CNA FINANCIAL CORP
Form 10-Q
May 03, 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 March 31, 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	36-6169860
(State or other jurisdiction of incorporation or organization)	(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 April 29, 2016
Common Stock, Par value $2.50	270,479,961

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PART I. Financial Information

Item 1. Condensed Consolidated Financial Statements

CNA Financial Corporation

Condensed Consolidated Statements of Operations (Unaudited)

Three months ended March 31		
(In millions, except per share data)	2016	2015
Revenues		
Net earned premiums	$1,699	$1,687
Net investment income	435	558
Net realized investment (losses) gains:		
Other-than-temporary impairment losses	(23)	(12)
Other net realized investment (losses) gains	(13)	22
Net realized investment (losses) gains	(36)	10
Other revenues	97	97
Total revenues	2,195	2,352
Claims, Benefits and Expenses		
Insurance claims and policyholders’ benefits	1,408	1,339
Amortization of deferred acquisition costs	307	303
Other operating expenses	381	358
Interest	42	39
Total claims, benefits and expenses	2,138	2,039
Income before income tax	57	313
Income tax benefit (expense)	9	(80)
Net income	$66	$233
Basic earnings per share	$0.25	$0.86
Diluted earnings per share	$0.24	$0.86
Dividends declared per share	$2.25	$2.25
Weighted Average Outstanding Common Stock and Common Stock Equivalents		
Basic	270.3	270.1
Diluted	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 (Unaudited)

Three months ended March 31		
(In millions)	2016	2015
Comprehensive Income		
Net income	$66	$233
Other Comprehensive Income, Net of Tax		
Changes in:		
Net unrealized gains on investments with other-than-temporary impairments	5	(1)
Net unrealized gains on other investments	234	112
Net unrealized gains on investments	239	111
Foreign currency translation adjustment	14	(96)
Pension and postretirement benefits	6	6
Other comprehensive income, net of tax	259	21
Total comprehensive income	$325	$254

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)	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of $37,271 and $37,253)	$ 40,252	$ 39,572
Equity securities at fair value (cost of $182 and $191)	189	197
Limited partnership investments	2,562	2,548
Other invested assets	45	44
Mortgage loans	675	678
Short term investments	1,648	1,660
Total investments	45,371	44,699
Cash	242	387
Reinsurance receivables (less allowance for uncollectible receivables of $38 and $38)	4,692	4,453
Insurance receivables (less allowance for uncollectible receivables of $50 and $51)	2,151	2,078
Accrued investment income	426	404
Deferred acquisition costs	622	598
Deferred income taxes	461	638
Property and equipment at cost (less accumulated depreciation of $214 and $382)	263	343
Goodwill	150	150
Other assets (includes $66 and $- due from Loews Corporation)	1,124	1,295
Total assets	$ 55,502	$ 55,045
Liabilities		
Insurance reserves:		
Claim and claim adjustment expenses	$ 23,018	$ 22,663
Unearned premiums	3,807	3,671
Future policy benefits	10,500	10,152
Short term debt	—	350
Long term debt	2,708	2,210
Other liabilities (includes $7 and $82 due to Loews Corporation)	3,999	4,243
Total liabilities	44,032	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; 270,479,961 and 270,274,361 shares outstanding)	683	683
Additional paid-in capital	2,146	2,153
Retained earnings	8,770	9,313
Accumulated other comprehensive income	(56)	(315)
Treasury stock (2,560,282 and 2,765,882 shares), at cost	(73)	(78)
Total stockholders’ equity	11,470	11,756
Total liabilities and stockholders' equity	$ 55,502	$ 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)
Three months ended March 31

(In millions)	2016	2015
Cash Flows from Operating Activities		
Net income	$ 66	$ 233
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Deferred income tax expense	55	71
Trading portfolio activity	(3)	13
Net realized investment losses (gains)	36	(10)
Equity method investees	262	(91)
Net amortization of investments	(4)	—
Depreciation and amortization	21	19
Changes in:		
Receivables, net	(317)	(157)
Accrued investment income	(22)	(25)
Deferred acquisition costs	(23)	(13)
Insurance reserves	511	304
Other assets	(89)	(34)
Other liabilities	(168)	(235)
Other, net	9	19
Total adjustments	268	(139)
Net cash flows provided by operating activities	334	94
Cash Flows from Investing Activities		
Dispositions:		
Fixed maturity securities - sales	1,722	1,144
Fixed maturity securities - maturities, calls and redemptions	490	1,144
Equity securities	4	2
Limited partnerships	89	20
Mortgage loans	22	3
Purchases:		
Fixed maturity securities	(2,238)	(1,919)
Equity securities	—	(5)
Limited partnerships	(169)	(34)
Mortgage loans	(19)	(8)
Change in other investments	—	7
Change in short term investments	16	190
Purchases of property and equipment	(33)	(20)
Disposals of property and equipment	107	—
Other, net	—	2
Net cash flows (used) provided by investing activities	$ (9)	$ 526

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

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Three months ended March 31		
(In millions)	2016	2015
Cash Flows from Financing Activities		
Dividends paid to common stockholders	$(609)	$(608)
Proceeds from the issuance of debt	498	—
Repayment of debt	(358)	—
Other, net	—	5
Net cash flows used by financing activities	(469)	(603)
Effect of foreign exchange rate changes on cash	(1)	(6)
Net change in cash	(145)	11
Cash, beginning of year	387	190
Cash, end of period	$242	$201

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)

Three months ended March 31		
(In millions)	2016	2015
Common Stock		
Balance, beginning of period	$683	$683
Balance, end of period	683	683
Additional Paid-in Capital		
Balance, beginning of period	2,153	2,151
Stock-based compensation	(7)	(8)
Balance, end of period	2,146	2,143
Retained Earnings		
Balance, beginning of period	9,313	9,645
Dividends paid to common stockholders	(609)	(608)
Net income	66	233
Balance, end of period	8,770	9,270
Accumulated Other Comprehensive Income		
Balance, beginning of period	(315)	400
Other comprehensive income	259	21
Balance, end of period	(56)	421
Treasury Stock		
Balance, beginning of period	(78)	(84)
Stock-based compensation	5	5
Balance, end of period	(73)	(79)
Notes Receivable for the Issuance of Common Stock		
Balance, beginning of period	—	(1)
Balance, end of period	—	(1)
Total stockholders' equity	$11,470	$12,437

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 March 31, 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 March 31, 2016 and for the three months ended March 31, 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 impacts 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 March 31, 2016 and December 31, 2015.

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Recently Issued ASUs

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.

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 December 15, 2018. The Company is currently evaluating the effect the updated guidance will have on the Company's financial statements.

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 months ended March 31, 2016 and 2015, approximately 542 thousand and 654 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 180 thousand and 182 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.

Three months ended March 31		
(In millions)	2016	2015
Fixed maturity securities	$446	$443
Equity securities	3	3
Limited partnership investments	(14)	114
Mortgage loans	9	8
Short term investments	3	2
Trading portfolio	2	2
Gross investment income	449	572
Investment expense	(14)	(14)
Net investment income	$435	$558

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

Three months ended March 31		
(In millions)	2016	2015
Net realized investment gains (losses):		
Fixed maturity securities:		
Gross realized gains	$45	$33
Gross realized losses	(62)	(21)
Net realized investment gains (losses) on fixed maturity securities	(17)	12
Equity securities:		
Gross realized gains	—	1
Gross realized losses	(5)	(1)
Net realized investment gains (losses) on equity securities	(5)	—
Derivative financial instruments	(7)	(1)
Short term investments and other	(7)	(1)
Net realized investment gains (losses)	$(36)	$10

Net realized investment losses for the three months ended March 31, 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.

Three months ended March 31		
(In millions)	2016	2015
Fixed maturity securities available-for-sale:		
Corporate and other bonds	$ 16	$ 5
States, municipalities and political subdivisions	—	5
Asset-backed:		
Residential mortgage-backed	—	1
Other asset-backed	2	—
Total asset-backed	2	1
Total fixed maturity securities available-for-sale	18	11
Equity securities available-for-sale:		
Common stock	5	1
Total equity securities available-for-sale	5	1
OTTI losses recognized in earnings	$ 23	$ 12

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

March 31, 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	$ 17,076	$ 1,255	$ 224	$ 18,107	$ —
States, municipalities and political subdivisions	11,478	1,704	3	13,179	(15)
Asset-backed:					
Residential mortgage-backed	5,028	197	19	5,206	(33)
Commercial mortgage-backed	2,137	78	16	2,199	—
Other asset-backed	937	4	20	921	—
Total asset-backed	8,102	279	55	8,326	(33)
U.S. Treasury and obligations of government-sponsored enterprises	133	7	—	140	—
Foreign government	447	17	1	463	—
Redeemable preferred stock	33	2	—	35	—
Total fixed maturity securities available-for-sale	37,269	3,264	283	40,250	$ (48)
Total fixed maturity securities trading	2			2	
Equity securities available-for-sale:					
Common stock	37	6	2	41	
Preferred stock	145	5	2	148	
Total equity securities available-for-sale	182	11	4	189	
Total	$ 37,453	$ 3,275	$ 287	$ 40,441	

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 March 31, 2016 and December 31, 2015, the net unrealized gains on investments included in AOCI were net of after-tax Shadow Adjustments of $1,311 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.

	Less than 12 Months		12 Months or Longer		Total	
March 31, 2016 (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	$2,669	$ 174	$274	$ 50	$2,943	$ 224
States, municipalities and political subdivisions	90	3	64	—	154	3
Asset-backed:						
Residential mortgage-backed	376	11	159	8	535	19
Commercial mortgage-backed	505	14	102	2	607	16
Other asset-backed	572	20	5	—	577	20
Total asset-backed	1,453	45	266	10	1,719	55
U.S. Treasury and obligations of government-sponsored enterprises	23	—	—	—	23	—
Foreign government	54	1	—	—	54	1
Redeemable preferred stock	2	—	—	—	2	—
Total fixed maturity securities available-for-sale	4,291	223	604	60	4,895	283
Equity securities available-for-sale:						
Common stock	6	2	—	—	6	2
Preferred stock	17	2	—	—	17	2
Total equity securities available-for-sale	23	4	—	—	23	4
Total	$4,314	$ 227	$604	$ 60	$4,918	$ 287

	Less than 12 Months		12 Months or Longer		Total	
December 31, 2015 (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 March 31, 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, including volatility in the energy and metals and mining sectors. As of March 31, 2016, the Company held fixed maturity securities and equity securities with an estimated fair value of $2,446 million and a cost or amortized cost of $2,464 million in the energy and metals and mining sectors. The portion of these securities in a gross unrealized loss position had an estimated fair value of $1,069 million and a cost or amortized cost of $1,202 million. The Company has no current intent to sell securities with unrealized losses, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost; accordingly, the Company has determined that there are no additional OTTI losses to be recorded as of March 31, 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 March 31, 2016 and 2015 for which a portion of an OTTI loss was recognized in Other comprehensive income (loss).

Three months ended March 31		
(In millions)	2016	2015
Beginning balance of credit losses on fixed maturity securities	$53	$62
Additional credit losses for securities for which an OTTI loss was previously recognized	—	—
Reductions for securities sold during the period	(5)	(1)
Reductions for securities the Company intends to sell or more likely than not will be required to sell	—	—
Ending balance of credit losses on fixed maturity securities	$48	$61

Contractual Maturity

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

	March 31, 2016		December 31, 2015	
(In millions)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$1,747	$ 1,773	$1,574	$ 1,595
Due after one year through five years	8,335	8,748	7,721	8,070
Due after five years through ten years	14,587	15,129	14,652	14,915
Due after ten years	12,600	14,600	13,303	14,989
Total	$37,269	$ 40,250	$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 $178 million and $179 million as of March 31, 2016 and December 31, 2015 and a fair value of $1 million and $(5) million as of March 31, 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.

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Investment Commitments

As of March 31, 2016, the Company had committed approximately $371 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

As of March 31, 2016, the Company had a mortgage loan commitment of $10 million representing a signed loan application received and accepted.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases, sales and funding. Purchases and sales of privately placed debt securities are recorded once funded. As of March 31, 2016, the Company had commitments to purchase or fund additional amounts of $163 million and sell $166 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.

March 31, 2016 (In millions)	Level 1	Level 2	Level 3	Total Assets/Liabilities at Fair Value
Assets				
Fixed maturity securities:				
Corporate and other bonds	$—	$17,916	$193	$ 18,109
States, municipalities and political subdivisions	—	13,177	2	13,179
Asset-backed:				
Residential mortgage-backed	—	5,078	128	5,206
Commercial mortgage-backed	—	2,172	27	2,199
Other asset-backed	—	871	50	921
Total asset-backed	—	8,121	205	8,326
U.S. Treasury and obligations of government-sponsored enterprises	139	1	—	140
Foreign government	—	463	—	463
Redeemable preferred stock	35	—	—	35
Total fixed maturity securities	174	39,678	400	40,252
Equity securities	170	—	19	189
Other invested assets	—	17	—	17
Short term investments	508	1,064	—	1,572
Life settlement contracts, included in Other assets	—	—	72	72
Total assets	$852	$40,759	$491	$ 42,102
Liabilities				
Other liabilities	$—	$1	$—	$ 1
Total liabilities	$—	$1	$—	$ 1

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 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 March 31, 2016	Unrealized gains (losses) on Level 3 assets and liabilities held as of March 31, 2016 recognized in Net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	$ 168	$ (1)	$ 4	$ 53	$ (16)	$ (3)	$ —	$ (12)	$ 193	$ —
States, municipalities and political subdivisions	2	—	—	—	—	—	—	—	2	—
Asset-backed:										
Residential mortgage-backed	134	1	—	—	—	(5)	—	(2)	128	—
Commercial mortgage-backed	22	—	—	9	—	—	—	(4)	27	—
Other asset-backed	53	—	—	—	—	—	2	(5)	50	—
Total asset-backed	209	1	—	9	—	(5)	2	(11)	205	—
Total fixed maturity securities	379	—	4	62	(16)	(8)	2	(23)	400	—
Equity securities	20	—	(1)	—	—	—	—	—	19	—
Life settlement contracts	74	4	—	—	—	(6)	—	—	72	1
Total	$ 473	$ 4	$ 3	$ 62	$ (16)	$ (14)	$ 2	$ (23)	$ 491	$ 1

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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 March 31, 2015	Unrealized gains (losses) on Level 3 assets and liabilities held as of March 31, 2015 recognized in Net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	$ 162	$ 1	$ —	$ 12	$ (12)	$ (14)	$ 37	$ —	$ 186	$ —
States, municipalities and political subdivisions	94	1	—	—	—	(9)	—	—	86	—
Asset-backed:										
Residential mortgage-backed	189	1	—	72	—	(10)	—	(20)	232	—
Commercial mortgage-backed	83	1	1	6	—	(1)	—	(26)	64	—
Other asset-backed	655	1	9	35	(144)	(3)	—	—	553	—
Total asset-backed	927	3	10	113	(144)	(14)	—	(46)	849	—
Total fixed maturity securities	1,183	5	10	125	(156)	(37)	37	(46)	1,121	—
Equity securities	16	—	(3)	—	—	—	—	—	13	—
Life settlement contracts	82	13	—	—	—	(16)	—	—	79	1
Total	$ 1,281	$ 18	$ 7	$ 125	$ (156)	$ (53)	$ 37	$ (46)	$ 1,213	$ 1

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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	Net realized investment gains (losses)
Fixed maturity securities trading	Net investment income
Equity securities	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)

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 months ended March 31, 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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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.

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 classified 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.

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.

Other invested assets - Overseas Deposits

As of March 31, 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 measurements of Level 3 assets. Valuations for assets and liabilities not presented in the tables below are primarily based on broker/dealer quotes for which there is a lack of transparency as to inputs used to develop the valuations. The quantitative detail of these unobservable inputs is neither provided nor reasonably available to the Company.

March 31, 2016	Estimated Fair Value (In millions)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Fixed maturity securities	$ 142	Discounted cash flow	Credit spread	0% - 20% (4%)
Life settlement contracts	72	Discounted cash flow	Discount rate risk premium	9%
			Mortality assumption	55% - 1676% (164%)

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.

March 31, 2016	Carrying	Estimated Fair Value			
(In millions)	Amount	Level 1	Level 2	Level 3	Total
Assets					
Mortgage loans	$ 675	$ —	$ —	$ 697	$ 697
Liabilities					
Long term debt	$ 2,708	$ —	$ 2,943	$ —	$ 2,943

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 $36 million and $29 million for the three months ended March 31, 2016 and 2015. Catastrophe losses in 2016 related primarily to U.S. weather-related events.

Net Prior Year Development

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

Three months ended March 31, 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	$ (34)	$ (14)	$ (4)	$ —	$ (52)
Pretax (favorable) unfavorable premium development	(11)	(2)	(1)	—	(14)
Total pretax (favorable) unfavorable net prior year development	$ (45)	$ (16)	$ (5)	$ —	$ (66)

Three months ended March 31, 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	$ 2	$ (5)	$ (4)	$ —	$ (7)
Pretax (favorable) unfavorable premium development	(6)	(1)	16	—	9
Total pretax (favorable) unfavorable net prior year development	$ (4)	$ (6)	$ 12	$ —	$ 2

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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.

Three months ended March 31		
(In millions)	2016	2015
Pretax (favorable) unfavorable development:		
Medical Professional Liability	$(7)	$14
Other Professional Liability and Management Liability	(9)	(3)
Surety	—	1
Warranty	2	—
Other	(20)	(10)
Total pretax (favorable) unfavorable development	$(34)	$2

2016

Favorable development for medical professional liability was due to lower than expected severity in accident years 2011 and prior. This was partially offset by unfavorable development in accident years 2012 and 2013 recorded related to higher than expected large loss emergence and higher than expected severity in accident years 2014 and 2015.

Favorable development in other professional liability and management liability was primarily related to favorable settlements on claims in accident years 2011 through 2013. This was partially offset by unfavorable development recorded related to a specific financial institutions claim in accident year 2014 and continued deterioration on claims in accident year 2009 related to the credit crisis.

Favorable development for other coverages was primarily 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 frequency in the Aging Services book for accident years 2013 and 2014, partially offset by better than expected severity in accident years 2010 and prior.

Favorable development for other coverage was primarily due to better than expected 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.

Three months ended March 31		
(In millions)	2016	2015
Pretax (favorable) unfavorable development:		
Commercial Auto	$(15)	$—
General Liability	(15)	4
Workers' Compensation	4	(1)
Property and Other	12	(8)
Total pretax (favorable) unfavorable development	$(14)	$(5)

2016

Favorable development for commercial auto was primarily due to favorable settlements on claims in accident years 2011 through 2014.

Favorable development for general liability was primarily due to favorable settlements on claims in accident years 2013 and 2014.

Unfavorable development for property and other was primarily due to higher than expected severity from a 2015 catastrophe event.

2015

Favorable development for property and other was due to lower than expected loss emergence from 2014 catastrophe events.

International

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

Three months ended March 31		
(In millions)	2016	2015
Pretax (favorable) unfavorable development:		
Medical Professional Liability	$—	$—
Other Professional Liability	(1)	—
Liability	—	(5)
Property & Marine	(4)	(6)
Other	1	7
Total pretax (favorable) unfavorable development	$(4)	$(4)

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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 the NICO Loss Portfolio Transfer (Loss Portfolio Transfer or 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.

Three months ended March 31		
(In millions)	2016	2015
Net A&EP adverse development before consideration of LPT	$200	$—
Provision for uncollectible third-party reinsurance on A&EP	—	—
Additional amounts ceded under LPT	200	—
Retroactive reinsurance benefit recognized	(73)	(5)
Pretax impact of unrecognized deferred retroactive reinsurance benefit	$127	$(5)

The Company expected to complete its reserve review of A&EP reserves in the second quarter of 2016; however, during the first quarter of 2016 the Company received communication from NICO that their reserve review indicated a substantial increase in reserves. As a result, the Company accelerated and completed its reserve review during the first quarter. Based upon the Company's accelerated review, net unfavorable development prior to cessions to the LPT of $200 million was recognized; $146 million related to asbestos claims and $54 million related to environmental pollution claims. 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 the current quarter. Retroactive reinsurance accounting resulted in the recognition of a reinsurance benefit of $73 million in the current quarter, while the remaining $127 million of incurred losses covered by the LPT will be recognized as a benefit through future earnings in proportion to the actual paid recoveries subject to the NICO LPT. All amounts recognized related to the LPT are recorded within Insurance claims and policyholders' benefits in the Condensed Consolidated Statement of Operations.

As of March 31, 2016 and December 31, 2015, the cumulative amounts ceded under the LPT were $2.8 billion and $2.6 billion. Cumulative losses recognized in the Company's Condensed Consolidated Statement of Operations that are covered by the LPT were $368 million and $241 million as of March 31, 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 $2.7 billion and $2.8 billion as of March 31, 2016 and December 31, 2015. In addition, Berkshire Hathaway Inc. guaranteed the payment obligations of NICO up to the full aggregate reinsurance limit

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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.

Three months ended March 31		
(In millions)	2016	2015
Pension cost (benefit)		
Service cost	$—	$2
Interest cost on projected benefit obligation	28	28
Expected return on plan assets	(40)	(43)
Amortization of net actuarial loss	9	9
Net periodic pension cost (benefit)	$(3)	$(4)

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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 March 31, 2016, the maximum potential loss that the Company could be required to pay under this guarantee, in excess of amounts already recorded, was approximately $18 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 March 31, 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 March 31, 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 March 31, 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 March 31, 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 January 1, 2016	$ 27	$ 390	$ (648)	$ (84)	$(315)
Other comprehensive income (loss) before reclassifications	3	223	—	14	240
Amounts reclassified from accumulated other comprehensive income (loss) net of tax (expense) benefit of $1, $7, $3, $- and $11	(2)	(11)	(6)	—	(19)
Other comprehensive income (loss) net of tax (expense) benefit of $(3), $(116), $(3), $- and $(122)	5	234	6	14	259
Balance as of March 31, 2016	$ 32	$ 624	$ (642)	$ (70)	$(56)

(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	(1)	121	—	(96)	24
Amounts reclassified from accumulated other comprehensive income (loss) net of tax (expense) benefit of $-, $-, $3, $- and $3	—	9	(6)	—	3
Other comprehensive income (loss) net of tax (expense) benefit of $-, $(62), $(3), $- and $(65)	(1)	112	6	(96)	21
Balance as of March 31, 2015	$ 35	$ 1,054	$ (627)	$ (41)	$421

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 1) net realized investment gains (losses) 2) income or loss from discontinued operations and 3) 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 March 31, 2016 (In millions)	Specialty	Commercial	International	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Operating revenues							
Net earned premiums	$ 682	$ 688	$ 198	$ 131	$ —	$ —	$ 1,699
Net investment income	107	126	12	187	3	—	435
Other revenues	87	6	1	—	3	—	97
Total operating revenues	876	820	211	318	6	—	2,231
Claims, Benefits and Expenses							
Net incurred claims and benefits	390	442	121	323	128	—	1,404
Policyholders' dividends	1	3	—	—	—	—	4
Amortization of deferred acquisition costs	144	116	47	—	—	—	307
Other insurance related expenses	75	141	28	33	—	—	277
Other expenses	75	5	9	3	54	—	146
Total claims, benefits and expenses	685	707	205	359	182	—	2,138
Operating income (loss) before income tax	191	113	6	(41)	(176)	—	93
Income tax (expense) benefit on operating income (loss)	(64)	(39)	—	39	62	—	(2)
Net operating income (loss)	127	74	6	(2)	(114)	—	91
Net realized investment gains (losses)	(11)	(18)	4	(3)	(8)	—	(36)
Income tax (expense) benefit on net realized investment gains (losses)	4	6	(1)	—	2	—	11
Net realized investment gains (losses), after tax	(7)	(12)	3	(3)	(6)	—	(25)
Net income (loss)	$ 120	$ 62	$ 9	$ (5)	$ (120)	$ —	$ 66

March 31, 2016 (In millions)							
Reinsurance receivables	$ 765	$ 623	$ 139	$ 496	$ 2,707	$ —	$ 4,730
Insurance receivables	884	1,025	276	14	2	—	2,201
Deferred acquisition costs	309	225	88	—	—	—	622
Goodwill	117	—	33	—	—	—	150
Insurance reserves							
Claim and claim adjustment expenses	6,325	9,095	1,395	3,311	2,892	—	23,018
Unearned premiums	1,861	1,347	464	136	—	(1)	3,807
Future policy benefits	—	—	—	10,500	—	—	10,500

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Three months ended March 31, 2015 (In millions)	Specialty	Commercial	International	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Operating revenues							
Net earned premiums	$ 680	$ 678	$ 191	$ 138	$ —	$ —	$ 1,687
Net investment income	155	204	14	179	6	—	558
Other revenues	78	9	—	9	2	(1)	97
Total operating revenues	913	891	205	326	8	(1)	2,342
Claims, Benefits and Expenses							
Net incurred claims and benefits	429	454	116	340	(4)	—	1,335
Policyholders' dividends	1	3	—	—	—	—	4
Amortization of deferred acquisition costs	144	117	35	7	—	—	303
Other insurance related expenses	69	127	37	35	—	—	268
Other expenses	67	8	5	4	46	(1)	129
Total claims, benefits and expenses	710	709	193	386	42	(1)	2,039
Operating income (loss) before income tax	203	182	12	(60)	(34)	—	303
Income tax (expense) benefit on operating income (loss)	(68)	(62)	(3)	43	12	—	(78)
Net operating income (loss)	135	120	9	(17)	(22)	—	225
Net realized investment gains (losses)	4	4	1	1	—	—	10
Income tax (expense) benefit on net realized investment gains (losses)	(1)	(3)	—	2	—	—	(2)
Net realized investment gains (losses), after tax	3	1	1	3	—	—	8
Net income (loss)	$ 138	$ 121	$ 10	$ (14)	$ (22)	$ —	$ 233

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.

Three months ended March 31		
(In millions)	2016	2015
Specialty		
Management & Professional Liability	$618	$697
Surety	127	120
Warranty & Alternative Risks	120	100
Specialty revenues	865	917
Commercial		
Middle Market	401	409
Small Business	143	165
Other Commercial Insurance	258	321
Commercial revenues	802	895
International		
Canada	50	55
CNA Europe	78	77
Hardy	87	74
International revenues	215	206
Life & Group Non-Core revenues	315	327
Corporate & Other Non-Core revenues	(2)	8
Eliminations	—	(1)
Total revenues	$2,195	$2,352

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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 14^{th} 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 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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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.

Three months ended March 31		
(In millions)	2016	2015
Operating Revenues		
Net earned premiums	$1,699	$1,687
Net investment income	435	558
Other revenues	97	97
Total operating revenues	2,231	2,342
Claims, Benefits and Expenses		
Net incurred claims and benefits	1,404	1,335
Policyholders' dividends	4	4
Amortization of deferred acquisition costs	307	303
Other insurance related expenses	277	268
Other expenses	146	129
Total claims, benefits and expenses	2,138	2,039
Operating income before income tax	93	303
Income tax expense on operating income	(2)	(78)
Net operating income	91	225
Net realized investment (losses) gains	(36)	10
Income tax benefit (expense) on net realized investment (losses) gains	11	(2)
Net realized investment (losses) gains, after tax	(25)	8
Net income	$66	$233

Net operating income decreased $134 million for the three months ended March 31, 2016 as compared with the same period 2015. Results in 2016 within our Corporate and Other Non-Core segment were negatively affected by an $83 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. Net operating income decreased $57 million for our core segments due to a decrease in net investment income driven by lower limited partnership returns, partially offset by improved underwriting results. Excluding the effect of the retroactive reinsurance charge, net operating results for our non-core segments improved $6 million primarily driven by our long term care business. Catastrophe losses were $24 million after tax for the three months ended March 31, 2016 as compared to $19 million after tax for the same period 2015.

Favorable net prior year development of $66 million was recorded for the three months ended March 31, 2016 as compared with unfavorable net prior year development of $2 million for the three months ended March 31, 2015 related to our Specialty, Commercial, International and Corporate & Other Non-Core segments. 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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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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SEGMENT RESULTS

The following discusses the results for our operating 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.

Three months ended March 31		
(In millions, except ratios, rate and retention)	2016	2015
Net written premiums	$684	$698
Net earned premiums	682	680
Net investment income	107	155
Net operating income	127	135
Net realized investment (losses) gains, after tax	(7)	3
Net income	120	138
Other performance metrics:		
Loss and loss adjustment expense ratio	57.1 %	63.1 %
Expense ratio	32.1	31.3
Dividend ratio	0.2	0.2
Combined ratio	89.4 %	94.6 %
Rate	1 %	1 %
Retention	87	86
New business	$65	$76

Net written premiums for Specialty decreased $14 million for the three months ended March 31, 2016 as compared with the same period in 2015, driven by lower new business due to competitive market conditions. Excluding premium development, net earned premiums decreased which was consistent with the trend in net written premiums.

Net operating income decreased $8 million for the three months ended March 31, 2016 as compared with the same period in 2015. Lower net investment income was partially offset by higher net favorable prior year development.

The combined ratio improved 5.2 points for the three months ended March 31, 2016 as compared with the same period in 2015. The loss ratio improved 6.0 points primarily due to higher net favorable prior year reserve development. Catastrophe losses were $4 million, or 0.6 points of the loss ratio for the three months ended March 31, 2016, as compared to $7 million, or 1.1 points of the loss ratio for three months ended March 31, 2015. The expense ratio increased 0.8 points for the three months ended March 31, 2016 as compared with the same period in 2015 due to higher underwriting expenses.

Favorable net prior year development of $45 million and $4 million was recorded in the three months ended March 31, 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)	March 31, 2016	December 31, 2015
Gross Case Reserves	$1,999	$ 2,011
Gross IBNR Reserves	4,326	4,258
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$6,325	$ 6,269
Net Case Reserves	$1,800	$ 1,810
Net IBNR Reserves	3,764	3,758
Total Net Carried Claim and Claim Adjustment Expense Reserves	$5,564	$ 5,568

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Commercial

The following table presents the results of operations.

Three months ended March 31		
(In millions, except ratios, rate and retention)	2016	2015
Net written premiums	$748	$759
Net earned premiums	688	678
Net investment income	126	204
Net operating income	74	120
Net realized investment (losses) gains, after tax	(12)	1
Net income	62	121
Other performance metrics:		
Loss and loss adjustment expense ratio	64.2 %	66.9 %
Expense ratio	37.3	36.0
Dividend ratio	0.4	0.4
Combined ratio	101.9%	103.3%
Rate	— %	3 %
Retention	83	76
New business	$137	$138

Net written premiums for Commercial decreased $11 million for the three months ended March 31, 2016 as compared with the same period in 2015. The increase in net earned premiums was consistent with the trend in recent quarters in net written premiums.

Net operating income decreased $46 million for the three months ended March 31, 2016 as compared with the same period in 2015. This decrease was due to lower net investment income partially offset by improved underwriting results.

The combined ratio improved 1.4 points for the three months ended March 31, 2016 as compared with the same period in 2015. The loss ratio improved 2.7 points due to an improved non-catastrophe current accident year loss ratio and higher favorable net prior year reserve development. Catastrophe losses were $28 million, or 4.1 points of the loss ratio for the three months ended March 31, 2016, as compared to $19 million, or 2.8 points of the loss ratio for the three months ended March 31, 2015. The expense ratio increased 1.3 points in the three months ended March 31, 2016 as compared with the same period in 2015, due to higher underwriting expenses and contingent commissions.

Favorable net prior year development of $16 million and $6 million was recorded in the three months ended March 31, 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)	March 31, 2016	December 31, 2015
Gross Case Reserves	$4,856	$ 4,975
Gross IBNR Reserves	4,239	4,208
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$9,095	$ 9,183
Net Case Reserves	$4,537	$ 4,651
Net IBNR Reserves	3,968	3,925
Total Net Carried Claim and Claim Adjustment Expense Reserves	$8,505	$ 8,576

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International

The following table presents the results of operations.

Three months ended March 31		
(In millions, except ratios, rate and retention)	2016	2015
Net written premiums	$236	$212
Net earned premiums	198	191
Net investment income	12	14
Net operating income	6	9
Net realized investment gains, after tax	3	1
Net income	9	10
Other performance metrics:		
Loss and loss adjustment expense ratio	61.2 %	60.7 %
Expense ratio	37.8	37.6
Dividend ratio	—	—
Combined ratio	99.0 %	98.3 %
Rate	— %	(1)%
Retention	77	78
New business [(a)]	$60	$35

(a) Beginning in 2016, new business includes Hardy. New business for Hardy was $31 million for the three months ended March 31, 2016.

Net written premiums for International increased $24 million for the three months ended March 31, 2016 as compared with the same period 2015. Results in 2015 were negatively affected by $16 million of unfavorable premium development primarily at Hardy. Excluding the effect of foreign currency exchange rates, premium development and the timing of reinsurance spend, net written premiums for the three months ended March 31, 2016 were steady as compared to the same period in 2015. The increase in net earned premiums was consistent with the trend in net written premiums.

The combined ratio increased 0.7 points for the three months ended March 31, 2016 as compared with the same period in 2015. The loss ratio increased 0.5 points due to an increase in the current accident year loss ratio driven by political risk losses which was substantially offset by the favorable period over period effect of net prior year premium development. Catastrophe losses were $4 million, or 2.1 points of the loss ratio, for the three months ended March 31, 2016, as compared to $3 million, or 1.3 points of the loss ratio for the three months ended March 31, 2015. The expense ratio increased 0.2 points for the three months ended March 31, 2016 as compared with the same period in 2015 due to higher expenses, partially offset by the favorable impact of higher net earned premiums.

Favorable net prior year development of $5 million was recorded for the three months ended March 31, 2016 as compared with unfavorable net prior year development of $12 million for the three months ended March 31, 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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The following table presents the gross and net carried reserves.

(In millions)	March 31, 2016	December 31, 2015
Gross Case Reserves	$ 638	$ 622
Gross IBNR Reserves	757	725
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$ 1,395	$ 1,347
Net Case Reserves	$ 558	$ 531
Net IBNR Reserves	692	688
Total Net Carried Claim and Claim Adjustment Expense Reserves	$ 1,250	$ 1,219

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Life & Group Non-Core

The following table presents the results of operations.

Three months ended March 31		
(In millions)	2016	2015
Net earned premiums	$131	$138
Net investment income	187	179
Net operating loss	(2)	(17)
Net realized investment (losses) gains, after tax	(3)	3
Net loss	(5)	(14)

Net earned premiums for Life & Group Non-Core decreased $7 million for the three months ended March 31, 2016 as compared with the same period in 2015. The effect of policy lapses was partially offset by premium rate increases. 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. The net operating loss of $2 million for the three months ended March 31, 2016 is reflective of long term care business performance, generally in line with expectations.

Corporate & Other Non-Core

The following table presents the results of operations.

Three months ended March 31		
(In millions)	2016	2015
Net investment income	$ 3	$ 6
Interest expense	42	39
Net operating loss	(114)	(22)
Net realized investment losses, after tax	(6)	—
Net loss	(120)	(22)

Net operating loss increased $92 million for the three months ended March 31, 2016 as compared with the same period in 2015. During the three months ended March 31, 2016, we recorded net unfavorable development of $200 million related to our A&EP reserves. This unfavorable development was ceded to NICO under the 2010 Loss Portfolio Transfer, however the Company's reported earnings were negatively affected by $83 million, after tax, due to the application of retroactive reinsurance accounting, as further discussed 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)	March 31, 2016	December 31, 2015
Gross Case Reserves	$1,490	$ 1,521
Gross IBNR Reserves	1,402	1,123
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$2,892	$ 2,644
Net Case Reserves	$127	$ 130
Net IBNR Reserves	152	153
Total Net Carried Claim and Claim Adjustment Expense Reserves	$279	$ 283

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INVESTMENTS

Net Investment Income

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

Three months ended March 31 (In millions)	2016	2015
Fixed maturity securities:		
Taxable	$345	$342
Tax-Exempt	101	101
Total fixed maturity securities	446	443
Limited partnership investments	(14)	114
Other, net of investment expense	3	1
Net investment income	$435	$558
Net investment income, after tax	$315	$394
Effective income yield for the fixed maturity securities portfolio, pretax	4.8 %	4.8 %
Effective income yield for the fixed maturity securities portfolio, after tax	3.4 %	3.4 %

Net investment income, after tax, for the three months ended March 31, 2016 decreased $79 million as compared with the same period in 2015. The decrease was driven by limited partnership investments, which returned (0.6)% as compared with 3.9% in the prior year period.

Net Realized Investment Gains (Losses)

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

Three months ended March 31 (In millions)	2016	2015
Fixed maturity securities:		
Corporate and other bonds	$(15)	$13
States, municipalities and political subdivisions	3	(4)
Asset-backed	(6)	3
U.S. Treasury and obligations of government-sponsored enterprises	1	—
Total fixed maturity securities	(17)	12
Equity securities	(5)	—
Derivative financial instruments	(7)	(1)
Short term investments and other	(7)	(1)
Net realized investment (losses) gains	(36)	10
Income tax benefit (expense) on net realized investment (losses) gains	11	(2)
Net realized investment (losses) gains, after tax	$(25)	$8

Net realized investment results, after tax, decreased $33 million for the three months ended March 31, 2016 as compared with the same period in 2015, driven by lower net realized investment gains on sales of securities and higher OTTI losses recognized in earnings. 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)	March 31, 2016 Estimated Fair Value	March 31, 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	$4,177	$ 154	$3,910	$ 101
AAA	1,960	141	1,938	123
AA	8,758	1,058	8,919	900
A	10,352	1,061	10,044	904
BBB	11,898	571	11,595	307
Non-investment grade	3,107	(4)	3,166	(16)
Total	$40,252	$ 2,981	$39,572	$ 2,319

As of March 31, 2016 and December 31, 2015, only 2% and 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)	March 31, 2016 Estimated Fair Value	March 31, 2016 Gross Unrealized Losses
U.S. Government, Government agencies and Government-sponsored enterprises	$70	$ 1
AAA	254	4
AA	154	2
A	687	25
BBB	2,412	125
Non-investment grade	1,318	126
Total	$4,895	$ 283

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)	March 31, 2016 Estimated Fair Value	March 31, 2016 Gross Unrealized Losses
Due in one year or less	$323	$ 3
Due after one year through five years	1,024	38
Due after five years through ten years	2,689	159
Due after ten years	859	83
Total	$4,895	$ 283

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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.

	March 31, 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	$15,344	9.2	$14,879	9.6
Other interest sensitive investments	26,483	4.1	26,435	4.3
Total	$41,827	6.0	$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)	March 31, 2016	December 31, 2015
Short term investments:		
Commercial paper	$945	$ 998
U.S. Treasury securities	462	411
Money market funds	64	60
Other	177	191
Total short term investments	$1,648	$ 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 three months ended March 31, 2016, net cash provided by operating activities was $334 million as compared with $94 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 $9 million for the three months ended March 31, 2016, as compared with net cash provided of $526 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 three months ended March 31, 2016, net cash used by financing activities was $469 million as compared with $603 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

A quarterly dividend of $0.25 per share and a special dividend of $2.00 per share of our common stock were declared and paid in the first quarter of 2016. On April 29, 2016, our Board of Directors declared a quarterly dividend of $0.25 per share, payable June 1, 2016 to stockholders of record on May 16, 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 years 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 March 31, 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 $300 million during the nine months ended December 31, 2015 and $565 million during the three months ended March 31, 2016. As of March 31, 2016 CCC is able to pay approximately $214 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 in the current period 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, 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.

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 three months ended March 31, 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 March 31, 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 March 31, 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 March 31, 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: May 3, 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