

CNA FINANCIAL CORP
Form 10-Q
May 05, 2015

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

FORM 10-Q
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number 1-5823

CNA FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)
Delaware
(State or other jurisdiction of
incorporation or organization)
333 S. Wabash
Chicago, Illinois
(Address of principal executive offices)
(312) 822-5000
(Registrant's telephone number, including area code)

36-6169860
(I.R.S. Employer
Identification No.)
60604
(Zip 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 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 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 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

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 May 1, 2015
Common Stock, Par value \$2.50 270,245,346

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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)

	2015	2014	
Revenues			
Net earned premiums	\$1,687	\$1,806	
Net investment income	558	526	
Net realized investment gains:			
Other-than-temporary impairment losses	(12	) (2)
Portion of other-than-temporary impairments recognized in Other comprehensive income	—	—	
Net other-than-temporary impairment losses recognized in earnings	(12	) (2)
Other net realized investment gains	22	48	
Net realized investment gains	10	46	
Other revenues	97	85	
Total revenues	2,352	2,463	
Claims, Benefits and Expenses			
Insurance claims and policyholders' benefits	1,339	1,446	
Amortization of deferred acquisition costs	303	329	
Other operating expenses	358	346	
Interest	39	44	
Total claims, benefits and expenses	2,039	2,165	
Income from continuing operations before income tax	313	298	
Income tax expense	(80	) (78)
Income from continuing operations	233	220	
Loss from discontinued operations, net of income tax benefit of \$0 and \$38	—	(207)
Net income	\$233	\$13	
Basic Earnings Per Share			
Income from continuing operations	\$0.86	\$0.82	
Loss from discontinued operations	—	(0.77)
Basic earnings per share	\$0.86	\$0.05	
Diluted Earnings Per Share			
Income from continuing operations	\$0.86	\$0.81	
Loss from discontinued operations	—	(0.76)
Diluted earnings per share	\$0.86	\$0.05	
Dividends per share	\$2.25	\$1.25	
Weighted Average Outstanding Common Stock and Common Stock Equivalents			
Basic	270.1	269.8	
Diluted	270.7	270.5	

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)

Other Comprehensive Income, Net of Tax

Changes in:

	2015		2014
Net unrealized gains on investments with other-than-temporary impairments	\$(1	)	\$12
Net unrealized gains on other investments	112		237
Net unrealized gains on investments	111		249
Net unrealized gains on discontinued operations	—		8
Foreign currency translation adjustment	(96	)	(8)
Pension and postretirement benefits	6		1
Other comprehensive income, net of tax	21		250
Net income	233		13
Total comprehensive income	\$254		\$263

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, 2015 (Unaudited)	December 31, 2014
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of \$36,875 and \$37,335)	\$40,605	\$40,768
Equity securities at fair value (cost of \$213 and \$210)	225	222
Limited partnership investments	2,967	2,937
Other invested assets	43	41
Mortgage loans	586	588
Short term investments	1,506	1,706
Total investments	45,932	46,262
Cash	201	190
Reinsurance receivables (less allowance for uncollectible receivables of \$48 and \$48)	4,720	4,694
Insurance receivables (less allowance for uncollectible receivables of \$59 and \$61)	2,050	1,936
Accrued investment income	430	405
Deferred acquisition costs	616	600
Deferred income taxes	57	191
Property and equipment at cost (less accumulated depreciation of \$364 and \$364)	298	295
Goodwill	151	152
Other assets	1,010	841
Total assets	\$55,465	\$55,566
Liabilities		
Insurance reserves:		
Claim and claim adjustment expenses	\$23,248	\$23,271
Unearned premiums	3,710	3,592
Future policy benefits	9,747	9,490
Policyholders' funds	—	27
Long term debt	2,560	2,559
Other liabilities (includes \$6 and \$153 due to Loews Corporation)	3,763	3,833
Total liabilities	43,028	42,772
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; 270,241,545 and 269,980,202 shares outstanding)	683	683
Additional paid-in capital	2,143	2,151
Retained earnings	9,270	9,645
Accumulated other comprehensive income	421	400
Treasury stock (2,798,698 and 3,060,041 shares), at cost	(79	) (84
Notes receivable for the issuance of common stock	(1	) (1
Total stockholders' equity	12,437	12,794
Total liabilities and stockholders' equity	\$55,465	\$55,566

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)

Cash Flows from Operating Activities

	2015	2014	
Net income	\$233	\$13	
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Impairment loss on sale of subsidiary	—	255	
Deferred income tax expense	71	25	
Trading portfolio activity	13	21	
Net realized investment gains	(10	) (47)
Equity method investees	(91	) 132	
Net amortization of investments	—	(1)
Depreciation and amortization	19	20	
Changes in:			
Receivables, net	(157	) 126	
Accrued investment income	(25	) (36)
Deferred acquisition costs	(13	) (21)
Insurance reserves	304	85	
Other assets	(34	) (35)
Other liabilities	(235	) (372)
Other, net	19	3	
Total adjustments	(139	) 155	
Net cash flows provided by operating activities	94	168	
Cash Flows from Investing Activities			
Dispositions:			
Fixed maturity securities - sales	1,144	1,550	
Fixed maturity securities - maturities, calls and redemptions	1,144	851	
Equity securities	2	11	
Limited partnerships	20	68	
Mortgage loans	3	13	
Purchases:			
Fixed maturity securities	(1,919	) (2,072)
Equity securities	(5	) (5)
Limited partnerships	(34	) (73)
Mortgage loans	(8) —	
Change in other investments	7	—	
Change in short term investments	190	(688)
Purchases of property and equipment	(20	) (10)
Other, net	2	1	
Net cash flows provided (used) by investing activities	\$526	\$(354)

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)	2015	2014
Cash Flows from Financing Activities		
Dividends paid to common stockholders	\$(608)	\$(338)
Proceeds from the issuance of debt	—	546
Other, net	5	2
Net cash flows provided (used) by financing activities	(603)	210
Effect of foreign exchange rate changes on cash	(6)	1
Transfer of cash to assets held for sale	—	(14)
Net change in cash	11	11
Cash, beginning of year	190	195
Cash, end of period	\$201	\$206

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)

Common Stock

Balance, beginning of period

2015

2014

\$683

\$683

Balance, end of period

683

683

Additional Paid-in Capital

Balance, beginning of period

2,151

2,145

Stock-based compensation

(8

) (1)

Balance, end of period

2,143

2,144

Retained Earnings

Balance, beginning of period

9,645

9,495

Dividends paid to common stockholders

(608

) (338)

Net income

233

13

Balance, end of period

9,270

9,170

Accumulated Other Comprehensive Income

Balance, beginning of period

400

442

Other comprehensive income

21

250

Balance, end of period

421

692

Treasury Stock

Balance, beginning of period

(84

) (91)

Stock-based compensation

5

6

Balance, end of period

(79

) (85)

Notes Receivable for the Issuance of Common Stock

Balance, beginning of period

(1

) (23)

Decrease in notes receivable for common stock

—

1

Balance, end of period

(1

) (22)

Total Stockholders' Equity

\$12,437

\$12,582

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 (Unaudited) 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, 2015. 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, 2014, 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 periods. Actual results may differ from those estimates.

The interim financial data as of March 31, 2015 and for the three months ended March 31, 2015 and 2014 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.

Sale of Continental Assurance Company (CAC)

On August 1, 2014, the Company completed the sale of the common stock of CAC, the Company's former life insurance subsidiary. In the first quarter of 2014, the Company recorded an after-tax impairment loss of \$214 million related to the sale. The Company elected to include CAC cash flow activity in the comparative Condensed Consolidated Statement of Cash Flows. Further information on discontinued operations is provided in Note K to the Condensed Consolidated 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, 2015 and 2014, approximately 654 thousand and 660 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 182 thousand and 110 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)	2015	2014
Fixed maturity securities	\$443	\$452
Short term investments	2	1
Limited partnership investments	114	73
Equity securities	3	2
Mortgage loans	8	6
Trading portfolio	2	3
Other	—	2
Gross investment income	572	539
Investment expense	(14	) (13
Net investment income	\$558	\$526

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

Three months ended March 31

(In millions)	2015	2014
Net realized investment gains (losses):		
Fixed maturity securities:		
Gross realized gains	\$33	\$53
Gross realized losses	(21	) (15
Net realized investment gains (losses) on fixed maturity securities	12	38
Equity securities:		
Gross realized gains	1	5
Gross realized losses	(1) —
Net realized investment gains (losses) on equity securities	—	5
Derivatives	(1) —
Short term investments and other	(1	) 3
Net realized investment gains (losses)	\$10	\$46

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)	2015	2014
Fixed maturity securities available-for-sale:		
Corporate and other bonds	\$5	\$1
States, municipalities and political subdivisions	5	—
Asset-backed - residential mortgage-backed	1	1
Total fixed maturity securities available-for-sale	11	2
Equity securities available-for-sale:		
Common stock	1	—
Net OTTI losses recognized in earnings	\$12	\$2

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

March 31, 2015	Cost or	Gross	Gross	Estimated	Unrealized
(In millions)	Amortized	Unrealized	Unrealized	Fair	OTTI
	Cost	Gains	Losses	Value	Losses
					(Gains)
Fixed maturity securities available-for-sale:					
Corporate and other bonds	\$16,721	\$1,867	\$43	\$18,545	\$—
States, municipalities and political subdivisions	11,407	1,536	9	12,934	—
Asset-backed:					
Residential mortgage-backed	4,998	241	13	5,226	(51)
Commercial mortgage-backed	2,151	114	5	2,260	(3)
Other asset-backed	1,109	15	1	1,123	—
Total asset-backed	8,258	370	19	8,609	(54)
U.S. Treasury and obligations of government-sponsored enterprises	24	6	—	30	—
Foreign government	390	19	—	409	—
Redeemable preferred stock	39	3	—	42	—
Total fixed maturity securities available-for-sale	36,839	3,801	71	40,569	\$(54)
Total fixed maturity securities trading	36			36	
Equity securities available-for-sale:					
Common stock	41	9	—	50	
Preferred stock	172	7	4	175	
Total equity securities available-for-sale	213	16	4	225	
Total	\$37,088	\$3,817	\$75	\$40,830	
December 31, 2014					
(In millions)	Cost or	Gross	Gross	Estimated	Unrealized
	Amortized	Unrealized	Unrealized	Fair	OTTI
	Cost	Gains	Losses	Value	Losses
					(Gains)
Fixed maturity securities available-for-sale:					
Corporate and other bonds	\$17,210	\$1,721	\$61	\$18,870	\$—
States, municipalities and political subdivisions	11,285	1,463	8	12,740	—
Asset-backed:					
Residential mortgage-backed	5,028	218	13	5,233	(53)
Commercial mortgage-backed	2,056	93	5	2,144	(2)
Other asset-backed	1,234	11	10	1,235	—
Total asset-backed	8,318	322	28	8,612	(55)
U.S. Treasury and obligations of government-sponsored enterprises	26	5	—	31	—
Foreign government	438	16	—	454	—
Redeemable preferred stock	39	3	—	42	—
Total fixed maturity securities available-for-sale	37,316	3,530	97	40,749	\$(55)
Total fixed maturity securities trading	19			19	
Equity securities available-for-sale:					
Common stock	38	9	—	47	
Preferred stock	172	5	2	175	
Total equity securities available-for-sale	210	14	2	222	
Total	\$37,545	\$3,544	\$99	\$40,990	

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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. As of March 31, 2015 and December 31, 2014, the net unrealized gains on investments included in AOCI were net of after-tax Shadow Adjustments of \$1,370 million and \$1,288 million. 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 decrease in Deferred acquisition costs and/or increase in Insurance reserves are recorded, net of tax, as a reduction of net unrealized gains through Other comprehensive income (loss) (Shadow Adjustments).

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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.

March 31, 2015 (In millions)	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities available-for-sale:						
Corporate and other bonds	\$840	\$31	\$139	\$12	\$979	\$43
States, municipalities and political subdivisions	479	6	100	3	579	9
Asset-backed:						
Residential mortgage-backed	318	5	148	8	466	13
Commercial mortgage-backed	175	3	62	2	237	5
Other asset-backed	187	1	5	—	192	1
Total asset-backed	680	9	215	10	895	19
U.S. Treasury and obligations of government-sponsored enterprises	3	—	—	—	3	—
Foreign government	13	—	1	—	14	—
Total fixed maturity securities available-for-sale	2,015	46	455	25	2,470	71
Equity securities available-for-sale:						
Preferred stock	15	4	—	—	15	4
Total	\$2,030					