lower fair value measurement. For life settlement contracts, an increase in the discount rate risk premium or decrease in the mortality assumption would result in a lower fair value measurement.

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Financial Assets and Liabilities Not Measured at Fair Value

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

June 30, 2016	Carrying	Estimated Fair Value			
(In millions)	Amount	Level 1	Level 2	Level 3	Total
Assets					
Mortgage loans	$ 610	$—	$—	$ 638	$ 638
Liabilities					
Long term debt	$ 2,708	$—	$ 3,024	$ —	$ 3,024

December 31, 2015	Carrying	Estimated Fair Value			
(In millions)	Amount	Level 1	Level 2	Level 3	Total
Assets					
Mortgage loans	$ 678	$—	$—	$ 688	$ 688
Liabilities					
Short term debt	$ 350	$—	$ 360	$ —	$ 360
Long term debt	2,210	—	2,433	—	2,433

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

The fair value of Mortgage loans was 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 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

The Company's 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 such historical patterns as field reserving trends and claims settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions including inflation and public attitudes. All of these factors can affect the estimation of claim and claim adjustment expense reserves.

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

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company's results of operations and/or equity. The Company reported catastrophe losses, net of reinsurance, of $85 million and $121 million for the three and six months ended June 30, 2016. Catastrophe losses in 2016 resulted primarily from U.S. weather-related events and the Fort McMurray wildfires. The Company reported catastrophe losses, net of reinsurance, of $60 million and $89 million for the three and six months ended June 30, 2015.

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Net Prior Year Development

The following tables and discussion present the net prior year development.

Three months ended June 30, 2016

(In millions)	Specialty	Commercial	International	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$ (65)	$ (18)	$ (15)	$ —	$ (98)
Pretax (favorable) unfavorable premium development	(7)	(2)	1	—	(8)
Total pretax (favorable) unfavorable net prior year development	$ (72)	$ (20)	$ (14)	$ —	$ (106)

Three months ended June 30, 2015

(In millions)	Specialty	Commercial	International	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$ (13)	$ 16	$ (8)	$ —	$ (5)
Pretax (favorable) unfavorable premium development	(2)	(11)	(2)	—	(15)
Total pretax (favorable) unfavorable net prior year development	$ (15)	$ 5	$ (10)	$ —	$ (20)

Six months ended June 30, 2016

(In millions)	Specialty	Commercial	International	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$ (99)	$ (32)	$ (19)	$ —	$ (150)
Pretax (favorable) unfavorable premium development	(18)	(4)	—	—	(22)
Total pretax (favorable) unfavorable net prior year development	$ (117)	$ (36)	$ (19)	$ —	$ (172)

Six months ended June 30, 2015

(In millions)	Specialty	Commercial	International	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$ (11)	$ 11	$ (12)	$ —	$ (12)
Pretax (favorable) unfavorable premium development	(8)	(12)	14	—	(6)
Total pretax (favorable) unfavorable net prior year development	$ (19)	$ (1)	$ 2	$ —	$ (18)

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Specialty

The following table presents further detail of the net prior year claim and allocated claim adjustment expense reserve development (development) recorded for the Specialty segment.

Periods ended June 30	Three Months		Six Months	
(In millions)	2016	2015	2016	2015
Pretax (favorable) unfavorable development:				
Medical Professional Liability	$(23)	$(6)	$(30)	$8
Other Professional Liability and Management Liability	(41)	(1)	(50)	(4)
Surety	—	—	—	1
Warranty	3	1	5	1
Other	(4)	(7)	(24)	(17)
Total pretax (favorable) unfavorable development	$(65)	$(13)	$(99)	$(11)

Three Months

2016

Favorable development in medical professional liability was due to lower than expected severity for individual healthcare professionals and allied facilities for accident years 2014 and prior.

Favorable development in other professional liability and management liability was primarily related to lower than expected frequency of claims in accident years 2010 through 2015, mainly driven by professional services. This was partially offset by unfavorable development in accident year 2015 related to an increase in management liability frequency of larger claims.

2015

Overall, favorable development in medical professional liability was primarily due to lower than expected severity for individual healthcare professionals and allied facilities in accident years 2009 through 2012. Unfavorable development was recorded related to increased claim frequency in the aging services business in accident years 2009 and 2010.

Favorable development of $38 million was recorded in other professional liability and management liability related to lower than expected severity for professional services primarily in accident years 2010 and prior. Unfavorable development of $37 million was recorded primarily related to increased claim frequency on public company management liability in accident years 2012 through 2014.

Favorable development for other coverages was primarily due to better than expected claim frequency in property coverages provided to Specialty customers in accident year 2014.

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Six Months
2016
Favorable development for medical professional liability was primarily due to lower than expected severities for individual healthcare professionals, allied facilities, and hospitals in accident years 2011 and prior. This was partially offset by unfavorable development in accident years 2012 and 2013 related to higher than expected large loss emergence in hospitals and higher than expected severity in accident years 2014 and 2015 in our aging services business.
Favorable development in other professional liability and management liability was primarily related to lower than expected frequency of claims in accident years 2010 through 2015, mainly driven by professional services. Additional favorable development was related to favorable outcomes on larger claims in 2013 and prior in professional services. This was partially offset by unfavorable development in accident years 2014 and 2015 related to an increase in management liability frequency of larger claims.
Favorable development for other coverages was due to better than expected claim frequency in property coverages provided to Specialty customers in accident year 2015.
2015
Overall, unfavorable development for medical professional liability was primarily related to increased claim frequency in the aging services business for accident years 2009 through 2014, partially offset by lower than expected severity in accident years 2010 and prior. Additional favorable development was due to lower than expected severity for individual healthcare professionals and allied facilities in accident years 2009 through 2012.
Favorable development of $41 million was recorded in other professional liability and management liability primarily related to lower than expected severity in accident years 2010 and prior for professional services. Unfavorable development of $37 million was recorded primarily related to increased claim frequency on public company management liability in accident years 2012 through 2014.
Favorable development for other coverages was primarily due to better than expected claim frequency in property coverages provided to Specialty customers in accident year 2014.

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Commercial

The following table presents further detail of the development recorded for the Commercial segment.

Periods ended June 30	Three Months		Six Months	
(In millions)	2016	2015	2016	2015
Pretax (favorable) unfavorable development:				
Commercial Auto	$(20)	$7	$(35)	$7
General Liability	(37)	1	(52)	5
Workers' Compensation	50	24	54	23
Property and Other	(11)	(16)	1	(24)
Total pretax (favorable) unfavorable development	$(18)	$16	$(32)	$11

Three Months

2016

Favorable development for commercial auto was primarily due to favorable settlements on claims in accident years 2010 through 2014.

Favorable development for general liability was primarily due to better than expected claim settlements in accident years 2012 through 2014 and better than expected severity on umbrella claims in accident years 2010 through 2013.

Unfavorable development for workers’ compensation was due to a reduction in estimated recoveries on war hazard claims for Defense Base Act contractors, which was partially offset by favorable development related to lower than expected frequencies for our small and middle market businesses in accident years 2009 through 2014.

Favorable development for property and other was primarily due to better than expected loss emergence in accident years 2013 through 2015.

2015

In the aggregate, the unfavorable loss development of $16 million was driven by an extra contractual obligation loss and losses associated with premium development. The reserve development discussed below was largely offsetting.

Unfavorable development for workers’ compensation was primarily due to higher than expected severity related to Defense Base Act contractors in accident years 2008 through 2013.

Favorable development for property and other was primarily due to better than expected loss emergence from 2012 catastrophe events and better than expected claim frequency of large claims in accident year 2014.

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Six Months

2016

Favorable development for commercial auto was primarily due to favorable settlements on claims in accident years 2010 through 2014.

Favorable development for general liability was primarily due to better than expected claim settlements in accident years 2012 through 2014 and better than expected severity on umbrella claims in accident years 2010 through 2013.

Unfavorable development for workers' compensation was due to a reduction in estimated recoveries on war hazard claims for Defense Base Act contractors, which was partially offset by favorable development related to lower than expected frequencies for our small and middle market businesses in accident years 2009 through 2014.

Unfavorable development for property and other was primarily due to higher than expected severity from a 2015 catastrophe event. Favorable development was primarily due to better than expected loss emergence in accident years 2013 through 2015.

2015

In addition to the favorable property development noted in the three month discussion, there was additional favorable development for property related to better than expected loss emergence from 2014 catastrophe events.

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International

The following table presents further detail of the development recorded for the International segment.

Periods ended June 30	Three Months		Six Months	
(In millions)	2016	2015	2016	2015
Pretax (favorable) unfavorable development:				
Medical Professional Liability	$(1)	$—	$(1)	$—
Other Professional Liability	18	(5)	17	(5)
Liability	(19)	(2)	(19)	(7)
Property & Marine	(3)	(8)	(7)	(14)
Other	(10)	7	(9)	14
Total pretax (favorable) unfavorable development	$(15)	$(8)	$(19)	$(12)

Three Months

2016

Unfavorable development for other professional liability was primarily due to higher than expected large loss emergence in accident years 2011 through 2015.

Favorable development for liability was primarily due to better than expected severity in accident years 2013 and prior.

Favorable development for other coverages was primarily due to better than expected severity in auto liability in accident years 2011 through 2015.

2015

Favorable development in property and marine was due to better than expected emergence in accident years 2012 through 2014.

Unfavorable development in other is due to large losses in financial institutions and political risk primarily in accident year 2014.

Six Months

2016

Unfavorable development for other professional liability was primarily due to higher than expected large loss emergence in accident years 2011 through 2015.

Favorable development for liability was primarily due to better than expected severity in accident years 2013 and prior.

Favorable development for other coverages was primarily due to better than expected severity in auto liability in accident years 2011 through 2015.

2015

Favorable development in property and marine was due to better than expected emergence in accident years 2012 through 2014.

Unfavorable development in other is due to large losses in financial institutions and political risk primarily in accident year 2014.

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Asbestos and Environmental Pollution Reserves (A&EP)

In 2010, Continental Casualty Company (CCC) together with several of the Company's insurance subsidiaries completed a transaction with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., under which substantially all of the Company's legacy A&EP liabilities were ceded to NICO through a Loss Portfolio Transfer (LPT). At the effective date of the transaction, the Company ceded approximately $1.6 billion of net A&EP claim and allocated claim adjustment expense reserves to NICO under a retroactive reinsurance agreement with an aggregate limit of $4 billion. The $1.6 billion of claim and allocated claim adjustment expense reserves ceded to NICO was net of $1.2 billion of ceded claim and allocated claim adjustment expense reserves under existing third-party reinsurance contracts. The NICO LPT aggregate reinsurance limit also covers credit risk on the existing third-party reinsurance related to these liabilities. The Company paid NICO a reinsurance premium of $2 billion and transferred to NICO billed third-party reinsurance receivables related to A&EP claims with a net book value of $215 million, resulting in total consideration of $2.2 billion.

Through December 31, 2013, the Company recognized $0.9 billion of additional amounts ceded under the LPT. As a result, the cumulative amounts ceded under the LPT exceeded the $2.2 billion consideration paid, resulting in the NICO LPT moving into a gain position, requiring deferred retroactive reinsurance accounting treatment. This deferred gain is recognized in earnings in proportion to actual paid recoveries under the LPT. Over the life of the contract, there is no economic impact as long as any additional losses incurred are within the limit of the LPT. In a period in which a change in the estimate of ceded incurred losses is recognized, the change to the deferred gain is cumulatively recognized in earnings as if the revised estimate was available at the effective date of the LPT.

The following table presents the impact of the Loss Portfolio Transfer on the Condensed Consolidated Statements of Operations.

Periods ended June 30	Three Months		Six Months	
(In millions)	2016	2015	2016	2015
Net A&EP adverse development before consideration of LPT	$—	$150	$200	$150
Provision for uncollectible third-party reinsurance on A&EP	—	—	—	—
Additional amounts ceded under LPT	—	150	200	150
Retroactive reinsurance benefit recognized	(9)	(66)	(82)	(71)
Pretax impact of unrecognized deferred retroactive reinsurance benefit	$(9)	$84	$118	$79

The Company completed its reserve review of A&EP reserves in the first quarter of 2016. Based upon the Company's review, net unfavorable development prior to cessions to the LPT of $200 million was recognized. The unfavorable development was driven by an increase in anticipated future expenses associated with determination of coverage, higher anticipated payouts associated with a limited number of historical accounts having significant asbestos exposures and higher than expected severity on pollution claims. This unfavorable development was ceded to NICO under the LPT; however, the Company's reported earnings were negatively affected due to the application of retroactive reinsurance accounting, as only a portion of the additional amounts ceded under the LPT were recognized in that quarter. All amounts recognized related to the LPT are recorded within Insurance claims and policyholders' benefits in the Condensed Consolidated Statement of Operations.

As of June 30, 2016 and December 31, 2015, the cumulative amounts ceded under the LPT were $2.8 billion and $2.6 billion. The unrecognized deferred retroactive reinsurance benefit was $359 million and $241 million as of June 30, 2016 and December 31, 2015.

NICO established a collateral trust account as security for its obligations to the Company. The fair value of the collateral trust account was $2.6 billion and $2.8 billion as of June 30, 2016 and December 31, 2015. In addition, Berkshire Hathaway Inc. guaranteed the payment obligations of NICO up to the full aggregate reinsurance limit as well as certain of NICO's performance obligations under the trust agreement. NICO is responsible for claims handling and billing and collection from third-party reinsurers related to the Company's A&EP claims.

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Note F. Legal Proceedings and Contingent Liabilities

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

Note G. Benefit Plans

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

Periods ended June 30	Three Months		Six Months	
(In millions)	2016	2015	2016	2015
Pension cost (benefit)				
Service cost	$—	$ 2	$—	$ 4
Interest cost on projected benefit obligation	28	28	56	56
Expected return on plan assets	(40)	(44)	(80)	(87)
Amortization of net actuarial loss	10	10	19	19
Net periodic pension cost (benefit)	$ (2)	$ (4)	$ (5)	$ (8)

In the second quarter of 2015, the Company eliminated future benefit accruals associated with the CNA Retirement Plan (Plan) effective June 30, 2015. Employees who were continuing to accrue under this Plan up until that date are entitled to an accrued benefit payable based on their eligible compensation and accrued service through June 30, 2015, in accordance with the terms of the Plan. Starting with the first pay period after July 1, 2015, affected employees began receiving enhanced employer contributions in the CNA 401(k) Plus Plan similar to employees who elected to cease accruals effective December 31, 1999. Employees who elected to cease accruals effective December 31, 1999 are not affected by this curtailment. This curtailment resulted in a $55 million decrease in the Plan benefit obligation liability and a reduction of the unrecognized actuarial losses included in AOCI. In connection with the curtailment, the Company remeasured the plan benefit obligation which resulted in an increase in the discount rate used to determine the benefit obligation from 3.85% to 4.00%.

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Note H. Commitments, Contingencies and Guarantees

Commitments and Contingencies

The Company holds an investment in a real estate joint venture in which the Company, on a joint and several basis with the other unrelated shareholders guaranteed to fund operating deficits of the joint venture and an operating lease for an office building entered into by the venture. The lease was terminated in March 2016. In the event that the other parties to the joint venture are unable to meet their commitments in funding this joint venture, the Company would be required to assume future obligations, primarily related to the wind-down of the lease and joint venture. The Company does not believe it is likely that it will be required to do so. However, as of June 30, 2016, the maximum potential loss that the Company could be required to pay under this guarantee, in excess of amounts already recorded, was approximately $16 million. If the Company were required to assume future obligations, the Company would have the right to pursue reimbursement from the other shareholders.

Guarantees

As of June 30, 2016 and December 31, 2015, the Company had recorded liabilities of approximately $5 million related to guarantee and indemnification agreements and management believes that it is not likely that any future indemnity claims will be significantly greater than the amounts recorded.

In the course of selling business entities and assets to third parties, the Company agreed to guarantee the performance of certain obligations of a previously owned subsidiary and to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such guarantee and indemnification agreements in effect for sales of business entities, assets and third-party loans may include provisions that survive indefinitely. As of June 30, 2016, the aggregate amount related to quantifiable guarantees was $375 million and the aggregate amount related to indemnification agreements was $259 million. Should the Company be required to make payments under the guarantee, it would have the right to seek reimbursement in certain cases from an affiliate of a previously owned subsidiary.

In addition, the Company has agreed to provide indemnification to third-party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of June 30, 2016, the Company had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser's ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. Certain provisions of the indemnification agreements survive indefinitely, while others survive until the applicable statutes of limitation expire, or until the agreed-upon contract terms expire.

The Company also provided guarantees, if the primary obligor fails to perform, to holders of structured settlement annuities provided by a previously owned subsidiary. As of June 30, 2016, the potential amount of future payments the Company could be required to pay under these guarantees was approximately $2.0 billion, which will be paid over the lifetime of the annuitants. The Company does not believe any payment is likely under these guarantees, as the Company is the beneficiary of a trust that must be maintained at a level that approximates the discounted reserves for these annuities.

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Note I. Accumulated Other Comprehensive Income (Loss) by Component

The table below displays the changes in Accumulated other comprehensive income (loss) by component.

(In millions)	Net unrealized gains (losses) on investments with OTTI losses	Net unrealized gains (losses) on other investments	Pension and postretirement benefits	Cumulative foreign currency translation adjustment	Total
Balance as of April 1, 2016	$ 32	$ 624	$ (642)	$ (70)	$(56)
Other comprehensive income (loss) before reclassifications	(1)	323	—	(48)	274
Amounts reclassified from accumulated other comprehensive income (loss) net of tax (expense) benefit of $-, $(6), $3, $- and $(3)	—	13	(5)	—	8
Other comprehensive income (loss) net of tax (expense) benefit of $1, $(157), $(3), $- and $(159)	(1)	310	5	(48)	266
Balance as of June 30, 2016	$ 31	$ 934	$ (637)	$ (118)	$210

(In millions)	Net unrealized gains (losses) on investments with OTTI losses	Net unrealized gains (losses) on other investments	Pension and postretirement benefits	Cumulative foreign currency translation adjustment	Total
Balance as of April 1, 2015	$ 35	$ 1,054	$ (627)	$ (41)	$421
Other comprehensive income (loss) before reclassifications	(4)	(372)	36	49	(291)
Amounts reclassified from accumulated other comprehensive income (loss) net of tax (expense) benefit of $-, $5, $4, $- and $9	—	(7)	(6)	—	(13)
Other comprehensive income (loss) net of tax (expense) benefit of $2, $181, $(23), $- and $160	(4)	(365)	42	49	(278)
Balance as of June 30, 2015	$ 31	$ 689	$ (585)	$ 8	$143

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(In millions)	Net unrealized gains (losses) on investments with OTTI losses	Net unrealized gains (losses) on other investments	Pension and postretirement benefits	Cumulative foreign currency translation adjustment	Total
Balance as of January 1, 2016	$ 27	$ 390	$ (648)	$ (84)	$(315)
Other comprehensive income (loss) before reclassifications	2	546	—	(34)	514
Amounts reclassified from accumulated other comprehensive income (loss) net of tax (expense) benefit of $1, $1, $6, $- and $8	(2)	2	(11)	—	(11)
Other comprehensive income (loss) net of tax (expense) benefit of $(2), $(273), $(6), $- and $(281)	4	544	11	(34)	525
Balance as of June 30, 2016	$ 31	$ 934	$ (637)	$ (118)	$210

(In millions)	Net unrealized gains (losses) on investments with OTTI losses	Net unrealized gains (losses) on other investments	Pension and postretirement benefits	Cumulative foreign currency translation adjustment	Total
Balance as of January 1, 2015	$ 36	$ 942	$ (633)	$ 55	$400
Other comprehensive income (loss) before reclassifications	(5)	(251)	36	(47)	(267)
Amounts reclassified from accumulated other comprehensive income (loss) net of tax (expense) benefit of $-, $5, $7, $- and $12	—	2	(12)	—	(10)
Other comprehensive income (loss) net of tax (expense) benefit of $2, $119, $(26), $- and $95	(5)	(253)	48	(47)	(257)
Balance as of June 30, 2015	$ 31	$ 689	$ (585)	$ 8	$143

Amounts reclassified from Accumulated other comprehensive income (loss) shown above are reported in Net income (loss) as follows:

Component of AOCI	Condensed Consolidated Statements of Operations Line Item Affected by Reclassifications
Net unrealized gains (losses) on investments with OTTI losses	Net realized investment gains (losses)
Net unrealized gains (losses) on other investments	Net realized investment gains (losses)
Pension and postretirement benefits	Other operating expenses

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Note J. Business Segments

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

The accounting policies of the segments are the same as those described in Note A to the Consolidated Financial Statements within CNAF's Annual Report on Form 10-K for the year ended December 31, 2015. The Company manages most of its assets on a legal entity basis, while segment operations are generally conducted across legal entities. As such, only Insurance and Reinsurance receivables, Insurance reserves, Deferred acquisition costs and Goodwill are readily identifiable for all individual segments. Distinct investment portfolios are not maintained for every individual segment; accordingly, allocation of assets to each segment is not performed. Therefore, a significant portion of Net investment income and Realized investment gains or losses are allocated primarily based on each segment's net carried insurance reserves, as adjusted. All significant intersegment income and expense has been eliminated. Income taxes have been allocated on the basis of the taxable income of the segments.

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

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

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The Company's results of operations and selected balance sheet items by segment are presented in the following tables.

Three months ended June 30, 2016 (In millions)	Specialty	Commercial	International	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Operating revenues							
Net earned premiums	$ 702	$ 696	$ 197	$ 136	$ —	$ (1)	$ 1,730
Net investment income	133	164	13	188	4	—	502
Other revenues	89	8	—	3	—	—	100
Total operating revenues	924	868	210	327	4	(1)	2,332
Claims, Benefits and Expenses							
Net incurred claims and benefits	377	469	157	340	(8)	—	1,335
Policyholders’ dividends	1	3	—	—	—	—	4
Amortization of deferred acquisition costs	148	117	40	—	—	—	305
Other insurance related expenses	73	130	37	31	—	(1)	270
Other expenses	79	11	7	2	47	—	146
Total claims, benefits and expenses	678	730	241	373	39	(1)	2,060
Operating income (loss) before income tax	246	138	(31)	(46)	(35)	—	272
Income tax (expense) benefit on operating income (loss)	(82)	(46)	4	42	11	—	(71)
Net operating income (loss)	164	92	(27)	(4)	(24)	—	201
Net realized investment gains (losses)	4	8	4	(2)	2	—	16
Income tax (expense) benefit on net realized investment gains (losses)	(2)	(3)	(1)	(3)	1	—	(8)
Net realized investment gains (losses), after tax	2	5	3	(5)	3	—	8
Net income (loss)	$ 166	$ 97	$ (24)	$ (9)	$ (21)	$ —	$ 209

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Three months ended June 30, 2015 (In millions)	Specialty	Commercial	International	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Operating revenues							
Net earned premiums	$ 689	$ 703	$ 207	$ 137	$ —	$ (1)	$ 1,735
Net investment income	134	169	13	179	5	—	500
Other revenues	81	9	(1)	—	3	—	92
Total operating revenues	904	881	219	316	8	(1)	2,327
Claims, Benefits and Expenses							
Net incurred claims and benefits	416	507	114	344	85	—	1,466
Policyholders' dividends	1	2	—	—	—	—	3
Amortization of deferred acquisition costs	146	117	45	6	—	—	314
Other insurance related expenses	66	130	31	34	(1)	(1)	259
Other expenses	69	5	(5)	5	47	—	121
Total claims, benefits and expenses	698	761	185	389	131	(1)	2,163
Operating income (loss) before income tax	206	120	34	(73)	(123)	—	164
Income tax (expense) benefit on operating income (loss)	(69)	(42)	(12)	49	42	—	(32)
Net operating income (loss)	137	78	22	(24)	(81)	—	132
Net realized investment gains (losses)	—	2	1	(5)	2	—	—
Income tax (expense) benefit on net realized investment gains (losses)	—	2	(1)	6	(1)	—	6
Net realized investment gains (losses), after tax	—	4	—	1	1	—	6
Net income (loss)	$ 137	$ 82	$ 22	$ (23)	$ (80)	$ —	$ 138

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Six months ended June 30, 2016 (In millions)	Specialty	Commercial	International	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Operating revenues							
Net earned premiums	$ 1,384	$ 1,384	$ 395	$ 267	$ —	$ (1)	$ 3,429
Net investment income	240	290	25	375	7	—	937
Other revenues	176	14	1	3	3	—	197
Total operating revenues	1,800	1,688	421	645	10	(1)	4,563
Claims, Benefits and Expenses							
Net incurred claims and benefits	767	911	278	663	120	—	2,739
Policyholders’ dividends	2	6	—	—	—	—	8
Amortization of deferred acquisition costs	292	233	87	—	—	—	612
Other insurance related expenses	148	271	65	64	—	(1)	547
Other expenses	154	16	16	5	101	—	292
Total claims, benefits and expenses	1,363	1,437	446	732	221	(1)	4,198
Operating income (loss) before income tax	437	251	(25)	(87)	(211)	—	365
Income tax (expense) benefit on operating income (loss)	(146)	(85)	4	81	73	—	(73)
Net operating income (loss)	291	166	(21)	(6)	(138)	—	292
Net realized investment gains (losses)	(7)	(10)	8	(5)	(6)	—	(20)
Income tax (expense) benefit on net realized investment gains (losses)	2	3	(2)	(3)	3	—	3
Net realized investment gains (losses), after tax	(5)	(7)	6	(8)	(3)	—	(17)
Net income (loss)	$ 286	$ 159	$ (15)	$ (14)	$ (141)	$ —	$ 275

June 30, 2016 (In millions)							
Reinsurance receivables	$ 856	$ 621	$ 128	$ 492	$ 2,623	$ —	$ 4,720
Insurance receivables	1,005	1,120	274	11	3	—	2,413
Deferred acquisition costs	308	228	84	—	—	—	620
Goodwill	117	—	30	—	—	—	147
Insurance reserves							
Claim and claim adjustment expenses	6,414	8,973	1,409	3,382	2,797	—	22,975
Unearned premiums	1,871	1,417	450	128	—	(1)	3,865
Future policy benefits	—	—	—	11,140	—	—	11,140

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Six months ended June 30, 2015 (In millions)	Specialty	Commercial	International	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Operating revenues							
Net earned premiums	$ 1,369	$ 1,381	$ 398	$ 275	$ —	$ (1)	$ 3,422
Net investment income	289	373	27	358	11	—	1,058
Other revenues	159	18	(1)	9	5	(1)	189
Total operating revenues	1,817	1,772	424	642	16	(2)	4,669
Claims, Benefits and Expenses							
Net incurred claims and benefits	845	961	230	684	81	—	2,801
Policyholders’ dividends	2	5	—	—	—	—	7
Amortization of deferred acquisition costs	290	234	80	13	—	—	617
Other insurance related expenses	135	257	68	69	(1)	(1)	527
Other expenses	136	13	—	9	93	(1)	250
Total claims, benefits and expenses	1,408	1,470	378	775	173	(2)	4,202
Operating income (loss) before income tax	409	302	46	(133)	(157)	—	467
Income tax (expense) benefit on operating income (loss)	(137)	(104)	(15)	92	54	—	(110)
Net operating income (loss)	272	198	31	(41)	(103)	—	357
Net realized investment gains (losses)	4	6	2	(4)	2	—	10
Income tax (expense) benefit on net realized investment gains (losses)	(1)	(1)	(1)	8	(1)	—	4
Net realized investment gains (losses), after tax	3	5	1	4	1	—	14
Net income (loss)	$ 275	$ 203	$ 32	$ (37)	$ (102)	$ —	$ 371

December 31, 2015 (In millions)							
Reinsurance receivables	$ 724	$ 639	$ 144	$ 497	$ 2,487	$ —	$ 4,491
Insurance receivables	890	993	233	11	2	—	2,129
Deferred acquisition costs	307	213	78	—	—	—	598
Goodwill	117	—	33	—	—	—	150
Insurance reserves							
Claim and claim adjustment expenses	6,269	9,183	1,347	3,220	2,644	—	22,663
Unearned premiums	1,839	1,297	415	120	—	—	3,671
Future policy benefits	—	—	—	10,152	—	—	10,152

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The following table presents revenue by line of business for each reportable segment. Revenues are comprised of Operating revenues and Net realized investment gains and losses.

Periods ended June 30	Three Months		Six Months	
(In millions)	2016	2015	2016	2015
Specialty				
Management & Professional Liability	$659	$674	$1,277	$1,371
Surety	133	125	260	245
Warranty & Alternative Risks	136	105	256	205
Specialty revenues	928	904	1,793	1,821
Commercial				
Middle Market	434	412	835	821
Small Business	151	158	294	323
Other Commercial Insurance	291	313	549	634
Commercial revenues	876	883	1,678	1,778
International				
Canada	51	54	101	109
CNA Europe	81	77	159	154
Hardy	82	89	169	163
International revenues	214	220	429	426
Life & Group Non-Core revenues	325	311	640	638
Corporate & Other Non-Core revenues	6	10	4	18
Eliminations	(1)	(1)	(1)	(2)
Total revenues	$2,348	$2,327	$4,543	$4,679

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Item 2. Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations

Overview

The following discussion highlights significant factors affecting the Company. References to “we,” “our,” “us” or like terms refer to the business of CNA. Based on 2014 statutory net written premiums, we are the eighth largest commercial insurance writer and the 14th largest property and casualty insurance organization in the United States of America.

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements included under Part I, Item 1 of this Form 10-Q and Item 1A Risk Factors and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2015.

We utilize the net operating income (loss) financial measure to monitor our operations. Net operating income (loss) is calculated by excluding from net income (loss) the after-tax effects of 1) net realized investment gains or losses, 2) income or loss from discontinued operations and 3) any cumulative effects of changes in accounting guidance. See further discussion regarding how we manage our business in Note J to the Condensed Consolidated Financial Statements included under Part I, Item 1.

In the evaluation of the results of our core Specialty, Commercial and International segments, we utilize the loss ratio, the expense ratio, the dividend ratio and the combined ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of insurance underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of policyholders' dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios. In addition we also utilize rate, retention and new business in evaluating operating trends. Rate represents the average change in price on policies that renew excluding exposure change. Retention represents the percentage of premium dollars renewed in comparison to the expiring premium dollars from policies available to renew. New business represents premiums from policies written with new customers and additional policies written with existing customers.

Changes in estimates of claim and allocated claim adjustment expense reserves and premium accruals, net of reinsurance, for prior years are defined as net prior year development within this MD&A. These changes can be favorable or unfavorable. Net prior year development does not include the effect of related acquisition expenses. Further information on our reserves is provided in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1.

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CRITICAL ACCOUNTING ESTIMATES

The preparation of the Condensed Consolidated Financial Statements in conformity with GAAP requires us 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 amounts of revenues and expenses reported during the period. Actual results may differ from those estimates.

Our Condensed Consolidated Financial Statements and accompanying notes have been prepared in accordance with GAAP applied on a consistent basis. We continually evaluate the accounting policies and estimates used to prepare the Condensed Consolidated Financial Statements. In general, our estimates are based on historical experience, evaluation of current trends, information from third-party professionals and various other assumptions that are believed to be reasonable under the known facts and circumstances.

The accounting estimates below are considered by us to be critical to an understanding of our Condensed Consolidated Financial Statements as their application places the most significant demands on our judgment.

- Insurance Reserves
- Reinsurance and Insurance Receivables
- Valuation of Investments and Impairment of Securities
- Long Term Care Policies
- Pension and Postretirement Benefit Obligations
- Income Taxes

Due to the inherent uncertainties involved with these types of judgments, actual results could differ significantly from estimates and may have a material adverse impact on our results of operations or equity. See the Critical Accounting Estimates section of our Management's Discussion and Analysis of Financial Condition and Results of Operations included under Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015 for further information.

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CONSOLIDATED OPERATIONS

The following table includes the consolidated results of our operations. For more detailed components of our business operations and the net operating income financial measure, see the segment discussions within this MD&A. For further discussion of Net investment income and Net realized investment results, see the Investments section of this MD&A.

Periods ended June 30	Three Months		Six Months	
(In millions)	2016	2015	2016	2015
Operating Revenues				
Net earned premiums	$1,730	$1,735	$3,429	$3,422
Net investment income	502	500	937	1,058
Other revenues	100	92	197	189
Total operating revenues	2,332	2,327	4,563	4,669
Claims, Benefits and Expenses				
Net incurred claims and benefits	1,335	1,466	2,739	2,801
Policyholders' dividends	4	3	8	7
Amortization of deferred acquisition costs	305	314	612	617
Other insurance related expenses	270	259	547	527
Other expenses	146	121	292	250
Total claims, benefits and expenses	2,060	2,163	4,198	4,202
Operating income before income tax	272	164	365	467
Income tax expense on operating income	(71)	(32)	(73)	(110)
Net operating income	201	132	292	357
Net realized investment gains (losses)	16	—	(20)	10
Income tax (expense) benefit on net realized investment gains (losses)	(8)	6	3	4
Net realized investment gains (losses), after tax	8	6	(17)	14
Net income	$209	$138	$275	$371

Three Month Comparison

Net operating income increased $69 million for the three months ended June 30, 2016 as compared with the same period in 2015. Results in 2015 within our Corporate and Other Non-Core segment were negatively affected by a $54 million after-tax charge related to the application of retroactive reinsurance accounting to adverse reserve development ceded under the 2010 A&EP Loss Portfolio Transfer, as further discussed in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1. Excluding the effect of the retroactive reinsurance charge, net operating results for our non-core segments improved $23 million primarily driven by our long term care business. Net operating income decreased $8 million for our core segments due to improved underwriting results, largely due to favorable net prior year development, which were more than offset by foreign currency exchange rate losses and lower investment income.

Favorable net prior year development of $106 million and $20 million was recorded for the three months ended June 30, 2016 and 2015 related to our Specialty, Commercial and International segments. Further information on net prior year development is in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Catastrophe losses were $58 million after tax for the three months ended June 30, 2016 as compared to $39 million after tax for the same period in 2015.

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Six Month Comparison

Net operating income decreased $65 million for the six months ended June 30, 2016 as compared with the same period in 2015. Net operating income decreased $65 million for our core segments due to a decrease in net investment income, driven by lower limited partnership returns, and higher non-catastrophe current accident year losses, partially offset by higher net favorable prior year development. Results for our non-core segments were negatively affected in both periods by after tax charges related to the application of retroactive reinsurance accounting to adverse reserve development ceded under the 2010 A&EP Loss Portfolio Transfer. The Loss Portfolio Transfer drove $25 million of the period over period change, as further discussed in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1. Excluding the effect of the retroactive reinsurance charges, net operating results for our non-core segments improved $29 million primarily driven by our long term care business.

Favorable net prior year development of $172 million and $18 million was recorded for the six months ended June 30, 2016 and 2015 related to our Specialty, Commercial and International segments. Further information on net prior year development is in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Catastrophe losses were $82 million after tax for the six months ended June 30, 2016 as compared to $58 million after tax for the same period in 2015.

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SEGMENT RESULTS

The following discusses the results for our reporting segments. Our core property and casualty commercial insurance operations are aggregated and reported in three business segments: Specialty, Commercial and International. Our non-core operations are managed and reported in two segments: Life & Group Non-Core and Corporate & Other Non-Core.

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Specialty

The following table presents the results of operations.

Periods ended June 30	Three Months		Six Months	
(In millions, except ratios, rate and retention)	2016	2015	2016	2015
Net written premiums	$691	$672	$1,375	$1,370
Net earned premiums	702	689	1,384	1,369
Net investment income	133	134	240	289
Net operating income	164	137	291	272
Net realized investment gains (losses), after tax	2	—	(5)	3
Net income	166	137	286	275
Other performance metrics:				
Loss and loss adjustment expense ratio	53.9 %	60.3 %	55.5 %	61.7 %
Expense ratio	31.3	30.7	31.7	31.0
Dividend ratio	0.2	0.2	0.2	0.2
Combined ratio	85.4 %	91.2 %	87.4 %	92.9 %
Rate	1 %	1 %	1 %	1 %
Retention	86	86	87	86
New business	$61	$63	$126	$139

Three Month Comparison

Net written premiums for Specialty increased $19 million for the three months ended June 30, 2016 as compared with the same period in 2015, reflecting steady retention, positive rate and a modest amount of new business. The increase in net earned premiums was consistent with the trend in net written premiums.

Net operating income increased $27 million for the three months ended June 30, 2016 as compared with the same period in 2015, primarily due to higher favorable net prior year development.

The combined ratio improved 5.8 points for the three months ended June 30, 2016 as compared with the same period in 2015. The loss ratio improved 6.4 points primarily due to higher favorable net prior year reserve development partially offset by a higher non-catastrophe current accident year loss ratio. Catastrophe losses were $9 million, or 1.3 points of the loss ratio for the three months ended June 30, 2016, as compared to $5 million, or 0.7 points of the loss ratio for the three months ended June 30, 2015. The expense ratio increased 0.6 points for the three months ended June 30, 2016 as compared with the same period in 2015, primarily due to higher net commissions.

Favorable net prior year development of $72 million and $15 million was recorded in the three months ended June 30, 2016 and 2015. Further information on net prior year development is in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1.

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Six Month Comparison

Net written premiums for Specialty increased $5 million for the six months ended June 30, 2016 as compared with the same period in 2015, reflecting steady retention, positive rate and a modest amount of new business. The increase in net earned premiums was consistent with the trend in net written premiums.

Net operating income increased $19 million for the six months ended June 30, 2016 as compared with the same period in 2015, primarily due to higher favorable net prior year development, partially offset by lower net investment income.

The combined ratio improved 5.5 points for the six months ended June 30, 2016 as compared with the same period in 2015. The loss ratio improved 6.2 points primarily due to higher favorable net prior year reserve development partially offset by a higher non-catastrophe current accident year loss ratio. Catastrophe losses were $13 million, or 1.0 points of the loss ratio for the six months ended June 30, 2016, as compared to $12 million, or 0.9 points of the loss ratio for the six months ended June 30, 2015. The expense ratio increased 0.7 points for the six months ended June 30, 2016 as compared with the same period in 2015, due to higher underwriting expenses and net commissions.

Favorable net prior year development of $117 million and $19 million was recorded for the six months ended June 30, 2016 and 2015. Further information on net prior year development is in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1.

The following table presents the gross and net carried reserves.

(In millions)	June 30, 2016	December 31, 2015
Gross Case Reserves	$1,988	$ 2,011
Gross IBNR Reserves	4,426	4,258
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$6,414	$ 6,269
Net Case Reserves	$1,785	$ 1,810
Net IBNR Reserves	3,781	3,758
Total Net Carried Claim and Claim Adjustment Expense Reserves	$5,566	$ 5,568

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Commercial

The following table presents the results of operations.

Periods ended June 30	Three Months		Six Months	
(In millions, except ratios, rate and retention)	2016	2015	2016	2015
Net written premiums	$740	$717	$1,488	$1,476
Net earned premiums	696	703	1,384	1,381
Net investment income	164	169	290	373
Net operating income	92	78	166	198
Net realized investment gains (losses), after tax	5	4	(7)	5
Net income	97	82	159	203
Other performance metrics:				
Loss and loss adjustment expense ratio	67.4 %	72.1 %	65.8 %	69.6 %
Expense ratio	35.7	34.9	36.5	35.4
Dividend ratio	0.4	0.2	0.4	0.3
Combined ratio	103.5 %	107.2%	102.7 %	105.3 %
Rate	— %	2 %	— %	2 %
Retention	83	79	83	77
New business	$146	$149	$283	$287

Three Month Comparison

Net written premiums for Commercial increased $23 million for the three months ended June 30, 2016 as compared with the same period in 2015, driven by higher retention and a steady level of new business. Net earned premiums decreased $7 million for the three months ended June 30, 2016 as compared with the same period in 2015. Excluding the effect of premium development, the increase in net earned premiums was consistent with the trend in net written premiums.

Net operating income increased $14 million for the three months ended June 30, 2016 as compared with the same period in 2015, primarily due to favorable net prior year reserve development.

The combined ratio improved 3.7 points for the three months ended June 30, 2016 as compared with the same period in 2015. The loss ratio improved 4.7 points due to favorable net prior year reserve development and an improved non-catastrophe current accident year loss ratio. Catastrophe losses were $55 million, or 8.0 points of the loss ratio for the three months ended June 30, 2016, as compared to $54 million, or 7.7 points of the loss ratio for the three months ended June 30, 2015. The expense ratio increased 0.8 points for the three months ended June 30, 2016 as compared with the same period in 2015, due to higher underwriting expenses.

Favorable net prior year development of $20 million was recorded for the three months ended June 30, 2016 as compared with unfavorable net prior year development of $5 million for the three months ended June 30, 2015. Further information on net prior year development is in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1.

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Six Month Comparison

Net written premiums for Commercial increased $12 million for the six months ended June 30, 2016 as compared with the same period in 2015, driven by higher retention and a steady level of new business. The increase in net earned premiums was consistent with the trend in net written premiums.

Net operating income decreased $32 million for the six months ended June 30, 2016 as compared with the same period in 2015, due to lower net investment income partially offset by favorable net prior year reserve development.

The combined ratio improved 2.6 points for the six months ended June 30, 2016 as compared with the same period in 2015. The loss ratio improved 3.8 points due to favorable net prior year reserve development and an improved non-catastrophe current accident year loss ratio. Catastrophe losses were $83 million, or 6.1 points of the loss ratio for the six months ended June 30, 2016, as compared to $73 million, or 5.3 points of the loss ratio for the six months ended June 30, 2015. The expense ratio increased 1.1 points for the six months ended June 30, 2016 as compared with the same period in 2015, primarily due to higher underwriting expenses.

Favorable net prior year development of $36 million and $1 million was recorded for the six months ended June 30, 2016 and 2015. Further information on net prior year development is in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1.

The following table presents the gross and net carried reserves.

(In millions)	June 30, 2016	December 31, 2015
Gross Case Reserves	$4,833	$ 4,975
Gross IBNR Reserves	4,140	4,208
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$8,973	$ 9,183
Net Case Reserves	$4,521	$ 4,651
Net IBNR Reserves	3,883	3,925
Total Net Carried Claim and Claim Adjustment Expense Reserves	$8,404	$ 8,576

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International

The following table presents the results of operations.

Periods ended June 30	Three Months		Six Months	
(In millions, except ratios, rate and retention)	2016	2015	2016	2015
Net written premiums	$194	$249	$430	$461
Net earned premiums	197	207	395	398
Net investment income	13	13	25	27
Net operating (loss) income	(27)	22	(21)	31
Net realized investment gains, after tax	3	—	6	1
Net (loss) income	(24)	22	(15)	32
Other performance metrics:				
Loss and loss adjustment expense ratio	79.8 %	55.0 %	70.5 %	57.7 %
Expense ratio	38.8	37.2	38.3	37.4
Combined ratio	118.6 %	92.2 %	108.8 %	95.1 %
Rate	(2)%	(2)%	(1)%	(1)%
Retention	70	76	75	77
New business [1]	$62	$25	$122	$60

(1) Beginning in 2016, new business includes Hardy. New business for Hardy was $36 million and $67 million for the three and six months ended June 30, 2016.

Three Month Comparison

Net written premiums for International decreased $55 million for the three months ended June 30, 2016 as compared with the same period in 2015. Excluding the effect of foreign currency exchange rates and the timing of reinsurance spend, net written premiums for the three months ended June 30, 2016 decreased 12% primarily due to lower retention and rate. The decrease in net earned premiums was consistent with the trend in net written premiums.

Net operating results decreased $49 million for the three months ended June 30, 2016 as compared with the same period in 2015, primarily due to a higher level of large losses as well as higher catastrophe losses. Additionally, the comparison was negatively affected by $13 million due to fluctuations in foreign currency exchange rates.

The combined ratio increased 26.4 points for the three months ended June 30, 2016 as compared with the same period in 2015. The loss ratio increased 24.8 points due to an increase in the current accident year loss ratio driven by large losses related to political risk, property and financial institutions partially offset by higher favorable net prior year loss development. Catastrophe losses were $21 million, or 10.6 points of the loss ratio for the three months ended June 30, 2016, primarily driven by the Fort McMurray wildfires, as compared to $1 million, or 0.8 points of the loss ratio for the three months ended June 30, 2015. The expense ratio increased 1.6 points for the three months ended June 30, 2016 as compared with the same period in 2015, due to lower net earned premiums.

Favorable net prior year development of $14 million and $10 million was recorded for the three months ended June 30, 2016 and 2015. Further information on net prior year development is in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1.

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Six Month Comparison

Net written premiums for International decreased $31 million for the six months ended June 30, 2016 as compared with the same period in 2015. Excluding the effect of foreign currency exchange rates and premium development, net written premiums for the six months ended June 30, 2016 decreased 6% primarily due to lower retention and rate. The decrease in net earned premiums was consistent with the trend in net written premiums.

Net operating results decreased $52 million for the six months ended June 30, 2016 as compared with the same period in 2015, primarily due to a higher level of large losses as well as higher catastrophe losses. Additionally, the comparison was negatively affected by $15 million due to fluctuations in foreign currency exchange rates.

The combined ratio increased 13.7 points for the six months ended June 30, 2016 as compared with the same period in 2015. The loss ratio increased 12.8 points due to an increase in the current accident year loss ratio driven by large losses related to political risk, property and financial institutions partially offset by favorable net prior year development. Catastrophe losses were $25 million, or 6.3 points of the loss ratio for the six months ended June 30, 2016, primarily driven by the Fort McMurray wildfires, as compared to $4 million, or 1.0 points of the loss ratio for the six months ended June 30, 2015. The expense ratio increased 0.9 points for the six months ended June 30, 2016 as compared with the same period in 2015, due to higher underwriting expenses and a decrease in net earned premiums.

Favorable net prior year development of $19 million was recorded for the six months ended June 30, 2016 as compared with unfavorable net prior year development of $2 million for the six months ended June 30, 2015. Further information on net prior year development is in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1.

The following table presents the gross and net carried reserves.

(In millions)	June 30, 2016	December 31, 2015
Gross Case Reserves	$ 638	$ 622
Gross IBNR Reserves	771	725
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$ 1,409	$ 1,347
Net Case Reserves	$ 567	$ 531
Net IBNR Reserves	719	688
Total Net Carried Claim and Claim Adjustment Expense Reserves	$ 1,286	$ 1,219

Referendum on the United Kingdom's Membership in the European Union

On June 23, 2016, the United Kingdom (U.K.) held a referendum in which voters approved an exit from the European Union (E.U.), commonly referred to as "Brexit". As a result of the referendum, it is expected that the British government will formally commence the process to leave the E.U. and begin negotiating the terms of treaties that will govern the U.K.'s future relationship with the E.U. Although the terms of any future treaties are unknown, changes in our international operating platform may be required to continue to write business in the E.U. after the completion of Brexit. As a result of these changes, the complexity and cost of regulatory compliance of our European business is likely to increase.

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Life & Group Non-Core

The following table presents the results of operations.

Periods ended June 30	Three Months		Six Months	
(In millions)	2016	2015	2016	2015
Net earned premiums	$136	$137	$267	$275
Net investment income	188	179	375	358
Net operating loss	(4)	(24)	(6)	(41)
Net realized investment (losses) gains, after tax	(5)	1	(8)	4
Net loss	(9)	(23)	(14)	(37)

Due to the recognition of the premium deficiency and resetting of actuarial assumptions in the fourth quarter of 2015, the operating results for our long term care business in 2016 now reflect the variance between actual experience and the expected results contemplated in our best estimate reserves.

Three Month Comparison

The net operating loss of $4 million was generally in line with expectations, as the impact of unfavorable persistency in our long term care business was partially offset by favorable mortality experience in our structured settlements and life settlement contracts business.

Six Month Comparison

Results for the current year six month period were generally consistent with the three month summary above.

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Corporate & Other Non-Core

The following table presents the results of operations.

Periods ended June 30	Three Months		Six Months	
(In millions)	2016	2015	2016	2015
Net investment income	$4	$ 5	$7	$11
Interest expense	38	39	80	78
Net operating loss	(24)	(81)	(138)	(103)
Net realized investment gains (losses), after tax	3	1	(3)	1
Net loss	(21)	(80)	(141)	(102)

Three Month Comparison

Net operating loss improved $57 million for the three months ended June 30, 2016 as compared with the same period in 2015. Results in 2015 were negatively affected by a $54 million after-tax charge related to the application of retroactive reinsurance accounting to adverse reserve development ceded under the 2010 A&EP Loss Portfolio Transfer, as the Company completed the reserve review in the second quarter of 2015 and in the first quarter of 2016, which is further discussed in Note E to the Condensed Consolidated Financial Statements included under Part 1, Item 1.

Six Month Comparison

Net operating loss increased $35 million for the six months ended June 30, 2016 as compared with the same period in 2015. Results in both periods were negatively affected by after-tax charges related to the application of retroactive reinsurance accounting to adverse reserve development ceded under the 2010 A&EP Loss Portfolio Transfer. The Loss Portfolio Transfer drove $25 million of the period over period change. This is further discussed in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1. Additionally, the 2016 net operating loss was negatively affected by the elimination of subtenant revenue and increased lease expenses due to the sale of the principal executive offices of CNAF in the first quarter of 2016.

The following table presents the gross and net carried reserves.

(In millions)	June 30, 2016	December 31, 2015
Gross Case Reserves	$1,643	$ 1,521
Gross IBNR Reserves	1,154	1,123
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$2,797	$ 2,644
Net Case Reserves	$106	$ 130
Net IBNR Reserves	138	153
Total Net Carried Claim and Claim Adjustment Expense Reserves	$244	$ 283

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INVESTMENTS

Net Investment Income

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

Periods ended June 30	Three Months		Six Months	
(In millions)	2016	2015	2016	2015
Fixed maturity securities:				
Taxable	$349	$352	$694	$694
Tax-Exempt	100	100	201	201
Total fixed maturity securities	449	452	895	895
Limited partnership investments	46	48	32	162
Other, net of investment expense	7	—	10	1
Net investment income	$502	$500	$937	$1,058
Net investment income, after tax	$362	$356	$677	$750
Effective income yield for the fixed maturity securities portfolio, pretax	4.8 %	4.9 %	4.8 %	4.8 %
Effective income yield for the fixed maturity securities portfolio, after tax	3.5 %	3.5 %	3.4 %	3.5 %

Net investment income, after tax, for the three months ended June 30, 2016 was in line with the same period in 2015. Income from fixed maturity securities reflects an increase in the invested asset base. Limited partnerships returned 1.8% for the three months ended June 30, 2016 as compared with 1.6% for the same period in 2015.

Net investment income, after tax, for the six months ended June 30, 2016 decreased $73 million as compared with the same period in 2015. The decrease was driven by limited partnership investments, which returned 1.2% as compared with 5.5% in the prior year period.

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Net Realized Investment Gains (Losses)

The components of Net realized investment results are presented in the following table.

Periods ended June 30	Three Months		Six Months	
(In millions)	2016	2015	2016	2015
Fixed maturity securities:				
Corporate and other bonds	$7	$ 3	$(8)	$16
States, municipalities and political subdivisions	—	(16)	3	(20)
Asset-backed	6	—	—	3
U.S. Treasury and obligations of government-sponsored enterprises	1	—	2	—
Foreign government	2	1	2	1
Total fixed maturity securities	16	(12)	(1)	—
Equity securities	3	(1)	(2)	(1)
Derivative financial instruments	(6)	11	(13)	10
Short term investments and other	3	2	(4)	1
Net realized investment gains (losses)	16	—	(20)	10
Income tax (expense) benefit on net realized investment gains (losses)	(8)	6	3	4
Net realized investment gains (losses), after tax	$8	$ 6	$(17)	$14

Net realized investment gains, after tax, increased $2 million for the three months ended June 30, 2016 as compared with the same period in 2015, driven by higher net realized investment gains on sales of securities and lower OTTI losses recognized in earnings, partially offset by derivative results.

Net realized investment results, after tax, decreased $31 million for the six months ended June 30, 2016 as compared with the same period in 2015, driven by derivative results. Additionally, the current period net realized investment losses include $5 million, after tax, related to the redemption of our $350 million senior notes due August 2016.

Further information on our realized gains and losses, including our OTTI losses, is set forth in Note C to the Condensed Consolidated Financial Statements included under Part I, Item 1.

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Portfolio Quality

The following table presents the estimated fair value and net unrealized gains (losses) of our fixed maturity securities by rating distribution.

(In millions)	June 30, 2016 Estimated Fair Value	June 30, 2016 Net Unrealized Gains (Losses)	December 31, 2015 Estimated Fair Value	December 31, 2015 Net Unrealized Gains (Losses)
U.S. Government, Government agencies and Government-sponsored enterprises	$4,208	$ 180	$3,910	$ 101
AAA	1,936	169	1,938	123
AA	9,153	1,295	8,919	900
A	10,567	1,343	10,044	904
BBB	12,790	953	11,595	307
Non-investment grade	3,203	79	3,166	(16)
Total	$41,857	$ 4,019	$39,572	$ 2,319

As of June 30, 2016 and December 31, 2015, only 1% of our fixed maturity portfolio was rated internally.

The following table presents available-for-sale fixed maturity securities in a gross unrealized loss position by ratings distribution.

(In millions)	June 30, 2016 Estimated Fair Value	June 30, 2016 Gross Unrealized Losses
U.S. Government, Government agencies and Government-sponsored enterprises	$27	$ 1
AAA	139	2
AA	89	2
A	432	11
BBB	1,204	40
Non-investment grade	1,136	72
Total	$3,027	$ 128

The following table presents the maturity profile for these available-for-sale fixed maturity securities. Securities not due to mature on a single date are allocated based on weighted average life.

(In millions)	June 30, 2016 Estimated Fair Value	June 30, 2016 Gross Unrealized Losses
Due in one year or less	$239	$ 2
Due after one year through five years	724	25
Due after five years through ten years	1,520	56
Due after ten years	544	45
Total	$3,027	$ 128

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Duration

A primary objective in the management of the investment portfolio is to optimize return relative to corresponding liabilities and respective liquidity needs. Our views on the current interest rate environment, tax regulations, asset class valuations, specific security issuer and broader industry segment conditions and the domestic and global economic conditions, are some of the factors that enter into an investment decision. We also continually monitor exposure to issuers of securities held and broader industry sector exposures and may from time to time adjust such exposures based on our views of a specific issuer or industry sector.

A further consideration in the management of the investment portfolio is the characteristics of the corresponding liabilities and the ability to align the duration of the portfolio to those liabilities and to meet future liquidity needs, minimize interest rate risk and maintain a level of income sufficient to support the underlying insurance liabilities. For portfolios where future liability cash flows are determinable and typically long term in nature, we segregate investments for asset/liability management purposes. The segregated investments support the long term care and structured settlement liabilities in the Life & Group Non-Core segment.

The effective durations of fixed maturity securities and short term investments are presented in the following table. Amounts presented are net of payable and receivable amounts for securities purchased and sold, but not yet settled.

	June 30, 2016		December 31, 2015	
(In millions)	Estimated Fair Value	Effective Duration (In years)	Estimated Fair Value	Effective Duration (In years)
Investments supporting Life & Group Non-Core	$ 16,288	8.7	$ 14,879	9.6
Other interest sensitive investments	26,839	4.1	26,435	4.3
Total	$ 43,127	5.9	$ 41,314	6.2

The investment portfolio is periodically analyzed for changes in duration and related price risk. Additionally, we periodically review the sensitivity of the portfolio to the level of foreign exchange rates and other factors that contribute to market price changes. A summary of these risks and specific analysis on changes is included in the Quantitative and Qualitative Disclosures About Market Risk included under Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2015.

Short Term Investments

The carrying values of the components of the Short term investments are presented in the following table.

(In millions)	June 30, 2016	December 31, 2015
Short term investments:		
Commercial paper	$ 862	$ 998
U.S. Treasury securities	277	411
Money market funds	79	60
Other	166	191
Total short term investments	$ 1,384	$ 1,660

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LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Our primary operating cash flow sources are premiums and investment income from our insurance subsidiaries. Our primary operating cash flow uses are payments for claims, policy benefits and operating expenses, including interest expense on corporate debt. Additionally, cash may be paid or received for income taxes.

For the six months ended June 30, 2016, net cash provided by operating activities was $613 million as compared with $540 million for the same period in 2015. Cash provided by operating activities reflected increased receipts relating to returns on limited partnerships.

Cash flows from investing activities include the purchase and disposition of available-for-sale financial instruments and may include the purchase and sale of businesses, land, buildings, equipment and other assets not generally held for resale. The cash flow from investing activities is affected by various factors such as the anticipated payment of claims, financing activity, asset/liability management and individual security buy and sell decisions made in the normal course of portfolio management.

Net cash used by investing activities was $167 million for the six months ended June 30, 2016, as compared with net cash provided of $87 million for the same period in 2015. In the first quarter of 2016, we sold the principal executive offices of CNAF for $107 million.

Cash flows from financing activities may include proceeds from the issuance of debt and equity securities, outflows for stockholder dividends or repayment of debt and outlays to reacquire equity instruments.

For the six months ended June 30, 2016, net cash used by financing activities was $538 million as compared with $670 million for the same period in 2015. In the first quarter of 2016, we issued $500 million of 4.50% senior notes due March 1, 2026 and redeemed the $350 million outstanding aggregate principal balance of the 6.50% senior notes due August 15, 2016.

Common Stock Dividends

Dividends of $2.50 per share of our common stock, including a special dividend of $2.00 per share, were declared and paid during the six months ended June 30, 2016. On July 29, 2016, our Board of Directors declared a quarterly dividend of $0.25 per share, payable August 31, 2016 to stockholders of record on August 15, 2016. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board of Directors and will depend on many factors, including our earnings, financial condition, business needs and regulatory constraints.

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Liquidity

We believe our present cash flows from operating, investing and financing activities are sufficient to fund our current and expected working capital and debt obligation needs and we do not expect this to change in the near term. There are currently no amounts outstanding under our $250 million senior unsecured revolving credit facility and no borrowings outstanding through our membership in the Federal Home Loan Bank of Chicago (FHLBC).

Dividends from CCC are subject to the insurance holding company laws of the State of Illinois, the domiciliary state of CCC. Under these laws, ordinary dividends, or dividends that do not require prior approval by the Illinois Department of Insurance (the Department), are determined based on the greater of the prior year's statutory net income or 10% of statutory surplus as of the end of the prior year, as well as timing and amount of dividends paid in the preceding twelve months. Additionally, ordinary dividends may only be paid from earned surplus, which is calculated by removing unrealized gains from unassigned surplus. As of June 30, 2016 CCC was in a positive earned surplus position. The maximum allowable dividend CCC could pay during 2016 that would not be subject to the Department's prior approval is $1,079 million, less dividends paid during the preceding twelve months measured at that point in time. CCC paid dividends of $200 million during the six months ended December 31, 2015 and $565 million during the six months ended June 30, 2016. As of June 30, 2016 CCC is able to pay approximately $314 million of dividends that would not be subject to prior approval of the Department. The actual level of dividends paid in any year is determined after an assessment of available dividend capacity, holding company liquidity and cash needs as well as the impact the dividends will have on the statutory surplus of the applicable insurance company.

We have an effective automatic shelf registration statement under which we may issue debt, equity or hybrid securities.

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ACCOUNTING STANDARDS UPDATES

For discussion of Accounting Standards Updates adopted as of January 1, 2016 and that will be adopted in the future, see Note A to the Condensed Consolidated Financial Statements.

FORWARD-LOOKING STATEMENTS

This report contains a number of forward-looking statements which relate to anticipated future events rather than actual present conditions or historical events. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and generally include words such as “believes,” “expects,” “intends,” “anticipates,” “estimates,” and similar expressions. Forward-looking statements in this report include any and all statements regarding expected developments in our insurance business, including losses and loss reserves for A&EP and other mass tort claims which are more uncertain, and therefore more difficult to estimate than loss reserves respecting traditional property and casualty exposures; the impact of routine ongoing insurance reserve reviews we are conducting; our expectations concerning our revenues, earnings, expenses and investment activities; volatility in investment returns; expected cost savings and other results from our expense reduction activities; and our proposed actions in response to trends in our business. Forward-looking statements, by their nature, are subject to a variety of inherent risks and uncertainties that could cause actual results to differ materially from the results projected in the forward-looking statement. We cannot control many of these risks and uncertainties. These risks and uncertainties include, but are not limited to, the following:

Company-Specific Factors

- the risks and uncertainties associated with our insurance reserves, as outlined in the Critical Accounting Estimates and the Reserves - Estimates and Uncertainties sections of our Annual Report on Form 10-K, including the sufficiency of the reserves and the possibility for future increases, which would be reflected in the results of operations in the period that the need for such adjustment is determined;
- the risk that the other parties to the transaction in which, subject to certain limitations, we ceded our legacy A&EP liabilities will not fully perform their obligations to CNA, the uncertainty in estimating loss reserves for A&EP liabilities and the possible continued exposure of CNA to liabilities for A&EP claims that are not covered under the terms of the transaction;
- the performance of reinsurance companies under reinsurance contracts with us; and
- the risks and uncertainties associated with potential acquisitions and divestitures, including the consummation of such transactions, the successful integration of acquired operations and the potential for subsequent impairment of goodwill or intangible assets.

Industry and General Market Factors

- the impact of competitive products, policies and pricing and the competitive environment in which we operate, including changes in our book of business;
- product and policy availability and demand and market responses, including the level of ability to obtain rate increases and decline or non-renew underpriced accounts, to achieve premium targets and profitability and to realize growth and retention estimates;
- general economic and business conditions, including recessionary conditions that may decrease the size and number of our insurance customers and create additional losses to our lines of business, especially those that provide management and professional liability insurance, as well as surety bonds, to businesses engaged in real estate, financial services and professional services and inflationary pressures on medical care costs, construction costs and other economic sectors that increase the severity of claims;
- conditions in the capital and credit markets, including continuing uncertainty and instability in these markets, as well as the overall economy, and their impact on the returns, types, liquidity and valuation of our investments;
- conditions in the capital and credit markets that may limit our ability to raise significant amounts of capital on favorable terms; and
- the possibility of changes in our ratings by ratings agencies, including the inability to access certain markets or distribution channels and the required collateralization of future payment obligations as a result of such changes, and changes in rating agency policies and practices.

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Regulatory Factors

- regulatory initiatives and compliance with governmental regulations, judicial interpretations within the regulatory framework, including interpretation of policy provisions, decisions regarding coverage and theories of liability, legislative actions that increase claimant activity, trends in litigation and the outcome of any litigation involving us and rulings and changes in tax laws and regulations;
- regulatory limitations, impositions and restrictions upon us, including with respect to our ability to increase premium rates, and the effects of assessments and other surcharges for guaranty funds and second-injury funds, other mandatory pooling arrangements and future assessments levied on insurance companies; and
- regulatory limitations and restrictions, including limitations upon our ability to receive dividends from our insurance subsidiaries, imposed by regulatory authorities, including regulatory capital adequacy standards.

Impact of Catastrophic Events and Related Developments

- weather and other natural physical events, including the severity and frequency of storms, hail, snowfall and other winter conditions, natural disasters such as hurricanes and earthquakes, as well as climate change, including effects on global weather patterns, greenhouse gases, sea, land and air temperatures, sea levels, rain, hail and snow;
- regulatory requirements imposed by coastal state regulators in the wake of hurricanes or other natural disasters, including limitations on the ability to exit markets or to non-renew, cancel or change terms and conditions in policies, as well as mandatory assessments to fund any shortfalls arising from the inability of quasi-governmental insurers to pay claims;
- man-made disasters, including the possible occurrence of terrorist attacks, the unpredictability of the nature, targets, severity or frequency of such events, and the effect of the absence or insufficiency of applicable terrorism legislation on coverages; and
- the occurrence of epidemics.

Referendum on the United Kingdom's Membership in the European Union

- on June 23, 2016, the United Kingdom (U.K.) held a referendum in which voters approved an exit from the European Union (E.U.), commonly referred to as "Brexit". As a result of the referendum, it is expected that the British government will formally commence the process to leave the E.U. and begin negotiating the terms of treaties that will govern the U.K.'s future relationship with the E.U. Although it is unknown what those terms will be, it is possible that a U.K. insurance entity's ability to transact insurance business in E.U. countries will be subject to increased regulatory complexities or may not be possible at all. Brexit related changes may adversely affect our operations and financial results.

Our forward-looking statements speak only as of the date on which they are made and we do not undertake any obligation to update or revise any forward-looking statement to reflect events or circumstances after the date of the statement, even if our expectations or any related events or circumstances change.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in our market risk components for the six months ended June 30, 2016. See the Quantitative and Qualitative Disclosures About Market Risk included in Item 7A on our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2015 for further information. Additional information related to portfolio duration is discussed in the Investments section of our Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part I, Item 2.

Item 4. Controls and Procedures

The Company maintains a system of disclosure controls and procedures which are designed to ensure that information required to be disclosed by the Company in reports that it files or submits to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including this report, is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to the Company's management on a timely basis to allow decisions regarding required disclosure.

As of June 30, 2016, the Company's management, including the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective as of June 30, 2016.

There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15 (f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. Other Information

Item 1. Legal Proceedings

Information on our legal proceedings is set forth in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Item 6. Exhibits

See Exhibit Index.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		CNA Financial Corporation
Dated: August 1, 2016	By	/s/ D. Craig Mense
		D. Craig Mense
		Executive Vice President and Chief Financial Officer

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EXHIBIT INDEX

Description of Exhibit	Exhibit Number
Certification of Chief Executive Officer	31.1
Certification of Chief Financial Officer	31.2
Written Statement of the Chief Executive Officer of CNA Financial Corporation Pursuant to 18 U.S.C. Section 1350 (As adopted by Section 906 of the Sarbanes-Oxley Act of 2002)	32.1
Written Statement of the Chief Financial Officer of CNA Financial Corporation Pursuant to 18 U.S.C. Section 1350 (As adopted by Section 906 of the Sarbanes-Oxley Act of 2002)	32.2
XBRL Instance Document	101.INS
XBRL Taxonomy Extension Schema	101.SCH
XBRL Taxonomy Extension Calculation Linkbase	101.CAL
XBRL Taxonomy Extension Definition Linkbase	101.DEF
XBRL Taxonomy Label Linkbase	101.LAB
XBRL Taxonomy Extension Presentation Linkbase	101.PRE