

CNA FINANCIAL CORP
Form 10-Q
October 31, 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 September 30, 2016
OR

☐ []
TRANSITION
REPORT
PURSUANT
TO SECTION
13 OR 15(d)
OF THE
SECURITIES
EXCHANGE
ACT OF 1934

For the transition period from _____ to _____
Commission File Number 1-5823

CNA FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 36-6169860

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

333 S. Wabash 60604
Chicago, Illinois (Zip Code)

(Address of principal executive offices)

(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 ☐ []

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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 October 27, 2016 |
|--------------------------------|---------------------------------|
| Common Stock, Par value \$2.50 | 270,489,350 |

| Item Number | | Page Number |
|----------------|--|----------------|
| | <u>PART I. Financial Information</u> | |
| 1. | <u>Condensed Consolidated Financial Statements:</u> | |
| | <u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015 (Unaudited)</u> | <u>3</u> |
| | <u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015 (Unaudited)</u> | <u>4</u> |
| | <u>Condensed Consolidated Balance Sheets as of September 30, 2016 (Unaudited) and December 31, 2015</u> | <u>5</u> |
| | <u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015 (Unaudited)</u> | <u>6</u> |
| | <u>Condensed Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 2016 and 2015 (Unaudited)</u> | <u>8</u> |
| | <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> | <u>9</u> |
| 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>46</u> |
| 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>67</u> |
| 4. | <u>Controls and Procedures</u> | <u>67</u> |
| | <u>PART II. Other Information</u> | |
| 1. | <u>Legal Proceedings</u> | <u>68</u> |
| 6. | <u>Exhibits</u> | <u>68</u> |
| 2 | | |

Table of Contents

PART I. Financial Information

Item 1. Condensed Consolidated Financial Statements

CNA Financial Corporation

Condensed Consolidated Statements of Operations (Unaudited)

Periods ended September 30

(In millions, except per share data)

Revenues

Net earned premiums

Net investment income

Net realized investment gains (losses)

Other-than-temporary impairment losses

Other net realized investment gains

Net realized investment gains (losses)

Other revenues

Total revenues

Claims, Benefits and Expenses

Insurance claims and policyholders' benefits

Amortization of deferred acquisition costs

Other operating expenses

Interest

Total claims, benefits and expenses

Income before income tax

Income tax expense

Net income

Basic earnings per share

Diluted earnings per share

Dividends declared per share

Weighted Average Outstanding Common Stock and Common Stock Equivalents

Basic

Diluted

Three Months

2016

2015

Nine Months

2016

2015

\$1,767

\$1,751

\$5,196

\$5,173

524

354

1,461

1,412

(18

) (56

) (56

) (99

)

64

7

82

60

46

(49

) 26

(39

)

96

97

293

286

2,433

2,153

6,976

6,832

1,202

1,200

3,949

4,008

314

319

926

936

403

362

1,162

1,061

39

39

119

117

1,958

1,920

6,156

6,122

475

233

820

710

(132

) (55

) (202

) (161

)

\$343

\$178

\$618

\$549

\$1.27

\$0.66

\$2.28

\$2.03

\$1.26

\$0.66

\$2.28

\$2.03

\$0.25

\$0.25

\$2.75

\$2.75

270.5

270.3

270.4

270.2

271.2

270.8

271.0

270.7

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

Table of Contents

CNA Financial Corporation

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Periods ended September 30

(In millions)

Comprehensive Income

Net income

Other Comprehensive Income (Loss), Net of Tax

Changes in:

Net unrealized gains on investments with other-than-temporary impairments

Net unrealized gains on other investments

Net unrealized gains on investments

Foreign currency translation adjustment

Pension and postretirement benefits

Other comprehensive income (loss), net of tax

Total comprehensive income

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

| | Three Months | | Nine Months | |
|---|--------------|-------|-------------|--------|
| | 2016 | 2015 | 2016 | 2015 |
| Comprehensive Income | | | | |
| Net income | \$343 | \$178 | \$618 | \$549 |
| Other Comprehensive Income (Loss), Net of Tax | | | | |
| Changes in: | | | | |
| Net unrealized gains on investments with other-than-temporary impairments | 3 | 2 | 7 | (3) |
| Net unrealized gains on other investments | 42 | (36) | 586 | (289) |
| Net unrealized gains on investments | 45 | (34) | 593 | (292) |
| Foreign currency translation adjustment | (24) | (53) | (58) | (100) |
| Pension and postretirement benefits | 6 | 4 | 17 | 52 |
| Other comprehensive income (loss), net of tax | 27 | (83) | 552 | (340) |
| Total comprehensive income | \$370 | \$95 | \$1,170 | \$209 |

Table of ContentsCNA Financial Corporation
Condensed Consolidated Balance Sheets

| (In millions, except share data) | September 30, 2016 (Unaudited) | December 31, 2015 |
|---|---|----------------------|
| Assets | | |
| Investments: | | |
| Fixed maturity securities at fair value (amortized cost of \$38,240 and \$37,253) | \$ 42,321 | \$ 39,572 |
| Equity securities at fair value (cost of \$108 and \$191) | 116 | 197 |
| Limited partnership investments | 2,456 | 2,548 |
| Other invested assets | 35 | 44 |
| Mortgage loans | 629 | 678 |
| Short term investments | 1,423 | 1,660 |
| Total investments | 46,980 | 44,699 |
| Cash | 290 | 387 |
| Reinsurance receivables (less allowance for uncollectible receivables of \$37 and \$38) | 4,577 | 4,453 |
| Insurance receivables (less allowance for uncollectible receivables of \$46 and \$51) | 2,235 | 2,078 |
| Accrued investment income | 434 | 404 |
| Deferred acquisition costs | 619 | 598 |
| Deferred income taxes | 221 | 638 |
| Property and equipment at cost (less accumulated depreciation of \$236 and \$382) | 287 | 343 |
| Goodwill | 146 | 150 |
| Other assets | 1,070 | 1,295 |
| Total assets | \$ 56,859 | \$ 55,045 |
| Liabilities | | |
| Insurance reserves: | | |
| Claim and claim adjustment expenses | \$ 22,672 | \$ 22,663 |
| Unearned premiums | 3,862 | 3,671 |
| Future policy benefits | 11,219 | 10,152 |
| Short term debt | — | 350 |
| Long term debt | 2,709 | 2,210 |
| Other liabilities (includes \$87 and \$82 due to Loews Corporation) | 4,202 | 4,243 |
| Total liabilities | 44,664 | 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; 270,489,350 and 270,274,361 shares outstanding) | 683 | 683 |
| Additional paid-in capital | 2,163 | 2,153 |
| Retained earnings | 9,185 | 9,313 |
| Accumulated other comprehensive income (loss) | 237 | (315) |
| Treasury stock (2,550,893 and 2,765,882 shares), at cost | (73) | (78) |
| Total stockholders' equity | 12,195 | 11,756 |
| Total liabilities and stockholders' equity | \$ 56,859 | \$ 55,045 |
| The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited). | | |

Table of Contents

CNA Financial Corporation

Condensed Consolidated Statements of Cash Flows (Unaudited)

Nine months ended September 30

(In millions)

Cash Flows from Operating Activities

| | 2016 | 2015 |
|---|---------|---------|
| Net income | \$618 | \$549 |
| Adjustments to reconcile net income to net cash flows provided by operating activities: | | |
| Deferred income tax expense | 112 | 27 |
| Trading portfolio activity | — | 17 |
| Net realized investment (gains) losses | (26) | 39 |
| Equity method investees | 265 | 127 |
| Net amortization of investments | (17) | (17) |
| Depreciation and amortization | 57 | 62 |
| Changes in: | | |
| Receivables, net | (311) | 70 |
| Accrued investment income | (30) | (34) |
| Deferred acquisition costs | (24) | 11 |
| Insurance reserves | 464 | 195 |
| Other assets | (96) | (61) |
| Other liabilities | 61 | (32) |
| Other, net | 47 | 92 |
| Total adjustments | 502 | 496 |
| Net cash flows provided by operating activities | 1,120 | 1,045 |
| Cash Flows from Investing Activities | | |
| Dispositions: | | |
| Fixed maturity securities - sales | 4,234 | 3,590 |
| Fixed maturity securities - maturities, calls and redemptions | 2,263 | 3,101 |
| Equity securities | 79 | 43 |
| Limited partnerships | 200 | 156 |
| Mortgage loans | 137 | 22 |
| Purchases: | | |
| Fixed maturity securities | (7,472) | (7,055) |
| Equity securities | (1) | (60) |
| Limited partnerships | (222) | (120) |
| Mortgage loans | (88) | (81) |
| Change in other investments | 10 | 5 |
| Change in short term investments | 241 | 222 |
| Purchases of property and equipment | (94) | (84) |
| Disposals of property and equipment | 107 | — |
| Other, net | 2 | 7 |
| Net cash flows (used) by investing activities | \$(604) | \$(254) |

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

Table of Contents

Nine months ended September 30

| (In millions) | 2016 | 2015 |
|---|---------|---------|
| Cash Flows from Financing Activities | | |
| Dividends paid to common stockholders | \$(746) | \$(744) |
| Proceeds from the issuance of debt | 498 | — |
| Repayment of debt | (358) | — |
| Other, net | 1 | 5 |
| Net cash flows (used) by financing activities | (605) | (739) |
| Effect of foreign exchange rate changes on cash | (8) | (6) |
| Net change in cash | (97) | 46 |
| Cash, beginning of year | 387 | 190 |
| Cash, end of period | \$290 | \$236 |

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

Table of Contents

CNA Financial Corporation

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

Nine months ended September 30

| (In millions) | 2016 | 2015 |
|---|----------|----------|
| Common Stock | | |
| Balance, beginning of year | \$683 | \$683 |
| Balance, end of period | 683 | 683 |
| Additional Paid-in Capital | | |
| Balance, beginning of year | 2,153 | 2,151 |
| Stock-based compensation | 10 | (1) |
| Balance, end of period | 2,163 | 2,150 |
| Retained Earnings | | |
| Balance, beginning of year | 9,313 | 9,645 |
| Dividends paid to common stockholders | (746) | (744) |
| Net income | 618 | 549 |
| Balance, end of period | 9,185 | 9,450 |
| Accumulated Other Comprehensive Income (Loss) | | |
| Balance, beginning of year | (315) | 400 |
| Other comprehensive income (loss) | 552 | (340) |
| Balance, end of period | 237 | 60 |
| Treasury Stock | | |
| Balance, beginning of year | (78) | (84) |
| Stock-based compensation | 5 | 6 |
| Balance, end of period | (73) | (78) |
| Notes Receivable for the Issuance of Common Stock | | |
| Balance, beginning of year | — | (1) |
| Decrease in notes receivable for common stock | — | 1 |
| Balance, end of period | — | — |
| Total stockholders' equity | \$12,195 | \$12,265 |

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

Table of Contents

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 September 30, 2016.

The accompanying Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Intercompany amounts have been eliminated. Certain financial information that is normally included in annual financial statements, including certain financial statement notes, prepared in accordance with GAAP, is not required for interim reporting purposes and has been condensed or omitted. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in CNAF's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2015, including the summary of significant accounting policies in Note A. The preparation of Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

The interim financial data as of September 30, 2016 and for the three and nine months ended September 30, 2016 and 2015 is unaudited. However, in the opinion of management, the interim data includes all adjustments, including normal recurring adjustments, necessary for a fair statement of the Company's results for the interim periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

Recently Adopted Accounting Standards Updates (ASU)

In April 2015, the Financial Accounting Standards Board (FASB) issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The updated accounting guidance requires debt issuance costs to be presented as a deduction from the corresponding debt liability instead of the historical presentation as an unamortized debt issuance asset. As of January 1, 2016, the Company adopted the updated accounting guidance retrospectively. The Company adjusted its previously reported financial information included herein to reflect the change in accounting guidance for debt issuance costs. The impacts of adopting the new accounting standard on the Company's Consolidated Balance Sheet as of December 31, 2015, were a decrease in Other assets and a decrease in Long term debt of \$2 million.

In May 2015, the FASB issued ASU No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The updated accounting guidance removes the requirement to categorize assets measured at fair value utilizing the net asset value per share (or equivalent) practical expedient within the fair value hierarchy. As of January 1, 2016, the Company adopted the updated accounting guidance retrospectively. The Company adjusted its previously reported financial information included herein to reflect the change in accounting guidance for assets measured using the net asset value. The impact of adopting the new accounting standard resulted in excluding overseas deposits of \$30 million and \$27 million from the fair value level disclosure as of September 30, 2016 and December 31, 2015.

Table of Contents

Accounting Standards Pending Adoption

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

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The updated accounting guidance requires changes to the reporting model for financial instruments. The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company is currently evaluating the effect the guidance will have on the Company's financial statements, and expects the primary change for the Company to be the requirement for equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842): Accounting for Leases. The updated accounting guidance requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by all leases, including those historically accounted for as operating leases. The guidance is effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the effect the updated guidance will have on the Company's financial statements. It is expected that assets and liabilities will increase based on the present value of remaining lease payments for leases in place at the adoption date, however, this is not expected to be material to the Company's results of operations or financial position.

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 and interim periods beginning after December 15, 2016. The Company is currently evaluating the effect the updated guidance will have on the Company's financial statements, but anticipates the primary change to be the recognition of excess tax benefits or deficiencies on vesting or settlement of awards as an income tax benefit or expense, respectively, within net income and the related cash flows classified within operating activities.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The updated accounting guidance requires changes to the recognition of credit losses on financial instruments not accounted for at fair value through net income. The guidance is effective for interim and annual periods beginning after December 15, 2019. The Company is currently evaluating the effect the guidance will have on the Company's financial statements, but expects the primary changes to be the use of the expected credit loss model for its mortgage loan portfolio and reinsurance receivables and the presentation of credit losses within the available-for-sale fixed maturities portfolio through an allowance method rather than as a direct write-down. The expected credit loss model will require a financial asset to be presented at the net amount expected to be collected. The allowance method for available-for-sale debt securities will allow the Company to record reversals of credit losses if the estimate of credit losses declines.

Table of Contents

Note B. Earnings Per Share

Earnings per share is based on the weighted average number of outstanding common shares. Basic earnings (loss) per share excludes the effect of dilutive securities and is computed by dividing Net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

For the three and nine months ended September 30, 2016, approximately 707 thousand and 549 thousand potential shares attributable to exercises or conversions into common stock under stock-based employee compensation plans were included in the calculation of diluted earnings per share. For those same periods, approximately 175 thousand and 178 thousand potential shares attributable to exercises or conversions into common stock under stock-based employee compensation plans were not included in the calculation of diluted earnings per share because the effect would have been antidilutive.

For the three and nine months ended September 30, 2015, approximately 514 thousand and 545 thousand potential shares attributable to exercises or conversions into common stock under stock-based employee compensation plans were included in the calculation of diluted earnings per share. For those same periods, approximately 106 thousand and 107 thousand potential shares attributable to exercises or conversions into common stock under stock-based employee compensation plans were not included in the calculation of diluted earnings per share because the effect would have been antidilutive.

Table of Contents

Note C. Investments

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

| Periods ended September 30 | Three Months | | Nine Months | |
|---------------------------------|--------------|-------|-------------|---------|
| (In millions) | 2016 | 2015 | 2016 | 2015 |
| Fixed maturity securities | \$457 | \$449 | \$1,352 | \$1,344 |
| Equity securities | 1 | 3 | 8 | 9 |
| Limited partnership investments | 65 | (93) | 97 | 69 |
| Mortgage loans | 8 | 8 | 30 | 25 |
| Short term investments | 2 | 2 | 6 | 4 |
| Trading portfolio | 1 | 1 | 7 | 6 |
| Other | 4 | 1 | 4 | 1 |
| Gross investment income | 538 | 371 | 1,504 | 1,458 |
| Investment expense | (14) | (17) | (43) | (46) |
| Net investment income | \$524 | \$354 | \$1,461 | \$1,412 |

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

| Periods ended September 30 | Three Months | | Nine Months | |
|---|--------------|--------|-------------|--------|
| (In millions) | 2016 | 2015 | 2016 | 2015 |
| Net realized investment gains (losses): | | | | |
| Fixed maturity securities: | | | | |
| Gross realized gains | \$67 | \$22 | \$152 | \$91 |
| Gross realized losses | (20) | (51) | (106) | (120) |
| Net realized investment gains (losses) on fixed maturity securities | 47 | (29) | 46 | (29) |
| Equity securities: | | | | |
| Gross realized gains | 1 | 1 | 5 | 2 |
| Gross realized losses | (4) | (19) | (10) | (21) |
| Net realized investment gains (losses) on equity securities | (3) | (18) | (5) | (19) |
| Derivative financial instruments | 1 | (1) | (12) | 9 |
| Short term investments and other | 1 | (1) | (3) | — |
| Net realized investment gains (losses) | \$46 | \$(49) | \$26 | \$(39) |

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

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

| Periods ended September 30 | Three Months | | Nine Months | |
|--|--------------|------|-------------|------|
| (In millions) | 2016 | 2015 | 2016 | 2015 |
| Fixed maturity securities available-for-sale: | | | | |
| Corporate and other bonds | \$14 | \$36 | \$43 | \$52 |
| States, municipalities and political subdivisions | — | — | — | 18 |
| Asset-backed: | | | | |
| Residential mortgage-backed | — | 1 | 1 | 7 |
| Other asset-backed | — | — | 3 | 1 |
| Total asset-backed | — | 1 | 4 | 8 |
| Total fixed maturity securities available-for-sale | 14 | 37 | 47 | 78 |
| Equity securities available-for-sale -- Common stock | 4 | 19 | 9 | 20 |
| Short term investments | — | — | — | 1 |
| OTTI losses recognized in earnings | \$18 | \$56 | \$56 | \$99 |

Table of Contents

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

September 30, 2016

| (In millions) | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | Unrealized OTTI Losses (Gains) |
|---|------------------------------|------------------------------|-------------------------------|----------------------------|---|
| Fixed maturity securities available-for-sale: | | | | | |
| Corporate and other bonds | \$ 17,985 | \$ 1,867 | \$ 36 | \$ 19,816 | \$ (1) |
| States, municipalities and political subdivisions | 11,566 | 1,937 | 2 | 13,501 | (27) |
| Asset-backed: | | | | | |
| Residential mortgage-backed | 5,174 | 206 | 15 | 5,365 | (24) |
| Commercial mortgage-backed | 2,064 | 88 | 8 | 2,144 | — |
| Other asset-backed | 948 | 12 | 1 | 959 | — |
| Total asset-backed | 8,186 | 306 | 24 | 8,468 | (24) |
| U.S. Treasury and obligations of government-sponsored enterprises | 68 | 8 | — | 76 | — |
| Foreign government | 415 | 23 | — | 438 | — |
| Redeemable preferred stock | 18 | 2 | — | 20 | — |
| Total fixed maturity securities available-for-sale | 38,238 | 4,143 | 62 | 42,319 | \$ (52) |
| Total fixed maturity securities trading | 2 | | | 2 | |
| Equity securities available-for-sale: | | | | | |
| Common stock | 15 | 6 | 1 | 20 | |
| Preferred stock | 93 | 5 | 2 | 96 | |
| Total equity securities available-for-sale | 108 | 11 | 3 | 116 | |
| Total | \$ 38,348 | \$ 4,154 | \$ 65 | \$ 42,437 | |

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 | |

Table of Contents

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 September 30, 2016 and December 31, 2015, the net unrealized gains on investments included in AOCI were correspondingly reduced by Shadow Adjustments of \$1,681 million and \$1,111 million.

Table of Contents

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 | |
|---|----------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| September 30, 2016 | | | | | | |
| (In millions) | | | | | | |
| Fixed maturity securities available-for-sale: | | | | | | |
| Corporate and other bonds | \$617 | \$ 10 | \$338 | \$ 26 | \$955 | \$ 36 |
| States, municipalities and political subdivisions | 163 | 2 | 9 | — | 172 | 2 |
| Asset-backed: | | | | | | |
| Residential mortgage-backed | 273 | 6 | 212 | 9 | 485 | 15 |
| Commercial mortgage-backed | 391 | 7 | 96 | 1 | 487 | 8 |
| Other asset-backed | 153 | 1 | 17 | — | 170 | 1 |
| Total asset-backed | 817 | 14 | 325 | 10 | 1,142 | 24 |
| U.S. Treasury and obligations of government-sponsored enterprises | 2 | — | — | — | 2 | — |
| Foreign government | 16 | — | — | — | 16 | — |
| Total fixed maturity securities available-for-sale | 1,615 | 26 | 672 | 36 | 2,287 | 62 |
| Equity securities available-for-sale: | | | | | | |
| Common stock | — | 1 | — | — | — | 1 |
| Preferred stock | 15 | 2 | — | — | 15 | 2 |
| Total equity securities available-for-sale | 15 | 3 | — | — | 15 | 3 |
| Total | \$1,630 | \$ 29 | \$672 | \$ 36 | \$2,302 | \$ 65 |
| December 31, 2015 | | | | | | |
| (In millions) | | | | | | |
| 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 |

Table of Contents

Based on current facts and circumstances, the Company believes the unrealized losses presented in the September 30, 2016 table above are not indicative of the ultimate collectibility of the current amortized cost of the securities, but rather are attributable to changes in interest rates, credit spreads and other factors. The Company has no current intent to sell securities with unrealized losses, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost; accordingly, the Company has determined that there are no additional OTTI losses to be recorded as of September 30, 2016.

The following table presents the activity related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held as of September 30, 2016 and 2015 for which a portion of an OTTI loss was recognized in Other comprehensive income (loss).

| Periods ended September 30 | Three Months | | Nine Months | |
|--|--------------|------|-------------|------|
| (In millions) | 2016 | 2015 | 2016 | 2015 |
| Beginning balance of credit losses on fixed maturity securities | \$41 | \$59 | \$53 | \$62 |
| Reductions for securities sold during the period | (2) | (2) | (14) | (5) |
| Reductions for securities the Company intends to sell or more likely than not will be required to sell | (1) | — | (1) | — |
| Ending balance of credit losses on fixed maturity securities | \$38 | \$57 | \$38 | \$57 |

Contractual Maturity

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

| | September 30, 2016 | | December 31, 2015 | |
|--|--------------------|----------------------|-------------------|----------------------|
| (In millions) | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Due in one year or less | \$1,665 | \$1,710 | \$1,574 | \$1,595 |
| Due after one year through five years | 9,052 | 9,584 | 7,721 | 8,070 |
| Due after five years through ten years | 14,659 | 15,625 | 14,652 | 14,915 |
| Due after ten years | 12,862 | 15,400 | 13,303 | 14,989 |
| Total | \$38,238 | \$42,319 | \$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 \$175 million and \$179 million as of September 30, 2016 and December 31, 2015 and a fair value of \$8 million and \$(5) million as of September 30, 2016 and December 31, 2015. The embedded derivative on funds withheld liability is accounted for separately and reported with the funds withheld liability in Other liabilities on the Condensed Consolidated Balance Sheets.

Investment Commitments

As of September 30, 2016, the Company had committed approximately \$393 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships. As of September 30, 2016, the Company had mortgage loan commitments of \$40 million representing signed loan applications received and accepted.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases, sales and funding. Purchases and sales of privately placed debt securities are recorded once funded. As of September 30, 2016, the Company had commitments to purchase or fund additional amounts of \$205 million and sell \$163 million under the terms of such securities.

Table of Contents

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.

Table of Contents

Assets and Liabilities Measured at Fair Value

Assets and liabilities measured at fair value on a recurring basis are presented in the following tables.
September 30, 2016

| (In millions) | Level 1 | Level 2 | Level 3 | Total Assets/Liabilities at Fair Value |
|---|------------|----------|------------|--|
| Assets | | | | |
| Fixed maturity securities: | | | | |
| Corporate and other bonds | \$— | \$19,557 | \$261 | \$ 19,818 |
| States, municipalities and political subdivisions | — | 13,500 | 1 | 13,501 |
| Asset-backed: | | | | |
| Residential mortgage-backed | — | 5,286 | 79 | 5,365 |
| Commercial mortgage-backed | — | 2,120 | 24 | 2,144 |
| Other asset-backed | — | 916 | 43 | 959 |
| Total asset-backed | — | 8,322 | 146 | 8,468 |
| U.S. Treasury and obligations of government-sponsored enterprises | 76 | — | — | 76 |
| Foreign government | — | 438 | — | 438 |
| Redeemable preferred stock | 20 | — | — | 20 |
| Total fixed maturity securities | 96 | 41,817 | 408 | 42,321 |
| Equity securities | 97 | — | 19 | 116 |
| Other invested assets | — | 5 | — | 5 |
| Short term investments | 432 | 911 | — | 1,343 |
| Life settlement contracts, included in Other assets | — | — | 67 | 67 |
| Total assets | \$625 | \$42,733 | \$494 | \$ 43,852 |
| Liabilities | | | | |
| Other liabilities | \$— | \$8 | \$— | \$ 8 |
| Total liabilities | \$— | \$8 | \$— | \$ 8 |

December 31, 2015

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

| | | | | | | |
|-------------------|-----|------|---|-----|-------|---|
| Total liabilities | \$— | \$(5 |) | \$— | \$ (5 |) |
|-------------------|-----|------|---|-----|-------|---|

18

Table of Contents

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 July 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 Level 3 | Balance as of September 30, 2016 | Unrealized gains (losses) on Level 3 assets and liabilities held as of September 30, 2016 recognized in Net income (loss)* |
|--|-------------------------------------|--|---|-----------|-------|-------------|------------------------------|-----------------------------|---|--|
| Fixed maturity securities: | | | | | | | | | | |
| Corporate and other bonds | \$ 242 | \$ 1 | \$ 7 | \$ 16 | \$ — | \$ (5) | \$ — | \$ — | \$ 261 | \$ — |
| States, municipalities and political subdivisions | 2 | — | — | — | — | (1) | — | — | 1 | — |
| Asset-backed: | | | | | | | | | | |
| Residential mortgage-backed | 134 | — | (1) | 5 | — | (1) | — | (58) | 79 | — |
| Commercial mortgage-backed | 11 | — | — | 23 | — | (8) | — | (2) | 24 | — |
| Other asset-backed | 45 | — | — | 34 | — | — | — | (36) | 43 | — |
| Total asset-backed | 190 | — | (1) | 62 | — | (9) | — | (96) | 146 | — |
| Total fixed maturity securities | 434 | 1 | 6 | 78 | — | (15) | — | (96) | 408 | — |
| Equity securities | 19 | (1) | 1 | — | — | — | — | — | 19 | (2) |
| Life settlement contracts | 67 | — | — | — | — | — | — | — | 67 | — |
| Total | \$ 520 | \$ — | \$ 7 | \$ 78 | \$ — | \$ (15) | \$ — | \$ (96) | \$ 494 | \$ (2) |

Table of Contents

| Level 3 (In millions) | Balance as of July 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 Level 3 | Balance as of September 30, 2015 | Unrealized gains (losses) on Level 3 assets and liabilities held as of September 30, 2015 recognized in Net income (loss)* |
|--|-------------------------------------|--|---|-----------|---------|-------------|------------------------------|-----------------------------|--|---|
| Fixed maturity securities: | | | | | | | | | | |
| Corporate and other bonds | \$ 141 | \$ — | \$ — | \$ 27 | \$ (1) | \$ (11) | \$ — | \$ (3) | \$ 153 | \$ — |
| States, municipalities and political subdivisions | 85 | — | — | — | — | — | — | (24) | 61 | — |
| Asset-backed: | | | | | | | | | | |
| Residential mortgage-backed | 207 | 2 | (2) | 4 | — | (7) | — | — | 204 | — |
| Commercial mortgage-backed | 87 | 5 | (4) | 8 | — | (15) | — | (10) | 71 | — |
| Other asset-backed | 490 | — | (6) | 43 | (20) | (32) | — | (4) | 471 | — |
| Total asset-backed | 784 | 7 | (12) | 55 | (20) | (54) | — | (14) | 746 | — |
| Total fixed maturity securities | 1,010 | 7 | (12) | 82 | (21) | (65) | — | (41) | 960 | — |
| Equity securities | 16 | — | (1) | — | — | — | — | — | 15 | — |
| Life settlement contracts | 75 | 5 | — | — | — | (6) | — | — | 74 | 2 |
| Total | \$ 1,101 | \$ 12 | \$ (13) | \$ 82 | \$ (21) | \$ (71) | \$ — | \$ (41) | \$ 1,049 | \$ 2 |

Table of Contents

| 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 September 30, 2016 | Unrealized gains (losses) on Level 3 assets and liabilities as of September 30, 2016 recognized in Net income (loss)* |
|---|-------------------------------|--|--|-----------|--------|-------------|------------------------|--------------------------|----------------------------------|---|
| Fixed maturity securities: | | | | | | | | | | |
| Corporate and other bonds | \$ 168 | \$ 1 | \$ 14 | \$ 163 | \$(36) | \$ (15) | \$ — | \$(34) | \$ 261 | \$ — |
| States, municipalities and political subdivisions | 2 | — | — | — | — | (1) | — | — | 1 | — |
| Asset-backed: | | | | | | | | | | |
| Residential mortgage-backed | 134 | 2 | (2) | 15 | — | (10) | — | (60) | 79 | — |
| Commercial mortgage-backed | 22 | — | — | 32 | — | (17) | 3 | (16) | 24 | — |
| Other asset-backed | 53 | — | 2 | 69 | (25) | (1) | 2 | (57) | 43 | — |
| Total asset-backed | 209 | 2 | — | 116 | (25) | (28) | 5 | (133) | 146 | — |
| Total fixed maturity securities | 379 | 3 | 14 | 279 | (61) | (44) | 5 | (167) | 408 | — |
| Equity securities | 20 | (1) | — | — | — | — | — | — | 19 | (2) |
| Life settlement contracts | 74 | 10 | — | — | — | (17) | — | — | 67 | 2 |
| Total | \$ 473 | \$ 12 | \$ 14 | \$ 279 | \$(61) | \$ (61) | \$ 5 | \$(167) | \$ 494 | \$ — |

Table of Contents

| 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 Net income (loss) | Purchases | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Balance as of September 30, 2015 | Unrealized gains (losses) on Level 3 assets and liabilities held as of September 30, 2015 recognized in Net income (loss)* |
|--|--|--|---|-----------|---------|-------------|---------------------------------|-----------------------------------|--|---|
| Fixed maturity securities: | | | | | | | | | | |
| Corporate and other bonds | \$ 162 | \$ (1) | \$ (1) | \$ 39 | \$(13) | \$(32) | \$ 37 | \$(38) | \$ 153 | \$ — |
| States, municipalities and political subdivisions | 94 | 1 | — | — | — | (10) | — | (24) | 61 | — |
| Asset-backed: | | | | | | | | | | |
| Residential mortgage-backed | 189 | 4 | (4) | 76 | — | (28) | — | (33) | 204 | — |
| Commercial mortgage-backed | 83 | 7 | (4) | 23 | — | (17) | 17 | (38) | 71 | — |
| Other asset-backed | 655 | 3 | 4 | 125 | (254) | (52) | — | (10) | 471 | (1) |
| Total asset-backed | 927 | 14 | (4) | 224 | (254) | (97) | 17 | (81) | 746 | (1) |
| Total fixed maturity securities | 1,183 | 14 | (5) | 263 | (267) | (139) | 54 | (143) | 960 | (1) |
| Equity securities | 16 | — | (1) | — | — | — | — | — | 15 | — |
| Life settlement contracts | 82 | 22 | — | — | — | (30) | — | — | 74 | 1 |
| Total | \$ 1,281 | \$ 36 | \$ (6) | \$ 263 | \$(267) | \$(169) | \$ 54 | \$(143) | \$ 1,049 | \$ — |

Table of Contents

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

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

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

Securities shown on the previous pages may be transferred in or out of levels within the fair value hierarchy based on the availability of observable market information and quoted prices used to determine the fair value of the security. The availability of observable market information and quoted prices varies based on market conditions and trading volume. During the three and nine months ended September 30, 2016 there were no transfers between Level 1 and Level 2. During the three and nine months ended September 30, 2015 there were \$10 million of transfers from Level 2 to Level 1 and no transfers from Level 1 to 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.

Table of Contents

Other Invested Assets

The fair value of Federal Home Loan Bank of Chicago (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. As of September 30, 2016 and December 31, 2015, there were approximately \$30 million and \$27 million respectively of overseas deposits within other invested assets, 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.

Short Term Investments

Securities that are actively traded or have quoted prices are classified as Level 1. These securities include money market funds and treasury bills. Level 2 primarily includes commercial paper, for which all inputs are market observable. Fixed maturity securities purchased within one year of maturity are valued consistent with fixed maturity securities discussed above. Short term investments as presented in the tables above differ from the amounts presented on the Condensed Consolidated Balance Sheets because certain short term investments, such as time deposits, are not measured at fair value.

Life Settlement Contracts

The fair values of life settlement contracts are determined as the present value of the anticipated death benefits less anticipated premium payments based on contract terms that are distinct for each insured, as well as the Company's own assumptions for mortality, premium expense and the rate of return that a buyer would require on the contracts, as no comparable market pricing data is available.

Derivative Financial Investments

Level 2 securities primarily include the embedded derivative on funds withheld liability. The embedded derivative on funds withheld liability is valued using the change in fair value of the assets supporting the funds withheld liability, which are fixed maturity securities valued with observable inputs.

Significant Unobservable Inputs

The following tables present quantitative information about the significant unobservable inputs utilized by the Company in the fair value measurement of Level 3 assets. Valuations for assets and liabilities not presented in the tables below are primarily based on broker/dealer quotes for which there is a lack of transparency as to inputs used to develop the valuations. The quantitative detail of these unobservable inputs is neither provided nor reasonably available to the Company.

| | Estimated Fair Value (In millions) | Valuation Technique(s) | Unobservable Input(s) | Range (Weighted Average) |
|---------------------------|--|------------------------|----------------------------|-----------------------------|
| September 30, 2016 | | | | |
| Fixed maturity securities | \$ 211 | Discounted cash flow | Credit spread | 2% - 40% (6%) |
| Life settlement contracts | 67 | Discounted cash flow | Discount rate risk premium | 9% |
| | | | Mortality assumption | 55% - 1676% (162%) |
| December 31, 2015 | | | | |
| 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.

Table of Contents

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.

| September 30, 2016 (In millions) | Carrying Amount | Estimated Fair Value | | |
|-------------------------------------|--------------------|----------------------|---------|---------|
| | | Level | | Total |
| | | 1 | 2 | |
| Assets | | | | |
| Mortgage loans | \$ 629 | \$— | \$654 | \$654 |
| Liabilities | | | | |
| Long term debt | \$ 2,709 | \$— | \$3,041 | \$3,041 |

| December 31, 2015 (In millions) | Carrying Amount | Estimated Fair Value | | |
|------------------------------------|--------------------|----------------------|-------|-------|
| | | Level | | Total |
| | | 1 | 2 | |
| 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.

Table of Contents

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 claim 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 \$16 million and \$137 million for the three and nine months ended September 30, 2016.

Catastrophe losses in 2016 resulted primarily from U.S. weather-related events and the Fort McMurray wildfires. The Company reported catastrophe losses, net of reinsurance, of \$14 million and \$103 million for the three and nine months ended September 30, 2015.

Table of Contents

Net Prior Year Development

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

Three months ended September 30, 2016

| (In millions) | Specialty | Commercial | International | Corporate & Other Non-Core | Total |
|--|-----------|------------|---------------|----------------------------------|----------|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$ (112) | \$ (5) | \$ (15) | \$ — | —\$(132) |
| Pretax (favorable) unfavorable premium development | — | (3) | (2) | — | (5) |
| Total pretax (favorable) unfavorable net prior year development | \$ (112) | \$ (8) | \$ (17) | \$ — | —\$(137) |
| Three months ended September 30, 2015 | | | | | |

| (In millions) | Specialty | Commercial | International | Corporate & Other Non-Core | Total |
|--|-----------|------------|---------------|----------------------------------|----------|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$ (130) | \$ (11) | \$ (34) | \$ — | —\$(175) |
| Pretax (favorable) unfavorable premium development | (2) | (5) | 2 | — | (5) |
| Total pretax (favorable) unfavorable net prior year development | \$ (132) | \$ (16) | \$ (32) | \$ — | —\$(180) |
| Nine months ended September 30, 2016 | | | | | |

| (In millions) | Specialty | Commercial | International | Corporate & Other Non-Core | Total |
|--|-----------|------------|---------------|----------------------------------|----------|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$ (211) | \$ (37) | \$ (34) | \$ — | —\$(282) |
| Pretax (favorable) unfavorable premium development | (18) | (7) | (2) | — | (27) |
| Total pretax (favorable) unfavorable net prior year development | \$ (229) | \$ (44) | \$ (36) | \$ — | —\$(309) |
| Nine months ended September 30, 2015 | | | | | |

| (In millions) | Specialty | Commercial | International | Corporate & Other Non-Core | Total |
|--|-----------|------------|---------------|----------------------------------|----------|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$ (141) | \$ — | \$ (46) | \$ — | —\$(187) |
| Pretax (favorable) unfavorable premium development | (10) | (17) | 16 | — | (11) |
| Total pretax (favorable) unfavorable net prior year development | \$ (151) | \$ (17) | \$ (30) | \$ — | —\$(198) |

Table of Contents

Specialty

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

| Periods ended September 30 (In millions) | Three Months | | Nine Months | |
|---|--------------|---------|-------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| Pretax (favorable) unfavorable development: | | | | |
| Medical Professional Liability | \$13 | \$(19) | \$(17) | \$(11) |
| Other Professional Liability and Management Liability | (48) | (37) | (98) | (41) |
| Surety | (63) | (70) | (63) | (69) |
| Warranty | 2 | — | 7 | 1 |
| Other | (16) | (4) | (40) | (21) |
| Total pretax (favorable) unfavorable development | \$(112) | \$(130) | \$(211) | \$(141) |

Three Months

2016

Unfavorable development for medical professional liability was largely due to higher than expected frequency in accident years 2014 and 2015 in aging services. Increased claims on a specific hospital policy in accident years 2014 and 2015 was also an unfavorable contributor although more than offset by favorable development relative to expectations in accident years 2013 and prior.

Favorable development in other professional liability and management liability was primarily related to lower than expected frequency of claims and favorable outcomes on specific claims for accident years 2010 through 2014.

Favorable development in surety coverages was primarily due to lower than expected frequency of large losses in accident years 2014 and prior.

Favorable development for other coverages was due to better than expected claim frequency in commercial lines coverages provided to Specialty customers in accident years 2010 through 2015.

2015

Favorable development in medical professional liability was related to lower than expected severity in accident years 2008 through 2013.

Favorable development in other professional liability and management liability was related to better than expected large loss emergence in financial institutions in accident years 2012 and prior. Additional favorable development related to lower than expected severity in accident years 2009 through 2013 for directors and officers liability.

Favorable development for surety coverages was primarily due to lower than expected frequency of large losses in accident years 2013 and prior.

Table of Contents

Nine Months

2016

Favorable development for medical professional liability was primarily due to lower than expected severities for individual healthcare professionals, allied facilities and hospitals in accident years 2011 and prior. This was partially offset by unfavorable development in accident years 2012 and 2013 related to higher than expected large loss emergence in hospitals and higher than expected frequency and severity in accident years 2014 and 2015 in our aging services business.

Favorable development in other professional liability and management liability was primarily related to favorable settlements on closed claims in accident years 2011 through 2013 in professional services. Additional favorable development related to lower than expected frequency of claims and favorable outcomes on specific claims in accident years 2010 through 2014 in professional services. This was partially offset by unfavorable development related to a specific financial institutions claim in accident year 2014, higher severities in accident year 2015, and deterioration on credit crises-related claims in accident year 2009.

Favorable development in surety coverages was primarily due to lower than expected frequency of large losses in accident years 2014 and prior.

Favorable development for other coverages provided to Specialty customers was due to better than expected claim frequency in property coverages in accident year 2015 and commercial lines coverages in accident years 2010 through 2015.

2015

Overall, favorable development for medical professional liability was related to lower than expected severity in accident years 2008 through 2013. Unfavorable development was recorded related to increased claim frequency in the aging services business for accident years 2013 and 2014.

Overall, favorable development in other professional liability and management liability related to better than expected large loss emergence in financial institutions in accident years 2012 and prior. Additional favorable development related to lower than expected severity in accident years 2009 through 2013 for directors and officers liability and lower than expected severity in accident years 2010 and prior for professional services. Unfavorable development was related to increased claim frequency on public company management liability in accident years 2012 through 2014.

Favorable development for surety coverages was primarily due to lower than expected frequency of large losses in accident years 2013 and prior.

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

Table of Contents

Commercial

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

| Periods ended September 30 | Three | | Nine | |
|--|--------|--------|--------|------|
| | Months | | Months | |
| (In millions) | 2016 | 2015 | 2016 | 2015 |
| Pretax (favorable) unfavorable development: | | | | |
| Commercial Auto | \$(12) | \$— | \$(47) | \$ 7 |
| General Liability | 14 | 3 | (38) | 8 |
| Workers' Compensation | (6) | (1) | 48 | 22 |
| Property and Other | (1) | (13) | — | (37) |
| Total pretax (favorable) unfavorable development | \$(5) | \$(11) | \$(37) | \$ — |

Three Months

2016

Favorable development for commercial auto was primarily due to lower than expected severities in accident years 2012 through 2015.

Unfavorable development for general liability was primarily due to an increase in reported claims prior to the closing of the three year window set forth by the Minnesota Child Victims Act in accident years 2006 and prior.

Favorable development for workers' compensation was primarily driven by lower than expected frequencies in accident years 2009 through 2014, partially offset by the estimated impact of recent Florida court rulings in accident years 2008 through 2015.

2015

Favorable development for property and other was primarily due to better than expected loss emergence on catastrophe events in accident year 2014.

Table of Contents

Nine Months

2016

Favorable development for commercial auto was primarily due to favorable settlements on claims in accident years 2010 through 2014 and lower than expected severities in accident years 2012 through 2015.

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

This was partially offset by unfavorable development related to an increase in reported claims prior to the closing of the three year window set forth by the Minnesota Child Victims Act in accident years 2006 and prior.

Unfavorable development for workers' compensation was primarily due to higher than expected severity for Defense Base Act contractors and the estimated impact of recent Florida court rulings in accident years 2008 through 2015.

This was partially offset by favorable development related to lower than expected frequencies related to accident years 2009 through 2014.

Unfavorable development for property and other was primarily due to higher than expected severity from a 2015 catastrophe event. This was offset by favorable development primarily due to better than expected loss frequency in accident years 2013 through 2015.

2015

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

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

The nine months also included unfavorable loss development related to an extra contractual obligation loss and losses associated with premium development.

Table of Contents

International

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

| Periods ended September 30 (In millions) | Three Months | | Nine Months | |
|--|-----------------|--------|----------------|--------|
| | 2016 | 2015 | 2016 | 2015 |
| Pretax (favorable) unfavorable development: | | | | |
| Medical Professional Liability | \$(2) | \$(8) | \$(3) | \$(8) |
| Other Professional Liability | (1) | (11) | 16 | (16) |
| Liability | (2) | (5) | (21) | (12) |
| Property & Marine | (9) | (5) | (16) | (19) |
| Other | (1) | (5) | (10) | 9 |
| Total pretax (favorable) unfavorable development | \$(15) | \$(34) | \$(34) | \$(46) |

Three Months

2016

Favorable development for other professional liability was primarily due to favorable settlements on claims in accident years 2013 and prior. This was largely offset by higher than expected unfavorable large loss emergence in accident years 2014 and 2015.

Favorable development for property and marine was primarily due to favorable emergence of expected losses on a specific claim relating to the December 2015 United Kingdom (UK) Floods.

2015

Favorable development in medical professional liability was due to better than expected loss emergence on accident years 2011 to 2013.

Favorable development in other professional liability was due to better than expected large loss emergence in accident years 2011 and prior.

Favorable development in liability was due to better than expected large loss emergence in accident years 2012 and prior.

Favorable development in property and marine was due to better than expected individual large loss emergence and favorable settlements on large claims in accident years 2013 and 2014.

Table of Contents

Nine Months

2016

Unfavorable development for other professional liability was primarily due to higher than expected large loss emergence in accident years 2011 through 2015, partially offset by favorable settlements on claims in accident years 2013 and prior.

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

Favorable development for property and marine was primarily due to favorable emergence of expected losses on a specific claim relating to the December 2015 UK Floods.

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

2015

Favorable development in medical professional liability was due to better than expected loss emergence on accident years 2011 to 2013.

Favorable development in other professional liability was due to better than expected large loss emergence in accident years 2011 and prior.

Favorable development in liability was due to better than expected large loss emergence in accident years 2012 and prior.

Favorable development in property and marine was due to better than expected individual large loss emergence and favorable settlements on large claims in accident years 2013 and 2014.

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

Table of Contents

Asbestos and Environmental Pollution (A&EP) Reserves

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

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

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

| Periods ended September 30 | Three Months | | Nine Months | |
|--|--------------|-------|-------------|-------|
| | 2016 | 2015 | 2016 | 2015 |
| (In millions) | | | | |
| Net A&EP adverse development before consideration of LPT | \$— | \$— | \$200 | \$150 |
| Provision for uncollectible third-party reinsurance on A&EP | — | — | — | — |
| Additional amounts ceded under LPT | — | — | 200 | 150 |
| Retroactive reinsurance benefit recognized | (12) | (4) | (94) | (75) |
| Pretax impact of unrecognized deferred retroactive reinsurance benefit | \$(12) | \$(4) | \$106 | \$75 |

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

As of September 30, 2016 and December 31, 2015, the cumulative amounts ceded under the LPT were \$2.8 billion and \$2.6 billion. The unrecognized deferred retroactive reinsurance benefit was \$347 million and \$241 million as of September 30, 2016 and December 31, 2015.

NICO established a collateral trust account as security for its obligations to the Company. The fair value of the collateral trust account was \$2.5 billion and \$2.8 billion as of September 30, 2016 and December 31, 2015. In addition, Berkshire Hathaway Inc. guaranteed the payment obligations of NICO up to the full aggregate reinsurance limit as well as certain of NICO's performance obligations under the trust agreement. NICO is responsible for claims handling and billing and collection from third-party reinsurers related to the Company's A&EP claims.

Table of Contents

Note F. Legal Proceedings and Contingent Liabilities

CNA 401(k) Plus Plan Litigation

In September 2016, a class action lawsuit was filed against CCC, Continental Assurance Company (CAC), CNAF, the Investment Committee of the CNA 401(k) Plus Plan, The Northern Trust Company and John Does 1-10 (collectively Defendants) over the CNA 401(k) Plus Plan. The complaint alleges that Defendants breached fiduciary duties to the CNA 401(k) Plus Plan and caused prohibited transactions in violation of The Employee Retirement Income Security Act of 1974 when the CNA Fixed Income Fund's annuity contract with CAC was canceled. The plaintiff alleges he and a proposed class of the CNA 401(k) Plus Plan participants who had invested in the Fixed Income Fund suffered lower returns in their CNA 401(k) Plus Plan investments as a consequence of these alleged violations and seeks relief on behalf of the putative class. Management has only recently begun evaluating the lawsuit as this litigation is in its preliminary stages, and as of yet no class has been certified. CCC and the other Defendants are contesting the case and management currently is unable to predict the final outcome or the impact on the Company's financial condition, results of operations, or cash flows. As of September 30, 2016, the likelihood of loss is reasonably possible, but the amount of loss, if any, cannot be estimated at this stage of the litigation.

Other Litigation

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

Note G. Benefit Plans

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

| Periods ended September 30 (In millions) | Three Months | | Nine Months | |
|---|-----------------|-------|----------------|--------|
| | 2016 | 2015 | 2016 | 2015 |
| Pension cost (benefit) | | | | |
| Service cost | \$— | \$— | \$— | \$4 |
| Interest cost on projected benefit obligation | 29 | 29 | 85 | 85 |
| Expected return on plan assets | (41) | (44) | (12) | (131) |
| Amortization of net actuarial loss | 9 | 7 | 28 | 26 |
| Net periodic pension cost (benefit) | \$(3) | \$(8) | \$(8) | \$(16) |

Table of Contents

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 September 30, 2016, the maximum potential loss that the Company could be required to pay under this guarantee, in excess of amounts already recorded, was approximately \$12 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 September 30, 2016 and December 31, 2015, the Company had recorded liabilities of approximately \$5 million related to guarantee and indemnification agreements and management believes that it is not likely that any future indemnity claims will be significantly greater than the amounts recorded.

In the course of selling business entities and assets to third parties, the Company agreed to guarantee the performance of certain obligations of a previously owned subsidiary and to indemnify purchasers for losses arising out of breaches of representations 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 September 30, 2016, the aggregate amount related to quantifiable guarantees was \$375 million and the aggregate amount related to indemnification agreements was \$258 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 September 30, 2016, the Company had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser's ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. Certain provisions of the indemnification agreements survive indefinitely, while others survive until the applicable statutes of limitation expire, or until the agreed-upon contract terms expire.

The Company also provided guarantees, if the primary obligor fails to perform, to holders of structured settlement annuities provided by a previously owned subsidiary. As of September 30, 2016, the potential amount of future payments the Company could be required to pay under these guarantees was approximately \$1.9 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.

Table of Contents

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

The tables below display 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 July 1, 2016 | \$ 31 | \$ 934 | \$ (637) | \$ (118) | \$ 210 |
| Other comprehensive income (loss) before reclassifications | 7 | 69 | — | (24) | 52 |
| Amounts reclassified from accumulated other comprehensive income (loss) net of tax (expense) benefit of \$(2), \$(13), \$3, \$- and \$(12) | 4 | 27 | (6) | — | 25 |
| Other comprehensive income (loss) net of tax (expense) benefit of \$(2), \$(19), \$(3), \$- and \$(24) | 3 | 42 | 6 | (24) | 27 |
| Balance as of September 30, 2016 | \$ 34 | \$ 976 | \$ (631) | \$ (142) | \$ 237 |

| (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 July 1, 2015 | \$ 31 | \$ 689 | \$ (585) | \$ 8 | \$ 143 |
| Other comprehensive income (loss) before reclassifications | 2 | (67) | — | (53) | (118) |
| Amounts reclassified from accumulated other comprehensive income (loss) net of tax (expense) benefit of \$-, \$17, \$2, \$- and \$19 | — | (31) | (4) | — | (35) |
| Other comprehensive income (loss) net of tax (expense) benefit of \$(1), \$21, \$(2), \$- and \$18 | 2 | (36) | 4 | (53) | (83) |
| Balance as of September 30, 2015 | \$ 33 | \$ 653 | \$ (581) | \$ (45) | \$ 60 |

Table of Contents

| (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 | 9 | 615 | — | (58) | 566 |
| Amounts reclassified from accumulated other comprehensive income (loss) net of tax (expense) benefit of \$(1), \$(12), \$9, \$- and \$(4) | 2 | 29 | (17) | — | 14 |
| Other comprehensive income (loss) net of tax (expense) benefit of \$(4), \$(292), \$(9), \$- and \$(305) | 7 | 586 | 17 | (58) | 552 |
| Balance as of September 30, 2016 | \$ 34 | \$ 976 | \$ (631) | \$ (142) | \$237 |
| (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 | (3) | (318) | 36 | (100) | (385) |
| Amounts reclassified from accumulated other comprehensive income (loss) net of tax (expense) benefit of \$-, \$22, \$9, \$- and \$31 | — | (29) | (16) | — | (45) |
| Other comprehensive income (loss) net of tax (expense) benefit of \$1, \$140, \$(28), \$- and \$113 | (3) | (289) | 52 | (100) | (340) |
| Balance as of September 30, 2015 | \$ 33 | \$ 653 | \$ (581) | \$ (45) | \$60 |
| 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 | | | | |

Table of Contents

Note J. Business Segments

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

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

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

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

Table of Contents

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

Three months ended September 30, 2016

| (In millions) | Specialty | Commercial | International | Life & Group Non-Core | Corporate & Other Non-Core | Eliminations | Total |
|--|-----------|------------|---------------|--------------------------|----------------------------------|--------------|---------|
| Operating revenues | | | | | | | |
| Net earned premiums | \$ 704 | \$ 719 | \$ 210 | \$ 134 | \$ — | \$ — | \$1,767 |
| Net investment income | 140 | 175 | 13 | 192 | 4 | — | 524 |
| Other revenues | 93 | 7 | — | (4) | — | — | 96 |
| Total operating revenues | 937 | 901 | 223 | 322 | 4 | — | 2,387 |
| Claims, Benefits and Expenses | | | | | | | |
| Net incurred claims and benefits | 330 | 446 | 117 | 313 | (11) | — | 1,195 |
| Policyholders' dividends | 4 | 3 | — | — | — | — | 7 |
| Amortization of deferred acquisition costs | 151 | 118 | 45 | — | — | — | 314 |
| Other insurance related expenses | 77 | 151 | 33 | 37 | (3) | — | 295 |
| Other expenses | 78 | 9 | 1 | 2 | 57 | — | 147 |
| Total claims, benefits and expenses | 640 | 727 | 196 | 352 | 43 | — | 1,958 |
| Operating income (loss) before income tax | 297 | 174 | 27 | (30) | (39) | — | 429 |
| Income tax (expense) benefit on operating income (loss) | (102) | (60) | (7) | 36 | 15 | — | (118) |
| Net operating income (loss) | 195 | 114 | 20 | 6 | (24) | — | 311 |
| Net realized investment gains (losses) | 9 | 12 | 6 | 17 | 2 | — | 46 |
| Income tax (expense) benefit on net realized investment gains (losses) | (3) | (3) | (1) | (6) | (1) | — | (14) |
| Net realized investment gains (losses), after tax | 6 | 9 | 5 | 11 | 1 | — | 32 |
| Net income (loss) | \$ 201 | \$ 123 | \$ 25 | \$ 17 | \$ (23) | \$ — | —\$343 |

Table of Contents

Three months ended September 30, 2015

| (In millions) | Specialty | Commercial | International | Life & Corporate Group & Other Non-Core Non-Core | Eliminations | Total |
|--|-----------|------------|---------------|--|--------------|----------|
| Operating revenues | | | | | | |
| Net earned premiums | \$ 706 | \$ 705 | \$ 203 | \$ 137 | \$ — | \$ 1,751 |
| Net investment income | 76 | 82 | 13 | 182 | 1 | 354 |
| Other revenues | 86 | 9 | 1 | (1) | 4 (2) | 97 |
| Total operating revenues | 868 | 796 | 217 | 318 | 5 (2) | 2,202 |
| Claims, Benefits and Expenses | | | | | | |
| Net incurred claims and benefits | 307 | 427 | 106 | 361 | (3) | 1,198 |
| Policyholders' dividends | 1 | 1 | — | — | — | 2 |
| Amortization of deferred acquisition costs | 150 | 118 | 45 | 6 | — | 319 |
| Other insurance related expenses | 67 | 128 | 33 | 35 | — | 263 |
| Other expenses | 73 | 10 | 9 | 1 | 47 (2) | 138 |
| Total claims, benefits and expenses | 598 | 684 | 193 | 403 | 44 (2) | 1,920 |
| Operating income (loss) before income tax | 270 | 112 | 24 | (85) | (39) | 282 |
| Income tax (expense) benefit on operating income (loss) | (91) | (37) | (15) | 55 | 16 | (72) |
| Net operating income (loss) | 179 | 75 | 9 | (30) | (23) | 210 |
| Net realized investment gains (losses) | (22) | (29) | (1) | 2 | 1 | (49) |
| Income tax (expense) benefit on net realized investment gains (losses) | 8 | 8 | 1 | — | — | 17 |
| Net realized investment gains (losses), after tax | (14) | (21) | — | 2 | 1 | (32) |
| Net income (loss) | \$ 165 | \$ 54 | \$ 9 | \$ (28) | \$ (22) | \$ — |

Table of Contents

Nine months ended September 30, 2016

| (In millions) | Specialty | Commercial | International | Life & Group Non-Core | Corporate & Other Non-Core | Eliminations | Total |
|--|-----------|------------|---------------|-----------------------|----------------------------|--------------|----------|
| Operating revenues | | | | | | | |
| Net earned premiums | \$ 2,088 | \$ 2,103 | \$ 605 | \$ 401 | \$ — | \$ (1) | \$ 5,196 |
| Net investment income | 380 | 465 | 38 | 567 | 11 | — | 1,461 |
| Other revenues | 269 | 21 | 1 | (1) | 3 | — | 293 |
| Total operating revenues | 2,737 | 2,589 | 644 | 967 | 14 | (1) | 6,950 |
| Claims, Benefits and Expenses | | | | | | | |
| Net incurred claims and benefits | 1,097 | 1,357 | 395 | 976 | 109 | — | 3,934 |
| Policyholders' dividends | 6 | 9 | — | — | — | — | 15 |
| Amortization of deferred acquisition costs | 443 | 351 | 132 | — | — | — | 926 |
| Other insurance related expenses | 225 | 422 | 98 | 101 | (3) | (1) | 842 |
| Other expenses | 232 | 25 | 17 | 7 | 158 | — | 439 |
| Total claims, benefits and expenses | 2,003 | 2,164 | 642 | 1,084 | 264 | (1) | 6,156 |
| Operating income (loss) before income tax | 734 | 425 | 2 | (117) | (250) | — | 794 |
| Income tax (expense) benefit on operating income (loss) | (248) | (145) | (3) | 117 | 88 | — | (191) |
| Net operating income (loss) | 486 | 280 | (1) | — | (162) | — | 603 |
| Net realized investment gains (losses) | 2 | 2 | 14 | 12 | (4) | — | 26 |
| Income tax (expense) benefit on net realized investment gains (losses) | (1) | — | (3) | (9) | 2 | — | (11) |
| Net realized investment gains (losses), after tax | 1 | 2 | 11 | 3 | (2) | — | 15 |
| Net income (loss) | \$ 487 | \$ 282 | \$ 10 | \$ 3 | \$ (164) | \$ — | \$ 618 |

September 30, 2016

(In millions)

| | | | | | | | |
|-------------------------------------|--------|--------|--------|--------|----------|------|----------|
| Reinsurance receivables | \$ 805 | \$ 635 | \$ 130 | \$ 483 | \$ 2,561 | \$ — | \$ 4,614 |
| Insurance receivables | 991 | 1,018 | 249 | 21 | 2 | — | 2,281 |
| Deferred acquisition costs | 313 | 223 | 83 | — | — | — | 619 |
| Goodwill | 117 | — | 29 | — | — | — | 146 |
| Insurance reserves | | | | | | | |
| Claim and claim adjustment expenses | 6,278 | 8,879 | 1,408 | 3,407 | 2,700 | — | 22,672 |
| Unearned premiums | 1,922 | 1,373 | 432 | 135 | — | — | 3,862 |
| Future policy benefits | — | — | — | 11,219 | — | — | 11,219 |

Table of Contents

Nine months ended September 30, 2015

| (In millions) | Specialty | Commercial | International | Life & Group Non-Core | Corporate & Other Non-Core | Eliminations | Total |
|--|-----------|------------|---------------|--------------------------|----------------------------------|--------------|----------|
| Operating revenues | | | | | | | |
| Net earned premiums | \$ 2,075 | \$ 2,086 | \$ 601 | \$ 412 | \$ — | \$ (1) | \$ 5,173 |
| Net investment income | 365 | 455 | 40 | 540 | 12 | — | 1,412 |
| Other revenues | 245 | 27 | — | 8 | 9 | (3) | 286 |
| Total operating revenues | 2,685 | 2,568 | 641 | 960 | 21 | (4) | 6,871 |
| Claims, Benefits and Expenses | | | | | | | |
| Net incurred claims and benefits | 1,152 | 1,388 | 336 | 1,045 | 78 | — | 3,999 |
| Policyholders' dividends | 3 | 6 | — | — | — | — | 9 |
| Amortization of deferred acquisition costs | 440 | 352 | 125 | 19 | — | — | 936 |
| Other insurance related expenses | 202 | 385 | 101 | 104 | (1) | (1) | 790 |
| Other expenses | 209 | 23 | 9 | 10 | 140 | (3) | 388 |
| Total claims, benefits and expenses | 2,006 | 2,154 | 571 | 1,178 | 217 | (4) | 6,122 |
| Operating income (loss) before income tax | 679 | 414 | 70 | (218) | (196) | — | 749 |
| Income tax (expense) benefit on operating income (loss) | (228) | (141) | (30) | 147 | 70 | — | (182) |
| Net operating income (loss) | 451 | 273 | 40 | (71) | (126) | — | 567 |
| Net realized investment gains (losses) | (18) | (23) | 1 | (2) | 3 | — | (39) |
| Income tax (expense) benefit on net realized investment gains (losses) | 7 | 7 | — | 8 | (1) | — | 21 |
| Net realized investment gains (losses), after tax | (11) | (16) | 1 | 6 | 2 | — | (18) |
| Net income (loss) | \$ 440 | \$ 257 | \$ 41 | \$ (65) | \$ (124) | \$ — | \$ 549 |

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 |

Table of Contents

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

| Periods ended September 30 (In millions) | Three Months | | Nine Months | |
|---|--------------|---------|-------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| Specialty | | | | |
| Management & Professional Liability | \$677 | \$605 | \$1,954 | \$1,976 |
| Surety | 139 | 132 | 399 | 377 |
| Warranty & Alternative Risks | 130 | 109 | 386 | 314 |
| Specialty revenues | 946 | 846 | 2,739 | 2,667 |
| Commercial | | | | |
| Middle Market | 463 | 386 | 1,298 | 1,207 |
| Small Business | 154 | 144 | 448 | 467 |
| Other Commercial Insurance | 296 | 237 | 845 | 871 |
| Commercial revenues | 913 | 767 | 2,591 | 2,545 |
| International | | | | |
| Canada | 51 | 52 | 152 | 161 |
| CNA Europe | 82 | 78 | 241 | 232 |
| Hardy | 96 | 86 | 265 | 249 |
| International revenues | 229 | 216 | 658 | 642 |
| Life & Group Non-Core revenues | 339 | 320 | 979 | 958 |
| Corporate & Other Non-Core revenues | 6 | 6 | 10 | 24 |
| Eliminations | — | (2) | (1) | (4) |
| Total revenues | \$2,433 | \$2,153 | \$6,976 | \$6,832 |

Table of Contents

Note K. Organization Review

In 2016, the Company completed a comprehensive organization review intended to improve effectiveness and efficiency. The review resulted in the elimination of approximately 370 positions. The Company will incur employee termination costs as a result of these actions. The Company anticipates that the total cost resulting from the organization review will be approximately \$20 million, of which \$11 million and \$17 million was incurred during the three and nine months ended September 30, 2016. Additional termination costs will be incurred through March 2017. The costs incurred to date are included in Total claims, benefits, and expenses on the consolidated Statements of Operations and have been allocated to the Company's reportable segments in a manner consistent with the Company's current allocation of personnel costs. The costs by reportable segment for the periods ended September 30, 2016, are presented in the following table.

| Periods ended September 30, 2016 | Three | Nine |
|----------------------------------|--------|--------|
| (In millions) | Months | Months |
| Specialty | \$ 3 | \$ 4 |
| Commercial | 7 | 12 |
| International | — | — |
| Life & Group Non-Core | 1 | 1 |
| Corporate & Other Non-Core | — | — |
| Total organization review costs | \$ 11 | \$ 17 |

Table of Contents

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 2015 statutory net written premiums, we are the eighth largest commercial insurance writer and the 14th largest property and casualty insurance organization in the United States of America. The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements included under Part I, Item 1 of this Form 10-Q and Item 1A Risk Factors and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2015.

We utilize the net operating income (loss) financial measure to monitor our operations. Net operating income (loss) is calculated by excluding from net income (loss) the after-tax effects of 1) net realized investment gains or losses, 2) income or loss from discontinued operations and 3) any cumulative effects of changes in accounting guidance. The calculation of net operating income excludes net realized investment gains or losses because net realized investment gains or 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. Management monitors net operating income (loss) for each business segment to assess segment performance. Presentation of consolidated net operating income (loss) is deemed to be a non-GAAP financial measure. See further discussion regarding how we manage our business in Note J to the Condensed Consolidated Financial Statements included under Part I, Item 1. For reconciliations of non-GAAP measures to the most comparable GAAP measures and other information, please refer herein and/or to CNA's most recent 10-K on file with the Securities and Exchange Commission.

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.

Table of Contents

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.

Table of Contents

CONSOLIDATED OPERATIONS

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

| Periods ended September 30 (In millions) | Three Months | | Nine Months | |
|--|--------------|---------|-------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| Operating Revenues | | | | |
| Net earned premiums | \$1,767 | \$1,751 | \$5,196 | \$5,173 |
| Net investment income | 524 | 354 | 1,461 | 1,412 |
| Other revenues | 96 | 97 | 293 | 286 |
| Total operating revenues | 2,387 | 2,202 | 6,950 | 6,871 |
| Claims, Benefits and Expenses | | | | |
| Net incurred claims and benefits | 1,195 | 1,198 | 3,934 | 3,999 |
| Policyholders' dividends | 7 | 2 | 15 | 9 |
| Amortization of deferred acquisition costs | 314 | 319 | 926 | 936 |
| Other insurance related expenses | 295 | 263 | 842 | 790 |
| Other expenses | 147 | 138 | 439 | 388 |
| Total claims, benefits and expenses | 1,958 | 1,920 | 6,156 | 6,122 |
| Operating income before income tax | 429 | 282 | 794 | 749 |
| Income tax expense on operating income | (118) | (72) | (191) | (182) |
| Net operating income | 311 | 210 | 603 | 567 |
| Net realized investment gains (losses) | 46 | (49) | 26 | (39) |
| Income tax (expense) benefit on net realized investment gains (losses) | (14) | 17 | (11) | 21 |
| Net realized investment gains (losses), after tax | 32 | (32) | 15 | (18) |
| Net income | \$343 | \$178 | \$618 | \$549 |

Three Month Comparison

Net operating income increased \$101 million for the three months ended September 30, 2016 as compared with the same period in 2015. Net operating income increased \$66 million for our core segments primarily due to higher net investment income driven by increased limited partnership returns, partially offset by lower favorable net prior year reserve development and higher underwriting expenses. Net operating results for our non-core segments improved \$35 million primarily due to results in our long term care business. Further information on our long term care business is in the Life & Group Non-Core section of this MD&A.

Favorable net prior year development of \$137 million and \$180 million was recorded for the three months ended September 30, 2016 and 2015 related to our Specialty, Commercial and International segments. Further information on net prior year development is in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1. Catastrophe losses were \$11 million after tax for the three months ended September 30, 2016 as compared to \$10 million after tax for the same period in 2015.

In the third quarter of 2016 we completed a comprehensive organization review intended to improve effectiveness and efficiency. Termination costs associated with headcount reductions increased third quarter expenses, primarily underwriting expenses, as well as unallocated loss adjustment expenses by an aggregate of \$11 million. The annual savings from this reduction of salaries and related costs is approximately \$50 million. We expect this reduction in expenses to contribute to a half of a point reduction in our 2017 property and casualty expense ratio. Further information on the Organization Review is in Note K to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Table of Contents

Nine Month Comparison

Net operating income increased \$36 million for the nine months ended September 30, 2016 as compared with the same period in 2015. Net operating results for our non-core segments improved \$35 million primarily driven by our long term care business. Results in our non-core segments were negatively affected by \$20 million in after-tax charges related to the application of retroactive reinsurance accounting to adverse reserve development ceded under the 2010 A&EP Loss Portfolio Transfer. This is further discussed in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1. Net operating income increased \$1 million for our core segments due to higher favorable net prior year development, offset by higher underwriting expenses and a higher level of large losses and catastrophe losses.

Favorable net prior year development of \$309 million and \$198 million was recorded for the nine months ended September 30, 2016 and 2015 related to our Specialty, Commercial and International segments. Further information on net prior year development is in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1. Catastrophe losses were \$93 million after tax for the nine months ended September 30, 2016 as compared to \$68 million after tax for the same period in 2015.

In the third quarter of 2016 we completed a comprehensive organization review intended to improve effectiveness and efficiency. Termination costs associated with headcount reductions increased expenses, primarily underwriting expenses, as well as unallocated loss adjustment expenses by an aggregate of \$17 million for the nine months ended September 30, 2016. Further information on the Organization Review is in Note K to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Table of Contents

SEGMENT RESULTS

The following discusses the results for our reporting segments. Our core property and casualty commercial insurance operations are managed 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.

50

Table of Contents

Specialty

The following table presents the results of operations.

| Periods ended September 30 | Three Months | | Nine Months | |
|---|--------------|-------|-------------|---------|
| (In millions, except ratios, rate and retention) | 2016 | 2015 | 2016 | 2015 |
| Net written premiums | \$733 | \$707 | \$2,108 | \$2,077 |
| Net earned premiums | 704 | 706 | 2,088 | 2,075 |
| Net investment income | 140 | 76 | 380 | 365 |
| Net operating income | 195 | 179 | 486 | 451 |
| Net realized investment gains (losses), after tax | 6 | (14) | 1 | (11) |
| Net income | 201 | 165 | 487 | 440 |

Other performance metrics:

| | | | | |
|--|--------|--------|--------|--------|
| Loss and loss adjustment expense ratio | 46.8 % | 43.5 % | 52.6 % | 55.5 % |
| Expense ratio | 32.5 | 30.8 | 32.0 | 30.9 |
| Dividend ratio | 0.6 | 0.1 | 0.3 | 0.2 |
| Combined ratio | 79.9 % | 74.4 % | 84.9 % | 86.6 % |

| | | | | | |
|--------------|------|------|-------|-------|---|
| Rate | — | % 1 | % 1 | % 1 | % |
| Retention | 87 | 87 | 87 | 86 | |
| New business | \$66 | \$67 | \$192 | \$206 | |

Three Month Comparison

Net written premiums for Specialty increased \$26 million for the three months ended September 30, 2016 as compared with the same period in 2015, driven by growth in warranty and surety and continued steady retention. The decrease in net earned premiums was consistent with the trend in net written premiums in recent quarters.

Net operating income increased \$16 million for the three months ended September 30, 2016 as compared with the same period in 2015, primarily due to an increase in net investment income partially offset by lower favorable net prior year reserve development and higher underwriting expenses.

The combined ratio increased 5.5 points for the three months ended September 30, 2016 as compared with the same period in 2015. The loss ratio increased 3.3 points due to lower favorable net prior year reserve development and a higher non-catastrophe current accident year loss ratio. Catastrophe losses were \$1 million, or 0.2 points of the loss ratio for the three months ended September 30, 2016, as compared to \$3 million, or 0.5 points of the loss ratio for the three months ended September 30, 2015. The expense ratio increased 1.7 points for the three months ended September 30, 2016 as compared with the same period in 2015. About half of this increase was due to non-recurring underwriting expenses related to the transition to a new service provider for our information technology (IT) infrastructure and employee termination costs resulting from the Organization Review. The remainder was driven by higher IT spending primarily related to new underwriting platforms. See the Consolidated Operations section of this MD&A for further discussion of the Organization Review costs.

Favorable net prior year development of \$112 million and \$132 million was recorded in the three months ended September 30, 2016 and 2015. Further information on net prior year development is in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Table of Contents

Nine Month Comparison

Net written premiums for Specialty increased \$31 million for the nine months ended September 30, 2016 as compared with the same period in 2015, driven by growth in warranty and surety, continued steady retention and positive rate.

The increase in net earned premiums was consistent with the trend in net written premiums.

Net operating income increased \$35 million for the nine months ended September 30, 2016 as compared with the same period in 2015, primarily due to higher favorable net prior year reserve development and net investment income partially offset by an increase in underwriting expenses.

The combined ratio improved 1.7 points for the nine months ended September 30, 2016 as compared with the same period in 2015. The loss ratio improved 2.9 points primarily due to higher favorable net prior year reserve development partially offset by a higher current accident year loss ratio. Catastrophe losses were \$14 million, or 0.7 points of the loss ratio for the nine months ended September 30, 2016, as compared to \$15 million, or 0.7 points of the loss ratio for the nine months ended September 30, 2015. The expense ratio increased 1.1 points for the nine months ended September 30, 2016 as compared with the same period in 2015, primarily due to non-recurring underwriting expenses related to the transition to a new service provider for our IT infrastructure and employee termination costs resulting from the Organization Review. The expense ratio also increased due to higher IT spending primarily related to new underwriting platforms. See the Consolidated Operations section of this MD&A for further discussion of the Organization Review costs.

Favorable net prior year development of \$229 million and \$151 million was recorded for the nine months ended September 30, 2016 and 2015. Further information on net prior year development is in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1.

The following table presents the gross and net carried reserves.

| (In millions) | September 30, 2016 | December 31, 2015 |
|---|--------------------------|----------------------|
| Gross case reserves | \$ 1,896 | \$ 2,011 |
| Gross IBNR reserves | 4,382 | 4,258 |
| Total gross carried claim and claim adjustment expense reserves | \$ 6,278 | \$ 6,269 |
| Net case reserves | \$ 1,684 | \$ 1,810 |
| Net IBNR reserves | 3,796 | 3,758 |
| Total net carried claim and claim adjustment expense reserves | \$ 5,480 | \$ 5,568 |

Table of Contents

Commercial

The following table presents the results of operations.

| Periods ended September 30 | Three Months | | Nine Months | |
|---|--------------|--------|-------------|---------|
| (In millions, except ratios, rate and retention) | 2016 | 2015 | 2016 | 2015 |
| Net written premiums | \$684 | \$642 | \$2,172 | \$2,118 |
| Net earned premiums | 719 | 705 | 2,103 | 2,086 |
| Net investment income | 175 | 82 | 465 | 455 |
| Net operating income | 114 | 75 | 280 | 273 |
| Net realized investment gains (losses), after tax | 9 | (21) | 2 | (16) |
| Net income | 123 | 54 | 282 | 257 |
| Other performance metrics: | | | | |
| Loss and loss adjustment expense ratio | 62.2 % | 60.6 % | 64.6 % | 66.5 % |
| Expense ratio | 37.1 | 35.2 | 36.7 | 35.4 |
| Dividend ratio | 0.5 | — | 0.4 | 0.2 |
| Combined ratio | 99.8 % | 95.8 % | 101.7 % | 102.1 % |
| Rate | — % | 1 % | — % | 2 % |
| Retention | 83 | 76 | 84 | 77 |
| New business | \$135 | \$135 | \$418 | \$422 |

Three Month Comparison

Net written premiums for Commercial increased \$42 million for the three months ended September 30, 2016 as compared with the same period in 2015, driven by higher retention and new business in middle markets. The increase in net earned premiums was consistent with the trend in net written premiums.

Net operating income increased \$39 million for the three months ended September 30, 2016 as compared with the same period in 2015, due to an increase in net investment income partially offset by higher underwriting expenses and higher net loss and loss adjustment expenses.

The combined ratio increased 4.0 points for the three months ended September 30, 2016 as compared with the same period in 2015. The loss ratio increased 1.6 points due to an increase in the current accident year loss ratio and lower favorable net prior year development. Catastrophe losses were \$12 million, or 1.6 points of the loss ratio for the three months ended September 30, 2016, as compared to \$10 million, or 1.4 points of the loss ratio for the three months ended September 30, 2015. The expense ratio increased 1.9 points for the three months ended September 30, 2016 as compared with the same period in 2015, primarily due to non-recurring underwriting expenses related to the transition to a new service provider for our IT infrastructure and employee termination costs resulting from the Organization Review. The expense ratio also increased due to higher IT spending primarily related to a new underwriting platform. See the Consolidated Operations section of this MD&A for further discussion of the Organization Review costs. Favorable net prior year development of \$8 million and \$16 million was recorded for the three months ended September 30, 2016 and 2015. Further information on net prior year development is in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Table of Contents

Nine Month Comparison

Net written premiums for Commercial increased \$54 million for the nine months ended September 30, 2016 as compared with the same period in 2015, driven by higher retention. The increase in net earned premiums was consistent with the trend in net written premiums.

Net operating income increased \$7 million for the nine months ended September 30, 2016 as compared with the same period in 2015, due to favorable reserve development partially offset by higher underwriting expenses.

The combined ratio improved 0.4 points for the nine months ended September 30, 2016 as compared with the same period in 2015. The loss ratio improved 1.9 points primarily due to favorable net prior year reserve development.

Catastrophe losses were \$95 million, or 4.6 points of the loss ratio for the nine months ended September 30, 2016, as compared to \$83 million, or 4.0 points of the loss ratio for the nine months ended September 30, 2015. The expense ratio increased 1.3 points for the nine months ended September 30, 2016 as compared with the same period in 2015, primarily due to non-recurring underwriting expenses related to the transition to a new service provider for our IT infrastructure and employee termination costs resulting from the Organization Review. The expense ratio also increased due to higher IT spending primarily related to a new underwriting platform. See the Consolidated Operations section of this MD&A for further discussion of the Organization Review costs.

Favorable net prior year development of \$44 million and \$17 million was recorded for the nine months ended September 30, 2016 and 2015. Further information on net prior year development is in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1.

The following table presents the gross and net carried reserves.

| (In millions) | September 30, 2016 | December 31, 2015 |
|---|--------------------------|----------------------|
| Gross case reserves | \$ 4,678 | \$ 4,975 |
| Gross IBNR reserves | 4,201 | 4,208 |
| Total gross carried claim and claim adjustment expense reserves | \$ 8,879 | \$ 9,183 |
| Net case reserves | \$ 4,369 | \$ 4,651 |
| Net IBNR reserves | 3,910 | 3,925 |
| Total net carried claim and claim adjustment expense reserves | \$ 8,279 | \$ 8,576 |

Table of Contents

International

The following table presents the results of operations.

| Periods ended September 30 | Three Months | | Nine Months | |
|--|--------------|-------|-------------|-------|
| (In millions, except ratios, rate and retention) | 2016 | 2015 | 2016 | 2015 |
| Net written premiums | \$207 | \$180 | \$637 | \$641 |
| Net earned premiums | 210 | 203 | 605 | 601 |
| Net investment income | 13 | 13 | 38 | 40 |
| Net operating income (loss) | 20 | 9 | (1) | 40 |
| Net realized investment gains, after tax | 5 | — | 11 | 1 |
| Net income | 25 | 9 | 10 | 41 |

Other performance metrics:

| | | | | |
|--|--------|--------|---------|--------|
| Loss and loss adjustment expense ratio | 55.4 % | 52.4 % | 65.2 % | 55.9 % |
| Expense ratio | 37.8 | 38.0 | 38.2 | 37.6 |
| Combined ratio | 93.2 % | 90.4 % | 103.4 % | 93.5 % |

| | | | | |
|-----------------------------|-------|-------|-------|-------|
| Rate | (1)% | (1)% | (1)% | (1)% |
| Retention | 70 | 75 | 76 | 77 |
| New business ⁽¹⁾ | \$67 | \$23 | \$189 | \$83 |

(1) Beginning in 2016, new business includes Hardy. New business for Hardy was \$40 million and \$107 million for the three and nine months ended September 30, 2016.

Three Month Comparison

Net written premiums for International increased \$27 million for the three months ended September 30, 2016 as compared with the same period in 2015. Excluding the effect of foreign currency exchange rates and the timing of reinsurance spend, net written premiums for the three months ended September 30, 2016 increased 15%. The majority of the growth came from middle market products in the UK and Continental Europe and from product lines which are now being delivered across all the international platforms, such as healthcare and technology. The increase in net earned premiums was consistent with the trend in net written premiums.

Net operating income increased \$11 million for the three months ended September 30, 2016 as compared with the same period in 2015, primarily due to improved net accident year non-catastrophe underwriting results and lower foreign exchange losses partially offset by lower favorable net prior year reserve development.

The combined ratio increased 2.8 points for the three months ended September 30, 2016 as compared with the same period in 2015. The loss ratio increased 3.0 points due to lower favorable net prior year reserve development partially offset by an improved non-catastrophe current accident year loss ratio. Catastrophe losses were \$3 million, or 1.5 points of the loss ratio for the three months ended September 30, 2016 as compared to \$1 million, or 0.3 points of the loss ratio for the three months ended September 30, 2015. The expense ratio improved 0.2 points for the three months ended September 30, 2016 as compared with the same period in 2015.

Favorable net prior year development of \$17 million and \$32 million was recorded for the three months ended September 30, 2016 and 2015. Further information on net prior year development is in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Table of Contents

Nine Month Comparison

Net written premiums for International decreased \$4 million for the nine months ended September 30, 2016 as compared with the same period in 2015. Net written premiums increased 3.5% as compared to the same period in 2015, after excluding the effect of foreign currency exchange rates. Excluding the effect of premium development, the decrease in net earned premiums was consistent with the trend in net written premiums.

Net operating results decreased \$41 million for the nine months ended September 30, 2016 as compared with the same period in 2015, primarily due to a higher level of catastrophe and large losses.

The combined ratio increased 9.9 points for the nine months ended September 30, 2016 as compared with the same period in 2015. The loss ratio increased 9.3 points primarily due to an increase in the current accident year loss ratio driven by catastrophe losses and large losses related to political risk, property and financial institutions. Catastrophe losses were \$28 million, or 4.7 points of the loss ratio for the nine months ended September 30, 2016, primarily driven by the Fort McMurray wildfires, as compared to \$5 million, or 0.8 points of the loss ratio for the nine months ended September 30, 2015. The expense ratio increased 0.6 points for the nine months ended September 30, 2016 as compared with the same period in 2015, primarily due to higher underwriting expenses.

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

The following table presents the gross and net carried reserves.

| (In millions) | September 30, December | |
|---|------------------------|----------|
| | 2016 | 31, 2015 |
| Gross case reserves | \$ 647 | \$ 622 |
| Gross IBNR reserves | 761 | 725 |
| Total gross carried claim and claim adjustment expense reserves | \$ 1,408 | \$ 1,347 |
| Net case reserves | \$ 567 | \$ 531 |
| Net IBNR reserves | 718 | 688 |
| Total net carried claim and claim adjustment expense reserves | \$ 1,285 | \$ 1,219 |

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

On June 23, 2016, the United Kingdom (U.K.) held a referendum in which voters approved an exit from the European Union (E.U.), commonly referred to as "Brexit". As a result of the referendum, it is currently expected that the British government will formally commence the process to leave the E.U. and begin negotiating the terms of treaties that will govern the U.K.'s future relationship with the E.U. in the first quarter of 2017. Although the terms of any future treaties are unknown, changes in our international operating platform may be required to allow us to continue to write business in the E.U. after the completion of Brexit. As a result of these changes, the complexity and cost of regulatory compliance of our European business is likely to increase.

Table of Contents

Life & Group Non-Core

The following table presents the results of operations.

| Periods ended September 30 | Three | | Nine | |
|--|--------|-------|--------|-------|
| | Months | | Months | |
| (In millions) | 2016 | 2015 | 2016 | 2015 |
| Net earned premiums | \$134 | \$137 | \$401 | \$412 |
| Net investment income | 192 | 182 | 567 | 540 |
| Net operating income (loss) | 6 | (30) | — | (71) |
| Net realized investment gains, after tax | 11 | 2 | 3 | 6 |
| Net income (loss) | 17 | (28) | 3 | (65) |

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. In 2015, results of our long term care business reflected variances between actual experience and actuarial assumptions that were locked-in at policy issuance. As a result of the reserve assumption unlocking, the 2016 and 2015 results are not comparable.

Three Month

The net operating income of \$6 million was generally in line with expectations, as the impact of favorable morbidity was partially offset by unfavorable persistency in our long term care business.

Nine Month

Results for the current year nine month period were generally consistent with our reset assumptions.

Table of Contents

Corporate & Other Non-Core

The following table presents the results of operations.

| Periods ended September 30 | Three Months | | Nine Months | |
|---|-----------------|-------|----------------|-------|
| (In millions) | 2016 | 2015 | 2016 | 2015 |
| Net investment income | \$4 | \$ 1 | \$11 | \$12 |
| Interest expense | 39 | 39 | 119 | 117 |
| Net operating loss | (24) | (23) | (162) | (126) |
| Net realized investment gains (losses), after tax | 1 | 1 | (2) | 2 |
| Net loss | (23) | (22) | (164) | (124) |

Three Month Comparison

Net operating loss for the three months ended September 30, 2016 was comparable to the same period in 2015.

Nine Month Comparison

Net operating loss increased \$36 million for the nine months ended September 30, 2016 as compared with the same period in 2015. Results in both periods were negatively affected by after-tax charges related to the application of retroactive reinsurance accounting to adverse reserve development ceded under the 2010 A&EP Loss Portfolio Transfer. The Loss Portfolio Transfer drove \$20 million of the period over period change. This is further discussed in Note E to the Condensed Consolidated Financial Statements included under Part I, Item 1.

The following table presents the gross and net carried reserves.

| (In millions) | September 30, 2016 | December 31, 2015 |
|---|--------------------------|----------------------|
| Gross case reserves | \$ 1,581 | \$ 1,521 |
| Gross IBNR reserves | 1,119 | 1,123 |
| Total gross carried claim and claim adjustment expense reserves | \$ 2,700 | \$ 2,644 |
| Net case reserves | \$ 99 | \$ 130 |
| Net IBNR reserves | 137 | 153 |
| Total net carried claim and claim adjustment expense reserves | \$ 236 | \$ 283 |

Table of Contents

INVESTMENTS

Net Investment Income

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

| Periods ended September 30 (In millions) | Three Months | | Nine Months | |
|---|--------------|-------|-------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| Fixed maturity securities: | | | | |
| Taxable | \$354 | \$346 | \$1,048 | \$1,040 |
| Tax-Exempt | 103 | 103 | 304 | 304 |
| Total fixed maturity securities | 457 | 449 | 1,352 | 1,344 |
| Limited partnership investments | 65 | (93) | 97 | 69 |
| Other, net of investment expense | 2 | (2) | 12 | (1) |
| Net investment income | \$524 | \$354 | \$1,461 | \$1,412 |
| Net investment income, after tax | \$371 | \$265 | \$1,048 | \$1,015 |

Effective income yield for the fixed maturity securities portfolio, pretax 4.8 % 4.8 % 4.8 % 4.8 %

Effective income yield for the fixed maturity securities portfolio, after tax 3.4 % 3.5 % 3.4 % 3.5 %

Net investment income, after tax, for the three months ended September 30, 2016 increased \$106 million as compared with the same period in 2015. The increase was driven by limited partnership investments, which returned 2.6% as compared with (3.2)% for the same period in 2015.

Net investment income, after tax, for the nine months ended September 30, 2016 increased \$33 million as compared with the same period in 2015. The increase was driven by limited partnership investments, which returned 3.8% as compared with 2.2% in the prior year period.

Table of Contents

Net Realized Investment Gains (Losses)

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

| Periods ended September 30 | Three Months | | Nine Months | |
|--|-----------------|--------|----------------|--------|
| (In millions) | 2016 | 2015 | 2016 | 2015 |
| Fixed maturity securities: | | | | |
| Corporate and other bonds | \$ 18 | \$(27) | \$ 10 | \$(11) |
| States, municipalities and political subdivisions | 20 | (7) | 23 | (27) |
| Asset-backed | 5 | 5 | 5 | 8 |
| U.S. Treasury and obligations of government-sponsored enterprises | 3 | — | 5 | — |
| Foreign government | 1 | — | 3 | 1 |
| Total fixed maturity securities | 47 | (29) | 46 | (29) |
| Equity securities | (3) | (18) | (5) | (19) |
| Derivative financial instruments | 1 | (1) | (12) | 9 |
| Short term investments and other | 1 | (1) | (3) | — |
| Net realized investment gains (losses) | 46 | (49) | 26 | (39) |
| Income tax (expense) benefit on net realized investment gains (losses) | (14) | 17 | (11) | 21 |
| Net realized investment gains (losses), after tax | \$32 | \$(32) | \$ 15 | \$(18) |

Net realized investment results, after tax, improved \$64 million for the three months ended September 30, 2016 as compared with the same period in 2015, driven by higher net realized investment gains on sales of securities reflecting the overall net unrealized gain position within the portfolio and lower OTTI losses recognized in earnings.

Net realized investment results, after tax, improved \$33 million for the nine months ended September 30, 2016 as compared with the same period in 2015, driven by higher net realized investment gains on sales of securities reflecting the overall net unrealized gain position within the portfolio and lower OTTI losses recognized in earnings, partially offset by derivative results.

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.

Table of Contents

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) | September 30, 2016 | | December 31, 2015 | |
|---|----------------------|-------------------------------|----------------------|-------------------------------|
| | Estimated Fair Value | Net Unrealized Gains (Losses) | Estimated Fair Value | Net Unrealized Gains (Losses) |
| U.S. Government, Government agencies and Government-sponsored enterprises | \$4,422 | \$ 166 | \$3,910 | \$ 101 |
| AAA | 1,893 | 180 | 1,938 | 123 |
| AA | 9,015 | 1,186 | 8,919 | 900 |
| A | 10,292 | 1,283 | 10,044 | 904 |
| BBB | 13,326 | 1,098 | 11,595 | 307 |
| Non-investment grade | 3,373 | 168 | 3,166 | (16) |
| Total | \$42,321 | \$ 4,081 | \$39,572 | \$ 2,319 |

As of September 30, 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) | September 30, 2016 | |
|---|----------------------|-------------------------|
| | Estimated Fair Value | Gross Unrealized Losses |
| U.S. Government, Government agencies and Government-sponsored enterprises | \$62 | \$ 1 |
| AAA | 116 | 2 |
| AA | 196 | 2 |
| A | 304 | 5 |
| BBB | 828 | 18 |
| Non-investment grade | 781 | 34 |
| Total | \$2,287 | \$ 62 |

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) | September 30, 2016 | |
|--|----------------------|-------------------------|
| | Estimated Fair Value | Gross Unrealized Losses |
| Due in one year or less | \$121 | \$ 1 |
| Due after one year through five years | 585 | 13 |
| Due after five years through ten years | 999 | 26 |
| Due after ten years | 582 | 22 |
| Total | \$2,287 | \$ 62 |

Table of Contents**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.

| (In millions) | September 30, 2016 | | December 31, 2015 | |
|--|----------------------------|--|----------------------------|--|
| | Estimated Fair Value | Effective Duration (In years) | Estimated Fair Value | Effective Duration (In years) |
| Investments supporting Life & Group Non-Core | \$ 16,407 | 8.6 | \$ 14,879 | 9.6 |
| Other interest sensitive investments | 27,239 | 4.1 | 26,435 | 4.3 |
| Total | \$ 43,646 | 5.8 | \$ 41,314 | 6.2 |

The duration of the total fixed income portfolio is in line with portfolio targets. The duration of the assets supporting the Life and Group Non-Core business has declined, reflective of increases in expected bond call activity in our municipal bond portfolio and the low interest rate environment.

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) | September 30, 2016 | December 31, 2015 |
|------------------------------|-----------------------|----------------------|
| Short term investments: | | |
| Commercial paper | \$ 841 | \$ 998 |
| U.S. Treasury securities | 374 | 411 |
| Money market funds | 75 | 60 |
| Other | 133 | 191 |
| Total short term investments | \$ 1,423 | \$ 1,660 |

Table of Contents

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 nine months ended September 30, 2016, net cash provided by operating activities was \$1,120 million as compared with \$1,045 million for the same period in 2015. Cash provided by operating activities reflected increased receipts relating to returns on limited partnerships and lower income taxes paid, partially offset by lower net premiums collected and higher net claim and expense payments.

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 \$604 million for the nine months ended September 30, 2016, as compared with net cash used of \$254 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 nine months ended September 30, 2016, net cash used by financing activities was \$605 million as compared with \$739 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 our 6.50% senior notes due August 15, 2016.

Common Stock Dividends

Dividends of \$2.75 per share of our common stock, including a special dividend of \$2.00 per share, were declared and paid during the nine months ended September 30, 2016. On October 28, 2016, our Board of Directors declared a quarterly dividend of \$0.25 per share, payable November 30, 2016 to stockholders of record on November 14, 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.

Table of Contents

Liquidity

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

Dividends from CCC are subject to the insurance holding company laws of the State of Illinois, the domiciliary state of CCC. Under these laws, ordinary dividends, or dividends that do not require prior approval by the Illinois Department of Insurance (the Department), are determined based on the greater of the prior year's statutory net income or 10% of statutory surplus as of the end of the prior year, as well as timing and amount of dividends paid in the preceding twelve months. Additionally, ordinary dividends may only be paid from earned surplus, which is calculated by removing unrealized gains from unassigned surplus. As of September 30, 2016 CCC was in a positive earned surplus position. The maximum allowable dividend CCC could pay during 2016 that would not be subject to the Department's prior approval is \$1,079 million, less dividends paid during the preceding twelve months measured at that point in time. CCC paid dividends of \$100 million during the three months ended December 31, 2015 and \$665 million during the nine months ended September 30, 2016. As of September 30, 2016 CCC is able to pay approximately \$314 million of dividends that would not be subject to prior approval of the Department. The actual level of dividends paid in any year is determined after an assessment of available dividend capacity, holding company liquidity and cash needs as well as the impact the dividends will have on the statutory surplus of the applicable insurance company.

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

Table of Contents

ACCOUNTING STANDARDS UPDATES

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

FORWARD-LOOKING STATEMENTS

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

Company-Specific Factors

the risks and uncertainties associated with our insurance reserves, as outlined in the Critical Accounting Estimates and the Reserves - Estimates and Uncertainties sections of our Annual Report on Form 10-K, including the sufficiency of the reserves and the possibility for future increases, which would be reflected in the results of operations in the period that the need for such adjustment is determined;

- the risk that the other parties to the transaction in which, subject to certain limitations, we ceded our legacy A&EP liabilities will not fully perform their obligations to CNA, the uncertainty in estimating loss reserves for A&EP liabilities and the possible continued exposure of CNA to liabilities for A&EP claims that are not covered under the terms of the transaction;

the performance of reinsurance companies under reinsurance contracts with us; and

the risks and uncertainties associated with potential acquisitions and divestitures, including the consummation of such transactions, the successful integration of acquired operations and the potential for subsequent impairment of goodwill or intangible assets.

Industry and General Market Factors

the impact of competitive products, policies and pricing and the competitive environment in which we operate, including changes in our book of business;

product and policy availability and demand and market responses, including the level of ability to obtain rate increases and decline or non-renew underpriced accounts, to achieve premium targets and profitability and to realize growth and retention estimates;

general economic and business conditions, including recessionary conditions that may decrease the size and number of our insurance customers and create additional losses to our lines of business, especially those that provide management and professional liability insurance, as well as surety bonds, to businesses engaged in real estate, financial services and professional services and inflationary pressures on medical care costs, construction costs and other economic sectors that increase the severity of claims;

conditions in the capital and credit markets, including continuing uncertainty and instability in these markets, as well as the overall economy, and their impact on the returns, types, liquidity and valuation of our investments;

conditions in the capital and credit markets that may limit our ability to raise significant amounts of capital on favorable terms; and

the possibility of changes in our ratings by ratings agencies, including the inability to access certain markets or distribution channels and the required collateralization of future payment obligations as a result of such changes, and changes in rating agency policies and practices.

Table of Contents

Regulatory Factors

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

Impact of Catastrophic Events and Related Developments

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

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

on June 23, 2016, the United Kingdom (U.K.) held a referendum in which voters approved an exit from the European Union (E.U.), commonly referred to as "Brexit". As a result of the referendum, it is currently expected that the British government will formally commence the process to leave the E.U. and begin negotiating the terms of treaties that will govern the U.K.'s future relationship with the E.U. in the first quarter of 2017. Although the terms of any future treaties are unknown, changes in our international operating platform may be required to allow us to continue to write business in the E.U. after the completion of Brexit. As a result of these changes, the complexity and cost of regulatory compliance of our European business is likely to increase.

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.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

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

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

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

Table of Contents

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.

Table of Contents

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: October 31, 2016 By /s/ D. Craig Mense
D. Craig Mense
Executive Vice
President and
Chief Financial
Officer

Table of Contents

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 |