CNA FINANCIAL CORP
Form 10-Q
April 29, 2014

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

FORM 10-Q
[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014
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<br>(State or other jurisdiction of incorporation or organization) | 36-6169860<br>(I.R.S. Employer Identification No.) |
| 333 S. Wabash<br>Chicago, Illinois<br>(Address of principal executive offices) | 60604<br>(Zip Code) |

(312) 822-5000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [x] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [x]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding at April 25, 2014 |
|---|---|
| Common Stock, Par value $2.50 | 269,924,573 |

Table of Contents

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

| Three months ended March 31<br>(In millions, except per share data) | 2014 | 2013 |
|---|---|---|
| Revenues | | |
| Net earned premiums | $1,806 | $1,764 |
| Net investment income | 526 | 591 |
| Net realized investment gains (losses): | | |
| Other-than-temporary impairment losses | (2) | (18) |
| Portion of other-than-temporary impairments recognized in Other comprehensive income | — | — |
| Net other-than-temporary impairment losses recognized in earnings | (2) | (18) |
| Other net realized investment gains | 48 | 41 |
| Net realized investment gains | 46 | 23 |
| Other revenues | 85 | 77 |
| Total revenues | 2,463 | 2,455 |
| Claims, Benefits and Expenses | | |
| Insurance claims and policyholders' benefits | 1,446 | 1,396 |
| Amortization of deferred acquisition costs | 329 | 328 |
| Other operating expenses | 346 | 340 |
| Interest | 44 | 42 |
| Total claims, benefits and expenses | 2,165 | 2,106 |
| Income from continuing operations before income tax | 298 | 349 |
| Income tax expense | (78) | (108) |
| Income from continuing operations | 220 | 241 |
| (Loss) income from discontinued operations, net of income tax benefit (expense) of $38 and $(5) | (207) | 9 |
| Net income | $13 | $250 |
| | | |
| Basic Earnings Per Share | | |
| Income from continuing operations | $0.82 | $0.89 |
| (Loss) income from discontinued operations | (0.77) | 0.04 |
| Basic earnings per share | $0.05 | $0.93 |
| | | |
| Diluted Earnings Per Share | | |
| Income from continuing operations | $0.81 | $0.89 |
| (Loss) income from discontinued operations | (0.76) | 0.04 |
| Diluted earnings per share | $0.05 | $0.93 |
| | | |
| Dividends per share | $1.25 | $0.20 |
| | | |
| Weighted Average Outstanding Common Stock and Common Stock Equivalents | | |
| Basic | 269.8 | 269.5 |
| Diluted | 270.5 | 269.9 |

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

3

Table of Contents

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

| Three months ended March 31 | | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Other Comprehensive Income (Loss), Net of Tax | | |
| Changes in: | | |
| Net unrealized gains on investments with other-than-temporary impairments | $12 | $14 |
| Net unrealized gains (losses) on other investments | 237 | (62) |
| Net unrealized gains (losses) on investments | 249 | (48) |
| Net unrealized gains (losses) on discontinued operations | 8 | — |
| Foreign currency translation adjustment | (8) | (61) |
| Pension and postretirement benefits | 1 | 5 |
| Other comprehensive income (loss), net of tax | 250 | (104) |
| Net income | 13 | 250 |
| Total comprehensive income | $263 | $146 |

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

Table of Contents

CNA Financial Corporation
Condensed Consolidated Balance Sheets (Unaudited)

| (In millions, except share data) | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Assets | | |
| Investments: | | |
| Fixed maturity securities at fair value (amortized cost of $36,913 and $39,311) | $39,415 | $41,233 |
| Equity securities at fair value (cost of $163 and $179) | 174 | 185 |
| Limited partnership investments | 2,799 | 2,720 |
| Other invested assets | 55 | 54 |
| Mortgage loans | 495 | 508 |
| Short term investments | 2,070 | 1,407 |
| Total investments | 45,008 | 46,107 |
| Cash | 206 | 195 |
| Reinsurance receivables (less allowance for uncollectible receivables of $65 and $71) | 5,034 | 6,017 |
| Insurance receivables (less allowance for uncollectible receivables of $82 and $84) | 2,050 | 1,979 |
| Accrued investment income | 437 | 443 |
| Deferred acquisition costs | 652 | 624 |
| Deferred income taxes | 48 | 220 |
| Property and equipment at cost (less accumulated depreciation of $367 and $365) | 293 | 304 |
| Goodwill | 155 | 155 |
| Assets held for sale | 3,486 | — |
| Other assets | 855 | 969 |
| Separate account business | — | 181 |
| Total assets | $58,224 | $57,194 |
| Liabilities | | |
| Insurance reserves: | | |
| Claim and claim adjustment expenses | $23,933 | $24,089 |
| Unearned premiums | 3,838 | 3,718 |
| Future policy benefits | 8,254 | 10,471 |
| Policyholders’ funds | 26 | 116 |
| Short term debt | 549 | 549 |
| Long term debt | 2,558 | 2,011 |
| Liabilities held for sale | 3,250 | — |
| Other liabilities (includes $3 and $178 due to Loews Corporation) | 3,234 | 3,408 |
| Separate account business | — | 181 |
| Total liabilities | 45,642 | 44,543 |
| Commitments and contingencies (Notes C, G and J) | | |
| Stockholders' Equity | | |
| Common stock ($2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; 269,923,905 and 269,717,583 shares outstanding) | 683 | 683 |
| Additional paid-in capital | 2,144 | 2,145 |
| Retained earnings | 9,170 | 9,495 |
| Accumulated other comprehensive income | 692 | 442 |
| Treasury stock (3,116,338 and 3,322,660 shares), at cost | (85) | (91) |
| Notes receivable for the issuance of common stock | (22) | (23) |
| Total stockholders’ equity | 12,582 | 12,651 |
| Total liabilities and stockholders' equity | $58,224 | $57,194 |

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)
Three months ended March 31

| (In millions) | 2014 | 2013 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Net income | $13 | $250 |
| Adjustments to reconcile net income to net cash flows provided by operating activities: | | |
| Impairment loss on pending sale of subsidiary | 255 | — |
| Deferred income tax expense | 25 | 99 |
| Trading portfolio activity | 21 | (48) |
| Net realized investment gains | (47) | (28) |
| Equity method investees | 132 | (91) |
| Amortization of investments | (1) | (10) |
| Depreciation and amortization | 20 | 33 |
| Changes in: | | |
| Receivables, net | 126 | (20) |
| Accrued investment income | (36) | (42) |
| Deferred acquisition costs | (21) | (40) |
| Insurance reserves | 85 | 79 |
| Other assets | (35) | (20) |
| Other liabilities | (372) | 16 |
| Other, net | 3 | 13 |
| Total adjustments | 155 | (59) |
| Net cash flows provided by operating activities | 168 | 191 |
| Cash Flows from Investing Activities | | |
| Dispositions: | | |
| Fixed maturity securities - sales | 1,550 | 1,409 |
| Fixed maturity securities - maturities, calls and redemptions | 851 | 866 |
| Equity securities | 11 | 51 |
| Limited partnerships | 68 | 58 |
| Mortgage loans | 13 | 1 |
| Purchases: | | |
| Fixed maturity securities | (2,072) | (2,720) |
| Equity securities | (5) | (12) |
| Limited partnerships | (73) | (41) |
| Mortgage loans | — | (25) |
| Change in other investments | — | 3 |
| Change in short term investments | (688) | 264 |
| Purchases of property and equipment | (10) | (21) |
| Other, net | 1 | 6 |
| Net cash flows used by investing activities | (354) | (161) |

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

Table of Contents

| Three months ended March 31 | | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Cash Flows from Financing Activities | | |
| Dividends paid to common stockholders | (338 ) | (55 ) |
| Proceeds from the issuance of debt | 546 | — |
| Stock options exercised | 4 | 1 |
| Other, net | (2 ) | (2 ) |
| Net cash flows provided (used) by financing activities | 210 | (56 ) |
| Effect of foreign exchange rate changes on cash | 1 | (7 ) |
| Transfer of cash to assets held for sale | (14 ) | — |
| Net change in cash | 11 | (33 ) |
| Cash, beginning of year | 195 | 156 |
| Cash, end of period | $206 | $123 |

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)
Three months ended March 31

| (In millions) | 2014 | 2013 |
|---|---|---|
| Common Stock | | |
| Balance, beginning of period | $683 | $683 |
| Balance, end of period | 683 | 683 |
| Additional Paid-in Capital | | |
| Balance, beginning of period | 2,145 | 2,146 |
| Stock-based compensation | (1) | (8) |
| Balance, end of period | 2,144 | 2,138 |
| Retained Earnings | | |
| Balance, beginning of period | 9,495 | 8,774 |
| Dividends paid to common stockholders | (338) | (55) |
| Net income | 13 | 250 |
| Balance, end of period | 9,170 | 8,969 |
| Accumulated Other Comprehensive Income | | |
| Balance, beginning of period | 442 | 831 |
| Other comprehensive income (loss) | 250 | (104) |
| Balance, end of period | 692 | 727 |
| Treasury Stock | | |
| Balance, beginning of period | (91) | (99) |
| Stock-based compensation | 6 | 7 |
| Balance, end of period | (85) | (92) |
| Notes Receivable for the Issuance of Common Stock | | |
| Balance, beginning of period | (23) | (21) |
| Decrease in notes receivable for the issuance of common stock | 1 | 1 |
| Balance, end of period | (22) | (20) |
| Total Stockholders’ Equity | $12,582 | $12,405 |

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
Note A. General
Basis of Presentation
The Condensed Consolidated Financial Statements (Unaudited) include the accounts of CNA Financial Corporation (CNAF) and its subsidiaries. Collectively, CNAF and its subsidiaries are referred to as CNA or the Company. Loews Corporation (Loews) owned approximately 90% of the outstanding common stock of CNAF as of March 31, 2014.
The accompanying Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). 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, 2013, including the summary of significant accounting policies in Note A. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.
The interim financial data as of March 31, 2014 and for the three months ended March 31, 2014 and 2013 is unaudited. However, in the opinion of management, the interim data includes all adjustments, consisting of normal recurring accruals, 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.
Intercompany amounts have been eliminated.
Sale of Continental Assurance Company (CAC)
On February 10, 2014, the Company entered into a definitive agreement to sell the majority of its run-off annuity and pension deposit business through the sale of the common stock of CAC. The sale is subject to regulatory approvals and other customary closing conditions and is expected to close in the second quarter of 2014. The business being sold, which was previously reported within the Life & Group Non-Core segment, is now reported as discontinued operations and assets and liabilities held for sale. The Company has elected not to present these assets and liabilities as held for sale on the comparative Condensed Consolidated Balance Sheet. Further information on the assets and liabilities held for sale and discontinued operations is provided in Note M to the Condensed Consolidated Financial Statements.
The definitive agreement provides for a pre-close dividend by CAC and also includes a 100% coinsurance agreement on a separate small block of annuity business outside of CAC. The assets and liabilities related to the coinsurance agreement and the assets related to the estimated dividend do not qualify as held for sale presentation, therefore they are not reflected as held for sale on the Condensed Consolidated Balance Sheet.

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

For the three months ended March 31, 2014 and 2013, approximately 660 thousand and 372 thousand potential shares attributable to exercises under stock-based employee compensation plans were included in the calculation of diluted earnings per share. For those same periods, approximately 110 thousand and 335 thousand potential shares attributable to exercises under stock-based employee compensation plans were not included in the calculation of diluted earnings per share because the effect would have been antidilutive.

Table of Contents

Note C. Investments

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

Net Investment Income

| Three months ended March 31 | | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Fixed maturity securities | $452 | $457 |
| Short term investments | 1 | 1 |
| Limited partnership investments | 73 | 131 |
| Equity securities | 2 | 3 |
| Mortgage loans | 6 | 5 |
| Trading portfolio | 3 | 5 |
| Other | 2 | 1 |
| Gross investment income | 539 | 603 |
| Investment expense | (13) | (12) |
| Net investment income | $526 | $591 |

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

Net Realized Investment Gains (Losses)

| Three months ended March 31 | | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Net realized investment gains (losses): | | |
| Fixed maturity securities: | | |
| Gross realized gains | $53 | $39 |
| Gross realized losses | (15) | (12) |
| Net realized investment gains (losses) on fixed maturity securities | 38 | 27 |
| Equity securities: | | |
| Gross realized gains | 5 | 2 |
| Gross realized losses | — | (15) |
| Net realized investment gains (losses) on equity securities | 5 | (13) |
| Derivatives | — | 2 |
| Short term investments and other | 3 | 7 |
| Net realized investment gains (losses) | $46 | $23 |

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

| Three months ended March 31 | | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Fixed maturity securities available-for-sale: | | |
| Corporate and other bonds | $1 | $3 |
| Asset-backed - residential mortgage-backed | 1 | — |
| Total fixed maturity securities available-for-sale | 2 | 3 |
| Equity securities available-for-sale: | | |
| Preferred stock | — | 15 |
| Net OTTI losses recognized in continuing earnings | $2 | $18 |

Table of Contents

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

Summary of Fixed Maturity and Equity Securities

| March 31, 2014 (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 | $17,265 | $1,612 | $56 | $18,821 | $— |
| States, municipalities and political subdivisions | 11,113 | 871 | 129 | 11,855 | — |
| Asset-backed: | | | | | |
| Residential mortgage-backed | 4,854 | 156 | 66 | 4,944 | (47) |
| Commercial mortgage-backed | 1,974 | 92 | 13 | 2,053 | (3) |
| Other asset-backed | 966 | 12 | 2 | 976 | — |
| Total asset-backed | 7,794 | 260 | 81 | 7,973 | (50) |
| U.S. Treasury and obligations of government-sponsored enterprises | 135 | 7 | 1 | 141 | — |
| Foreign government | 559 | 18 | 1 | 576 | — |
| Redeemable preferred stock | 32 | 2 | — | 34 | — |
| Total fixed maturity securities available-for-sale | 36,898 | 2,770 | 268 | 39,400 | $(50) |
| Total fixed maturity securities trading | 15 | — | — | 15 | |
| Equity securities available-for-sale: | | | | | |
| Common stock | 33 | 9 | — | 42 | |
| Preferred stock | 130 | 2 | — | 132 | |
| Total equity securities available-for-sale | 163 | 11 | — | 174 | |
| Total | $37,076 | $2,781 | $268 | $39,589 | |

| December 31, 2013 (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 | $19,352 | $1,645 | $135 | $20,862 | $— |
| States, municipalities and political subdivisions | 11,281 | 548 | 272 | 11,557 | — |
| Asset-backed: | | | | | |
| Residential mortgage-backed | 4,940 | 123 | 92 | 4,971 | (37) |
| Commercial mortgage-backed | 1,995 | 90 | 22 | 2,063 | (3) |
| Other asset-backed | 945 | 13 | 3 | 955 | — |
| Total asset-backed | 7,880 | 226 | 117 | 7,989 | (40) |
| U.S. Treasury and obligations of government-sponsored enterprises | 139 | 6 | 1 | 144 | — |
| Foreign government | 531 | 15 | 3 | 543 | — |
| Redeemable preferred stock | 92 | 10 | — | 102 | — |
| Total fixed maturity securities available-for-sale | 39,275 | 2,450 | 528 | 41,197 | $(40) |
| Total fixed maturity securities trading | 36 | — | — | 36 | |
| Equity securities available-for-sale: | | | | | |
| Common stock | 36 | 9 | — | 45 | |
| Preferred stock | 143 | 1 | 4 | 140 | |
| Total equity securities available-for-sale | 179 | 10 | 4 | 185 | |
| Total | $39,490 | $2,460 | $532 | $41,418 | |

12

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. At March 31, 2014 and December 31, 2013, the net unrealized gains on investments included in AOCI were net of after-tax Shadow Adjustments of $712 million and $532 million. To the extent that unrealized gains on fixed income securities supporting certain products within the Life & Group Non-Core segment would result in a premium deficiency if realized, a related decrease in Deferred acquisition costs and/or increase in Insurance reserves are recorded, net of tax, as a reduction of net unrealized gains through Other comprehensive income (loss) (Shadow Adjustments).

Table of Contents

The following tables summarize the estimated fair value and gross unrealized losses of available-for-sale 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.

Securities in a Gross Unrealized Loss Position

| | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| March 31, 2014<br>(In millions) | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| Fixed maturity securities available-for-sale: | | | | | | |
| Corporate and other bonds | $2,002 | $48 | $109 | $8 | $2,111 | $56 |
| States, municipalities and political subdivisions | 1,397 | 56 | 244 | 73 | 1,641 | 129 |
| Asset-backed: | | | | | | |
| Residential mortgage-backed | 739 | 13 | 347 | 53 | 1,086 | 66 |
| Commercial mortgage-backed | 515 | 12 | 91 | 1 | 606 | 13 |
| Other asset-backed | 167 | 2 | 3 | — | 170 | 2 |
| Total asset-backed | 1,421 | 27 | 441 | 54 | 1,862 | 81 |
| U.S. Treasury and obligations of government-sponsored enterprises | 6 | 1 | 3 | — | 9 | 1 |
| Foreign government | 61 | 1 | 4 | — | 65 | 1 |
| Total fixed maturity securities available-for-sale | 4,887 | 133 | 801 | 135 | 5,688 | 268 |
| Equity securities available-for-sale: | | | | | | |
| Preferred stock | 16 | — | — | — | 16 | — |
| Total | $4,903 | $133 | $801 | $135 | $5,704 | $268 |

| | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| December 31, 2013<br>(In millions) | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| Fixed maturity securities available-for-sale: | | | | | | |
| Corporate and other bonds | $3,592 | $129 | $72 | $6 | $3,664 | $135 |
| States, municipalities and political subdivisions | 3,251 | 197 | 129 | 75 | 3,380 | 272 |
| Asset-backed: | | | | | | |
| Residential mortgage-backed | 1,293 | 29 | 343 | 63 | 1,636 | 92 |
| Commercial mortgage-backed | 640 | 22 | — | — | 640 | 22 |
| Other asset-backed | 269 | 3 | — | — | 269 | 3 |
| Total asset-backed | 2,202 | 54 | 343 | 63 | 2,545 | 117 |
| U.S. Treasury and obligations of government-sponsored enterprises | 13 | 1 | — | — | 13 | 1 |
| Foreign government | 111 | 3 | — | — | 111 | 3 |
| Total fixed maturity securities available-for-sale | 9,169 | 384 | 544 | 144 | 9,713 | 528 |
| Equity securities available-for-sale: | | | | | | |
| Preferred stock | 87 | 4 | — | — | 87 | 4 |
| Total | $9,256 | $388 | $544 | $144 | $9,800 | $532 |

14

Table of Contents

Based on current facts and circumstances, the Company believes the unrealized losses presented in the March 31, 2014 Securities in a Gross Unrealized Loss Position table above, are primarily attributable to broader economic conditions, changes in interest rates and credit spreads, market illiquidity and other market factors, but are not indicative of the ultimate collectibility of the current amortized cost of the securities. The investments with longer duration, primarily included within the states, municipalities and political subdivision asset category, were more significantly affected by changes in market interest rates. The Company has no current intent to sell these securities, 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 at March 31, 2014.

The following table summarizes the activity for the three months ended March 31, 2014 and 2013 related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held at March 31, 2014 and 2013 for which a portion of an OTTI loss was recognized in Other comprehensive income (loss).

| Three months ended March 31 | | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Beginning balance of credit losses on fixed maturity securities | $74 | $95 |
| Reductions for securities sold during the period | (2) | (3) |
| Reductions for securities the Company intends to sell or more likely than not will be required to sell | (3) | — |
| Ending balance of credit losses on fixed maturity securities | $69 | $92 |

Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at March 31, 2014 and December 31, 2013. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

Contractual Maturity

| | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| (In millions) | Cost or Amortized Cost | Estimated Fair Value | Cost or Amortized Cost | Estimated Fair Value |
| Due in one year or less | $2,684 | $2,729 | $2,420 | $2,455 |
| Due after one year through five years | 8,839 | 9,401 | 9,496 | 10,068 |
| Due after five years through ten years | 11,455 | 11,876 | 11,667 | 11,954 |
| Due after ten years | 13,920 | 15,394 | 15,692 | 16,720 |
| Total | $36,898 | $39,400 | $39,275 | $41,197 |

Investment Commitments

As of March 31, 2014, the Company had committed approximately $384 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

As of March 31, 2014, the Company had mortgage loan commitments of $59 million representing signed loan applications received and accepted.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases, sales and funding. As of March 31, 2014, the Company had commitments to purchase or fund additional amounts of $154 million and sell $180 million under the terms of such securities.

Table of Contents

Note D. Derivative Financial Instruments

Gross estimated fair values of derivative positions are presented in Other invested assets and Other liabilities on the Condensed Consolidated Balance Sheets. There would be no significant difference in the balance included in such accounts if the estimated fair values were presented net at March 31, 2014 and December 31, 2013. The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and may not be representative of the potential for gain or loss on these instruments.

Derivative Financial Instruments

| March 31, 2014 | Contractual/ | Estimated Fair Value | |
|---|---|---|---|
| (In millions) | Notional Amount | Asset | (Liability) |
| Without hedge designation | | | |
| Equity warrants | $5 | $— | $— |

| December 31, 2013 | Contractual/ | Estimated Fair Value | |
|---|---|---|---|
| (In millions) | Notional Amount | Asset | (Liability) |
| Without hedge designation | | | |
| Equity warrants | $5 | $— | $— |

During the three months ended March 31, 2014, new derivative transactions entered into and termination activity each totaled $67 million in notional value. This activity was primarily attributable to interest rate futures. During the three months ended March 31, 2013, new derivative transactions entered into totaled $604 million in notional value while derivative termination activity totaled $542 million. This activity was primarily attributable to forward commitments for mortgage-backed securities, interest rate futures and foreign currency forwards.

Table of Contents

## Note E. 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 methodologies 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 methodologies 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 changes in price, period-over-period, 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 and nonrecurring basis are summarized below.

| March 31, 2014<br>(In millions) | Level 1 | Level 2 | Level 3 | Total Assets/(Liabilities) at Fair Value |
|---|---|---|---|---|
| Assets | | | | |
| Fixed maturity securities: | | | | |
| Corporate and other bonds | $24 | $18,623 | $189 | $ 18,836 |
| States, municipalities and political subdivisions | — | 11,769 | 86 | 11,855 |
| Asset-backed: | | | | |
| Residential mortgage-backed | — | 4,585 | 359 | 4,944 |
| Commercial mortgage-backed | — | 1,927 | 126 | 2,053 |
| Other asset-backed | — | 537 | 439 | 976 |
| Total asset-backed | — | 7,049 | 924 | 7,973 |
| U.S. Treasury and obligations of government-sponsored enterprises | 135 | 6 | — | 141 |
| Foreign government | 76 | 500 | — | 576 |
| Redeemable preferred stock | 23 | 11 | — | 34 |
| Total fixed maturity securities | 258 | 37,958 | 1,199 | 39,415 |
| Equity securities | 117 | 55 | 2 | 174 |
| Other invested assets | — | 55 | — | 55 |
| Short term investments | 1,353 | 651 | — | 2,004 |
| Life settlement contracts, included in Other assets | — | — | 87 | 87 |
| Total recurring basis assets | 1,728 | 38,719 | 1,288 | 41,735 |
| Assets held for sale - nonrecurring basis | — | 3,486 | — | 3,486 |
| Total assets | $1,728 | $42,205 | $1,288 | $ 45,221 |
| Liabilities | | | | |
| Liabilities held for sale - nonrecurring basis | $— | $3,250 | $— | $ 3,250 |
| Total liabilities | $— | $3,250 | $— | $ 3,250 |

18

Table of Contents

| December 31, 2013<br>(In millions) | Level 1 | Level 2 | Level 3 | Total Assets/(Liabilities) at Fair Value |
|---|---|---|---|---|
| Assets | | | | |
| Fixed maturity securities: | | | | |
| Corporate and other bonds | $33 | $20,661 | $204 | $ 20,898 |
| States, municipalities and political subdivisions | — | 11,486 | 71 | 11,557 |
| Asset-backed: | | | | |
| Residential mortgage-backed | — | 4,640 | 331 | 4,971 |
| Commercial mortgage-backed | — | 1,912 | 151 | 2,063 |
| Other asset-backed | — | 509 | 446 | 955 |
| Total asset-backed | — | 7,061 | 928 | 7,989 |
| U.S. Treasury and obligations of government-sponsored enterprises | 116 | 28 | — | 144 |
| Foreign government | 81 | 462 | — | 543 |
| Redeemable preferred stock | 45 | 57 | — | 102 |
| Total fixed maturity securities | 275 | 39,755 | 1,203 | 41,233 |
| Equity securities | 126 | 48 | 11 | 185 |
| Other invested assets | — | 54 | — | 54 |
| Short term investments | 769 | 563 | — | 1,332 |
| Life settlement contracts, included in Other assets | — | — | 88 | 88 |
| Separate account business | 9 | 171 | 1 | 181 |
| Total assets | $1,179 | $40,591 | $1,303 | $ 43,073 |

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) for the three months ended March 31, 2014 and 2013.

| Level 3 (In millions) | Balance at January 1, 2014 | 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 at March 31, 2014 | Unrealized gains (losses) on Level 3 assets and liabilities held at March 31, 2014 recognized in net income (loss)* |
|---|---|---|---|---|---|---|---|---|---|---|
| Fixed maturity securities: | | | | | | | | | | |
| Corporate and other bonds | $ 204 | $ 1 | $ 1 | $ 5 | $ (4 ) | $ (5 ) | $ 3 | $ (16 ) | $ 189 | $ — |
| States, municipalities and political subdivisions | 71 | — | 1 | — | — | — | 14 | — | 86 | — |
| Asset-backed: | | | | | | | | | | |
| Residential mortgage-backed | 331 | 1 | 15 | 25 | — | (21 ) | 21 | (13 ) | 359 | — |
| Commercial mortgage-backed | 151 | 1 | (1 ) | — | — | (1 ) | — | (24 ) | 126 | — |
| Other asset-backed | 446 | 1 | — | 148 | (83 ) | (72 ) | — | (1 ) | 439 | — |
| Total asset-backed | 928 | 3 | 14 | 173 | (83 ) | (94 ) | 21 | (38 ) | 924 | — |
| Total fixed maturity securities | 1,203 | 4 | 16 | 178 | (87 ) | (99 ) | 38 | (54 ) | 1,199 | — |
| Equity securities | 11 | 3 | (4 ) | — | (8 ) | — | — | — | 2 | — |
| Life settlement contracts | 88 | 10 | — | — | — | (11 ) | — | — | 87 | 1 |
| Separate account business | 1 | — | — | — | — | — | — | (1 ) | — | — |
| Total | $ 1,303 | $ 17 | $ 12 | $ 178 | $ (95 ) | $ (110 ) | $ 38 | $ (55 ) | $ 1,288 | $ 1 |

Table of Contents

| Level 3 (In millions) | Balance at January 1, 2013 | 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 at March 31, 2013 | Unrealized gains (losses) on Level 3 assets and liabilities held at March 31, 2013 recognized in net income (loss)* |
|---|---|---|---|---|---|---|---|---|---|---|
| Fixed maturity securities: | | | | | | | | | | |
| Corporate and other bonds | $ 219 | $ — | $ 2 | $ 110 | $ (17 ) | $ (20 ) | $ 26 | $ (18 ) | $ 302 | $ (1 ) |
| States, municipalities and political subdivisions | 96 | (3 ) | — | 85 | (47 ) | (2 ) | — | — | 129 | — |
| Asset-backed: | | | | | | | | | | |
| Residential mortgage-backed | 413 | 3 | — | 61 | — | (11 ) | — | (16 ) | 450 | — |
| Commercial mortgage-backed | 129 | 1 | 5 | 73 | — | (7 ) | — | (24 ) | 177 | — |
| Other asset-backed | 368 | 3 | 1 | 136 | (99 ) | (13 ) | — | — | 396 | — |
| Total asset-backed | 910 | 7 | 6 | 270 | (99 ) | (31 ) | — | (40 ) | 1,023 | — |
| Redeemable preferred stock | 26 | — | — | — | — | — | — | — | 26 | — |
| Total fixed maturity securities | 1,251 | 4 | 8 | 465 | (163 ) | (53 ) | 26 | (58 ) | 1,480 | (1 ) |
| Equity securities | 34 | (15 ) | 1 | — | — | — | — | (1 ) | 19 | (15 ) |
| Other invested assets, including derivatives, net | — | — | — | — | (1 ) | — | — | — | (1 ) | — |
| Short term investments | 6 | — | — | — | (1 ) | — | — | — | 5 | — |
| Life settlement contracts | 100 | 7 | — | — | — | (12 ) | — | — | 95 | — |
| Separate account business | 2 | — | — | — | — | — | — | — | 2 | — |
| Total | $ 1,393 | $ (4 ) | $ 9 | $ 465 | $ (165 ) | $ (65 ) | $ 26 | $ (59 ) | $ 1,600 | $ (16 ) |

Table of Contents

* Net realized and unrealized gains and losses shown above are reported in Net income (loss) as follows:

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

Securities shown in the Level 3 tables on the previous pages may be transferred in or out of Level 3 based on the availability of observable market information used to determine the fair value of the security. The availability of observable market information varies based on market conditions and trading volume and may cause securities to move in and out of Level 3 from reporting period to reporting period. There were $23 million of transfers from Level 2 to Level 1 and $1 million of transfers from Level 1 to Level 2 during the three months ended March 31, 2014. There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2013. 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

Fixed maturity securities are valued using methodologies that model information generated by market transactions involving identical or comparable assets, as well as discounted cash flow methodologies. Common inputs include: prices from recently executed transactions of similar securities, broker/dealer 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.

Level 1 securities include exchange traded bonds, highly liquid U.S. and foreign government 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. Securities are generally 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, broker/dealer quotes and other pricing models utilizing market observable inputs. Level 3 securities are priced using internal models with inputs that are not market observable.

Other Invested Assets

Level 1 securities include exchange traded derivatives, primarily futures, valued using quoted market prices. Level 2 securities include overseas deposits, which can be redeemed at net asset value in 90 days or less, and derivatives, primarily currency forwards valued using observable market forward rates. Over-the-counter derivatives,

Table of Contents

principally interest rate swaps, total return swaps, credit default swaps, equity warrants and options, are valued using inputs including broker/dealer quotes and are classified within Level 3 of the valuation hierarchy due to a lack of transparency as to whether these quotes are based on information that is observable in the marketplace.

Short Term Investments

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

Life Settlement Contracts

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

Separate Account Business

Separate account business includes fixed maturity securities, equities and short term investments. The valuation methodologies and inputs for these asset types have been described above.

Assets and Liabilities Held for Sale on a Nonrecurring Basis

Assets and liabilities held for sale include assets and liabilities of CAC. These assets and liabilities are valued using the agreed upon transaction price for the sale of the common stock of CAC and are classified within Level 2 of the fair value hierarchy. See Notes A and M to the Condensed Consolidated Financial Statements for further discussion of the assets and liabilities classified as held for sale.

Significant Unobservable Inputs

The table below presents quantitative information about the significant unobservable inputs utilized by the Company in the fair value measurements of Level 3 assets. Valuations for assets and liabilities not presented in the table 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.

| Assets (In millions) | Fair Value at March 31, 2014 | Valuation Technique | Unobservable Input(s) | Range (Weighted Average) |
|---|---|---|---|---|
| Fixed maturity securities | $116 | Discounted cash flow | Credit spread | 2% - 15% (4%) |
| Equity securities | $2 | Market approach | Private offering price | $4,295 per share |
| Life settlement contracts | $87 | Discounted cash flow | Discount rate risk premium | 9% |
| | | | Mortality assumption | 70% - 743% (191%) |

| Assets (In millions) | Fair Value at December 31, 2013 | Valuation Technique | Unobservable Input(s) | Range (Weighted Average) |
|---|---|---|---|---|
| Fixed maturity securities | $142 | Discounted cash flow | Credit spread | 2% - 20% (4%) |
| Equity securities | $10 | Market approach | Private offering price | $360 - $4,268 per share ($1,148) |
| Life settlement contracts | $88 | Discounted cash flow | Discount rate risk premium | 9% |
| | | | Mortality assumption | 70% - 743% (192%) |

Table of Contents

For fixed maturity securities, an increase in the credit spread assumptions would result in a lower fair value measurement. For equity securities, an increase in the private offering price, earnings projections and earnings multiple would result in a higher 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.

Financial Assets and Liabilities Not Measured at Fair Value

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

| March 31, 2014 | Carrying | Estimated Fair Value | | | |
|---|---|---|---|---|---|
| (In millions) | Amount | Level 1 | Level 2 | Level 3 | Total |
| Financial assets | | | | | |
| Notes receivable for the issuance of common stock | $22 | $— | $— | $22 | $22 |
| Mortgage loans | 495 | — | — | 510 | 510 |
| Financial liabilities | | | | | |
| Short term debt | $549 | — | 569 | — | 569 |
| Long term debt | 2,558 | — | 2,908 | — | 2,908 |

| December 31, 2013 | Carrying | Estimated Fair Value | | | |
|---|---|---|---|---|---|
| (In millions) | Amount | Level 1 | Level 2 | Level 3 | Total |
| Financial assets | | | | | |
| Notes receivable for the issuance of common stock | $23 | $— | $— | $23 | $23 |
| Mortgage loans | 508 | — | — | 515 | 515 |
| Financial liabilities | | | | | |
| Premium deposits and annuity contracts | $57 | $— | $— | $58 | $58 |
| Short term debt | 549 | — | 575 | — | 575 |
| Long term debt | 2,011 | — | 2,328 | — | 2,328 |

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

The fair values of Notes receivable for the issuance of common stock were estimated using discounted cash flows utilizing interest rates currently offered for obligations securitized with similar collateral, adjusted for specific note receivable risk.

The fair values of Mortgage loans were 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.

Premium deposits and annuity contracts were valued based on cash surrender values or estimated fair values of policyholder liabilities, net of amounts ceded related to sold business.

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 F. 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 IBNR claims as of the reporting date. The Company's reserve projections are based primarily on detailed analysis of the facts in each case, the Company's experience with similar cases and various historical development patterns. Consideration is given to such historical patterns as field reserving trends and claims settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions including inflation, and public attitudes. All of these factors can affect the estimation of claim and claim adjustment expense reserves.

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

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company's results of operations and/or equity. The Company reported catastrophe losses, net of reinsurance, of $74 million and $39 million for the three months ended March 31, 2014 and 2013. Catastrophe losses in the first quarter of 2014 related primarily to U.S. winter weather-related events.

Net Prior Year Development

The following tables and discussion include the net prior year development recorded for CNA Specialty, CNA Commercial, Hardy and Corporate & Other Non-Core segments.

Net Prior Year Development

Three months ended March 31, 2014

| (In millions) | CNA Specialty | CNA Commercial | Hardy | Corporate & Other Non-Core | Total |
|---|---|---|---|---|---|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | $(2) | $17 | $10 | $— | $25 |
| Pretax (favorable) unfavorable premium development | (8) | (19) | (4) | — | (31) |
| Total pretax (favorable) unfavorable net prior year development | $(10) | $(2) | $6 | $— | $(6) |

Three months ended March 31, 2013

| (In millions) | CNA Specialty | CNA Commercial | Hardy | Corporate & Other Non-Core | Total |
|---|---|---|---|---|---|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | $(15) | $(11) | $(1) | $1 | $(26) |
| Pretax (favorable) unfavorable premium development | (8) | (10) | 4 | 1 | (13) |
| Total pretax (favorable) unfavorable net prior year development | $(23) | $(21) | $3 | $2 | $(39) |

Table of Contents

CNA Specialty

The following table provides further detail of the net prior year claim and allocated claim adjustment expense reserve development (development) recorded for the CNA Specialty segment for the three months ended March 31, 2014 and 2013.

| Three months ended March 31<br>(In millions) | 2014 | 2013 |
|---|---|---|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development: | | |
| Medical Professional Liability | $1 | $(3) |
| Other Professional Liability and Management Liability | (6) | (1) |
| Surety | 1 | 1 |
| Warranty | — | — |
| Other | 2 | (12) |
| Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | $(2) | $(15) |

2014

Favorable development for other professional liability and management liability was related to better than expected loss emergence in accident years 2004 and prior.

2013

Overall, favorable development for medical professional liability reflects favorable experience in accident years 2009 and prior. Unfavorable development was recorded for accident years 2010 and 2011 due to higher than expected large loss activity.

Other includes standard property and casualty coverages provided to CNA Specialty customers. Favorable development for other coverages was primarily due to better than expected loss emergence in property coverages in accident years 2010 and subsequent.

.

Table of Contents

CNA Commercial

The following table provides further detail of the development recorded for the CNA Commercial segment for the three months ended March 31, 2014 and 2013.

| Three months ended March 31<br>(In millions) | 2014 | 2013 |
|---|---|---|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development: | | |
| Commercial Auto | $20 | $(5) |
| General Liability | (5) | (21) |
| Workers' Compensation | 10 | 25 |
| Property and Other | (8) | (10) |
| Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | $17 | $(11) |

2014

Unfavorable development for commercial auto was primarily related to higher than expected frequency in accident years 2012 and 2013 and higher than expected loss emergence in accident years 2010 and 2011.

Unfavorable development for workers' compensation was primarily due to the recognition of losses related to favorable premium development in accident year 2013.

2013

Favorable development in the general liability coverages was primarily due to better than expected loss emergence in accident years 2002 and prior.

Unfavorable development for workers' compensation was primarily due to higher than expected large losses and increased severity in the state of California in accident year 2010.

Table of Contents

Hardy

The following table provides further detail of the development recorded for the Hardy segment for the three months ended March 31, 2014 and 2013.

| Three months ended March 31 | | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development: | | |
| Marine and Aviation | $5 | $(1) |
| Non-Marine Property | (2) | — |
| Property Treaty | (2) | — |
| Specialty | (1) | — |
| Commutations | 10 | — |
| Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | $ | |