CNA FINANCIAL CORP
Form 10-Q
April 29, 2019

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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, 2019

OR

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

For the transition period from _____ to _____

Commission File Number 1-5823

CNA FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**36-6169860** (I.R.S. Employer Identification No.)
151 N. Franklin Chicago, Illinois (Address of principal executive offices)	**60606** (Zip Code)

(312) 822-5000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 every Interactive Data File required to be submitted 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 such files).

Yes [x] No [ ]

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

Large accelerated	Accelerated filer [ ]	Non-accelerated	Smaller reporting company [ ]	Emerging growth company [ ]

filer [x]	filer [ ] (Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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, 2019**
Common Stock, Par value $2.50	271,539,570

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

Three months ended March 31		
(In millions, except per share data)	**2019**	**2018**
Revenues		
Net earned premiums	$ 1,803	$ 1,785
Net investment income	571	490
Net investment gains:		
Other-than-temporary impairment losses	(14)	(6)
Other net investment gains	45	18
Net investment gains	31	12
Non-insurance warranty revenue	281	238
Other revenues	9	10
Total revenues	2,695	2,535
Claims, Benefits and Expenses		
Insurance claims and policyholders' benefits	1,357	1,339
Amortization of deferred acquisition costs	342	296
Non-insurance warranty expense	260	216
Other operating expenses	283	303
Interest	34	35
Total claims, benefits and expenses	2,276	2,189
Income before income tax	419	346
Income tax expense	(77)	(55)
Net income	$ 342	$ 291
Basic earnings per share	$ 1.26	$ 1.07
Diluted earnings per share	$ 1.25	$ 1.07
Dividends declared per share	$ 2.35	$ 2.30
Weighted Average Outstanding Common Stock and Common Stock Equivalents		
Basic	271.6	271.4
Diluted	272.6	272.4

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

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

Three months ended March 31		
(In millions)	**2019**	**2018**
Comprehensive Income (Loss)		
Net income	$ 342	$ 291
Other Comprehensive Income (Loss), Net of Tax		
Changes in:		
Net unrealized gains on investments with other-than-temporary impairments	4	(9)
Net unrealized gains on other investments	526	(429)
Net unrealized gains on investments	530	(438)
Foreign currency translation adjustment	17	12
Pension and postretirement benefits	7	10
Other comprehensive income (loss), net of tax	554	(416)
Total comprehensive income (loss)	$ 896	$ (125)

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

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CNA Financial Corporation
Condensed Consolidated Balance Sheets

(In millions, except share data)	March 31, 2019 (Unaudited)	December 31, 2018
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of $37,940 and $38,085)	$ 40,553	$ 39,546
Equity securities at fair value (cost of $812 and $844)	814	780
Limited partnership investments	1,876	1,982
Other invested assets	59	53
Mortgage loans	863	839
Short term investments	1,474	1,286
Total investments	45,639	44,486
Cash	223	310
Reinsurance receivables (less allowance for uncollectible receivables of $29 and $29)	4,277	4,426
Insurance receivables (less allowance for uncollectible receivables of $41 and $42)	2,435	2,323
Accrued investment income	406	391
Deferred acquisition costs	664	633
Deferred income taxes	217	392
Property and equipment at cost (less accumulated depreciation of $214 and $216)	314	324
Goodwill	147	146
Deferred non-insurance warranty acquisition expense	2,576	2,513
Other assets (includes $- and $8 due from Loews Corporation)	1,579	1,208
Total assets	$ 58,477	$ 57,152
Liabilities		
Insurance reserves:		
Claim and claim adjustment expenses	$ 21,836	$ 21,984
Unearned premiums	4,422	4,183
Future policy benefits	11,078	10,597
Long term debt	2,681	2,680
Deferred non-insurance warranty revenue	3,472	3,402
Other liabilities (includes $31 and $23 due to Loews Corporation)	3,533	3,089
Total liabilities	47,022	45,935
Commitments and contingencies (Notes C and F)		
Stockholders' Equity		
Common stock ($2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; 271,527,510 and 271,456,978 shares outstanding)	683	683
Additional paid-in capital	2,184	2,192
Retained earnings	8,976	9,277
Accumulated other comprehensive income (loss)	(324)	(878)
Treasury stock (1,512,733 and 1,583,265 shares), at cost	(64)	(57)
Total stockholders' equity	11,455	11,217
Total liabilities and stockholders' equity	$ 58,477	$ 57,152

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

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

Three months ended March 31		
(In millions)	**2019**	**2018**
Cash Flows from Operating Activities		
Net income	$ 342	$ 291
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Deferred income tax expense	32	29
Trading portfolio activity	(3)	(1)
Net investment (gains)	(31)	(12)
Equity method investees	14	(2)
Net amortization of investments	(25)	(15)
Depreciation and amortization	19	20
Changes in:		
Receivables, net	44	(215)
Accrued investment income	(15)	(3)
Deferred acquisition costs	(30)	(29)
Insurance reserves	57	311
Other, net	(117)	(156)
Net cash flows provided by operating activities	287	218
Cash Flows from Investing Activities		
Dispositions:		
Fixed maturity securities - sales	2,259	2,576
Fixed maturity securities - maturities, calls and redemptions	576	531
Equity securities	64	7
Limited partnerships	186	69
Mortgage loans	35	11
Purchases:		
Fixed maturity securities	(2,447)	(2,690)
Equity securities	(36)	(98)
Limited partnerships	(114)	(62)
Mortgage loans	(59)	(36)
Change in other investments	(6)	(4)
Change in short term investments	(177)	208
Purchases of property and equipment	(8)	(38)
Other, net	16	15
Net cash flows provided by investing activities	289	489
Cash Flows from Financing Activities		
Dividends paid to common stockholders	(643)	(624)
Repayment of debt	—	(150)
Purchase of treasury stock	(14)	—
Other, net	(8)	(7)
Net cash flows used by financing activities	(665)	(781)
Effect of foreign exchange rate changes on cash	2	1
Net change in cash	(87)	(73)
Cash, beginning of year	310	355
Cash, end of period	$ 223	$ 282

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

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CNA Financial Corporation
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

Three months ended March 31		
(In millions)	2019	2018
Common Stock		
Balance, beginning of period	$683	$683
Balance, end of period	683	683
Additional Paid-in Capital		
Balance, beginning of period	2,192	2,175
Stock-based compensation	(8)	(2)
Balance, end of period	2,184	2,173
Retained Earnings		
Balance, beginning of period	9,277	9,364
Dividends to common stockholders ($2.35 and $2.30 per share)	(643)	(627)
Net income	342	291
Balance, end of period	8,976	9,028
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	(878)	16
Other comprehensive income (loss)	554	(416)
Balance, end of period	(324)	(400)
Treasury Stock		
Balance, beginning of period	(57)	(60)
Stock-based compensation	7	1
Purchase of treasury stock	(14)	—
Balance, end of period	(64)	(59)
Total stockholders' equity	$11,455	$11,425

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

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CNA Financial Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)
Note A. General
Basis of Presentation

The Condensed Consolidated Financial Statements include the accounts of CNA Financial Corporation (CNAF) and its subsidiaries. Collectively, CNAF and its subsidiaries are referred to as CNA or the Company. Loews Corporation (Loews) owned approximately 89% of the outstanding common stock of CNAF as of March 31, 2019.

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 prepared in accordance with GAAP, including certain financial statement notes, 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, 2018, including the summary of significant accounting policies in Note A. The preparation of Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

The interim financial data as of March 31, 2019 and for the three months ended March 31, 2019 and 2018 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)

ASU 2016-02: In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases (Topic 842): Accounting for Leases.* The updated accounting guidance requires lessees to recognize on the balance sheet assets and liabilities for the rights and obligations created by the majority of leases, including those historically accounted for as operating leases. On January 1, 2019, the Company adopted the updated guidance using a modified retrospective method. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance. The Company utilized the package of practical expedients allowing the Company to not reassess whether a contract is or contains a lease, lease classification and initial direct costs. The Company also utilized the practical expedient to not separate lease and non-lease components for all leases.

Adoption of the updated guidance resulted in the following changes to the Condensed Consolidated Balance Sheet on January 1, 2019:

(In millions)	Balance as of December 31, 2018	Adjustments Due to Adoption of Topic 842	Balance as of January 1, 2019
Property and equipment at cost (less accumulated depreciation)	$ 324	$ 2	$ 326
Other assets	1,208	237	1,445
Other liabilities	3,089	239	3,328

Operating lease right-of-use (ROU) assets, included within Other assets, were reduced by accrued rent and lease incentives of $75 million previously classified as Other liabilities. The updated guidance did not impact the Condensed Consolidated Statements of Operations. See Note K to the Condensed Consolidated Financial Statements for additional information regarding leases.

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Accounting Standards Pending Adoption

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 guidance will be applied using a modified retrospective approach with the cumulative effect recognized as an adjustment to retained earnings. A prospective transition approach is required for debt securities that have recognized an other-than-temporary impairment prior to the effective date. 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, reinsurance and insurance receivables and other financing receivables and the use of the allowance method rather than the write-down method for credit losses within the available-for-sale fixed maturities portfolio. 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.

In August 2018, the FASB issued ASU 2018-12, *Financial Services-Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. The updated accounting guidance requires changes to the measurement and disclosure of long-duration contracts. The guidance requires entities to annually update cash flow assumptions, including morbidity and persistency, and update discount rate assumptions quarterly using an upper-medium grade fixed-income instrument yield. The effect of changes in cash flow assumptions will be recorded in Net income and the effect of changes in discount rate assumptions will be recorded in Other comprehensive income. This guidance is effective for interim and annual periods beginning after December 15, 2020, and requires restatement of the prior periods presented. Early adoption is permitted. The Company is currently evaluating the method and timing of adoption and the effect the updated guidance will have on its financial statements. The annual updating of cash flow assumptions is expected to increase income statement volatility. The quarterly change in discount rate is expected to increase volatility in the Company's stockholders' equity, but that will be somewhat mitigated because Shadow Adjustments are eliminated under the new guidance. While the requirements of the new guidance represent a material change from existing GAAP, the underlying economics of the business and related cash flows are unchanged.

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Note B. Earnings (Loss) Per Share

Earnings (loss) 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, 2019 and 2018, approximately 971 thousand and 1,009 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 the three months ended March 31, 2018 approximately 9 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 months ended March 31, 2019 there were no antidilutive shares.

The Company repurchased 317,508 shares of CNA Financial Corporation common stock at an aggregate cost of $14 million during the three months ended March 31, 2019. No repurchases were made during 2018.

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Note C. Investments

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

Three months ended March 31

(In millions)	**2019**	**2018**
Fixed maturity securities	$455	$446
Equity securities	30	10
Limited partnership investments	76	30
Mortgage loans	12	11
Short term investments	10	6
Trading portfolio	2	2
Other	2	—
Gross investment income	587	505
Investment expense	(16)	(15)
Net investment income	$571	$490

During the three months ended March 31, 2019 and 2018, $17 million and less than $1 million of Net investment income was recognized due to the change in fair value of common stock still held as of March 31, 2019 and 2018.

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

Three months ended March 31

(In millions)	**2019**	**2018**
Net investment gains (losses):		
Fixed maturity securities:		
Gross gains	$36	$69
Gross losses	(42)	(51)
Net investment gains (losses) on fixed maturity securities	(6)	18
Equity securities	42	(15)
Derivatives	(5)	5
Short term investments and other	—	4
Net investment gains (losses)	$31	$12

During the three months ended March 31, 2019 and 2018, $42 million of Net investment gains and $15 million of Net investment losses were recognized due to the change in fair value of non-redeemable preferred stock still held as of March 31, 2019 and 2018.

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

Three months ended March 31

(In millions)	**2019**	**2018**
Fixed maturity securities available-for-sale:		
Corporate and other bonds	$ 6	$ 5
Asset-backed	8	1
OTTI losses recognized in earnings	$ 14	$ 6

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The following tables present a summary of fixed maturity securities.

March 31, 2019 (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	$ 19,296	$ 1,269	$ 99	$ 20,466	$ —
States, municipalities and political subdivisions	9,279	1,299	—	10,578	—
Asset-backed:					
Residential mortgage-backed	4,760	92	20	4,832	(22)
Commercial mortgage-backed	2,026	53	7	2,072	—
Other asset-backed	1,877	25	12	1,890	(3)
Total asset-backed	8,663	170	39	8,794	(25)
U.S. Treasury and obligations of government-sponsored enterprises	162	3	1	164	—
Foreign government	502	12	1	513	—
Redeemable preferred stock	10	—	—	10	—
Total fixed maturity securities available-for-sale	37,912	2,753	140	40,525	$ (25)
Total fixed maturity securities trading	28	—	—	28	
Total fixed maturity securities	$ 37,940	$ 2,753	$ 140	$ 40,553	

December 31, 2018 (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	$ 18,764	$ 791	$ 395	$ 19,160	$ —
States, municipalities and political subdivisions	9,681	1,076	9	10,748	—
Asset-backed:					
Residential mortgage-backed	4,815	68	57	4,826	(20)
Commercial mortgage-backed	2,200	28	32	2,196	—
Other asset-backed	1,975	11	24	1,962	—
Total asset-backed	8,990	107	113	8,984	(20)
U.S. Treasury and obligations of government-sponsored enterprises	156	3	—	159	—
Foreign government	480	5	4	481	—
Redeemable preferred stock	10	—	—	10	—
Total fixed maturity securities available-for-sale	38,081	1,982	521	39,542	$ (20)
Total fixed maturity securities trading	4	—	—	4	
Total fixed maturity securities	$ 38,085	$ 1,982	$ 521	$ 39,546	

The net unrealized gains on investments included in the tables above are recorded as a component of 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 segment would result in a premium deficiency if realized, a related increase in Insurance reserves is recorded, net of tax, as a reduction of net unrealized gains through Other comprehensive income (loss) (Shadow Adjustments). As of March 31, 2019 and December 31, 2018, the net unrealized gains on investments included in AOCI were correspondingly reduced by Shadow Adjustments of $1,458 million and $1,078 million.

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

March 31, 2019	**Less than 12 Months**		**12 Months or Longer**		**Total**	
(In millions)	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**
Fixed maturity securities available-for-sale:						
Corporate and other bonds	$1,656	$ 39	$1,743	$ 60	$3,399	$ 99
States, municipalities and political subdivisions	14	—	3	—	17	—
Asset-backed:						
Residential mortgage-backed	94	—	1,494	20	1,588	20
Commercial mortgage-backed	184	2	236	5	420	7
Other asset-backed	450	10	95	2	545	12
Total asset-backed	728	12	1,825	27	2,553	39
U.S. Treasury and obligations of government-sponsored enterprises	48	1	14	—	62	1
Foreign government	32	1	27	—	59	1
Total	$2,478	$ 53	$3,612	$ 87	$6,090	$ 140

December 31, 2018	**Less than 12 Months**		**12 Months or Longer**		**Total**	
(In millions)	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**
Fixed maturity securities available-for-sale:						
Corporate and other bonds	$8,543	$ 340	$825	$ 55	$9,368	$ 395
States, municipalities and political subdivisions	517	8	5	1	522	9
Asset-backed:						
Residential mortgage-backed	1,932	23	1,119	34	3,051	57
Commercial mortgage-backed	728	10	397	22	1,125	32
Other asset-backed	834	21	125	3	959	24
Total asset-backed	3,494	54	1,641	59	5,135	113
U.S. Treasury and obligations of government-sponsored enterprises	21	—	19	—	40	—
Foreign government	114	2	124	2	238	4
Total	$12,689	$ 404	$2,614	$ 117	$15,303	$ 521

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Based on current facts and circumstances, the Company believes the unrealized losses presented in the March 31, 2019 securities in a gross unrealized loss position 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 March 31, 2019.

The following table presents the activity related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held as of March 31, 2019 and 2018 for which a portion of an OTTI loss was recognized in Other comprehensive income (loss).

Three months ended March 31		
(In millions)	**2019**	**2018**
Beginning balance of credit losses on fixed maturity securities	$18	$27
Reductions for securities sold during the period	(1)	(2)
Ending balance of credit losses on fixed maturity securities	$17	$25

Contractual Maturity

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

	March 31, 2019		**December 31, 2018**	
(In millions)	**Cost or Amortized Cost**	**Estimated Fair Value**	**Cost or Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$1,144	$ 1,155	$1,350	$ 1,359
Due after one year through five years	7,718	7,992	7,979	8,139
Due after five years through ten years	16,874	17,374	16,859	16,870
Due after ten years	12,176	14,004	11,893	13,174
Total	$37,912	$ 40,525	$38,081	$ 39,542

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 a funds withheld liability with a notional value of $174 million and $172 million as of March 31, 2019 and December 31, 2018 and a fair value of $(2) million and $4 million as of March 31, 2019 and December 31, 2018. The embedded derivative on the 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 March 31, 2019, the Company had committed approximately $597 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, 2019, the Company had mortgage loan commitments of $9 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 March 31, 2019, the Company had commitments to purchase or fund additional amounts of $283 million and sell $150 million under the terms of such securities.

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Note D. Fair Value

Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are the most transparent or reliable.

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are not observable.

Prices may fall within Level 1, 2 or 3 depending upon the methodology and inputs used to estimate fair value for each specific security. In general, the Company seeks to price securities using third-party pricing services. Securities not priced by pricing services are submitted to independent brokers for valuation and, if those are not available, internally developed pricing models are used to value assets using a methodology and inputs the Company believes market participants would use to value the assets. Prices obtained from third-party pricing services or brokers are not adjusted by the Company.

The Company performs control procedures over information obtained from pricing services and brokers to ensure prices received represent a reasonable estimate of fair value and to confirm representations regarding whether inputs are observable or unobservable. Procedures may include i) the review of pricing service methodologies or broker pricing qualifications, ii) back-testing, where past fair value estimates are compared to actual transactions executed in the market on similar dates, iii) exception reporting, where period-over-period changes in price are reviewed and challenged with the pricing service or broker based on exception criteria, iv) deep dives, where the Company performs an independent analysis of the inputs and assumptions used to price individual securities and v) pricing validation, where prices received are compared to prices independently estimated by the Company.

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Assets and Liabilities Measured at Fair Value

Assets and liabilities measured at fair value on a recurring basis are presented in the following tables. Corporate bonds and other includes obligations of the U.S. Treasury, government-sponsored enterprises, foreign governments and redeemable preferred stock.

March 31, 2019 (In millions)	**Level 1**	**Level 2**	**Level 3**	**Total Assets/Liabilities at Fair Value**
Assets				
Fixed maturity securities:				
Corporate bonds and other	$203	$20,707	$253	$ 21,163
States, municipalities and political subdivisions	—	10,596	—	10,596
Asset-backed	—	8,610	184	8,794
Total fixed maturity securities	203	39,913	437	40,553
Equity securities:				
Common stock	136	—	4	140
Non-redeemable preferred stock	50	608	16	674
Total equity securities	186	608	20	814
Short term and other	253	1,126	—	1,379
Total assets	$642	$41,647	$457	$ 42,746
Liabilities				
Other liabilities	$—	$2	$—	$ 2
Total liabilities	$—	$2	$—	$ 2

December 31, 2018 (In millions)	**Level 1**	**Level 2**	**Level 3**	**Total Assets/Liabilities at Fair Value**
Assets				
Fixed maturity securities:				
Corporate bonds and other	$196	$19,396	$222	$ 19,814
States, municipalities and political subdivisions	—	10,748	—	10,748
Asset-backed	—	8,787	197	8,984
Total fixed maturity securities	196	38,931	419	39,546
Equity securities:				
Common stock	144	—	4	148
Non-redeemable preferred stock	48	570	14	632
Total equity securities	192	570	18	780
Short term and other	216	949	—	1,165
Total assets	$604	$40,450	$437	$ 41,491
Liabilities				
Other liabilities	$—	$(4)	$—	$ (4)
Total liabilities	$—	$(4)	$—	$ (4)

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The tables below present a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

Level 3 (In millions)	**Corporate bonds and other**	**States, municipalities and political subdivisions**	**Asset-backed**	**Equity securities**	**Total**
Balance as of January 1, 2019	$ 222	$ —	$ 197	$ 18	$ 437
Total realized and unrealized investment gains (losses):					
Reported in Net investment gains (losses)	—	—	—	2	2
Reported in Other comprehensive income (loss)	8	—	3	—	11
Total realized and unrealized investment gains (losses)	8	—	3	2	13
Purchases	56	—	20	—	76
Sales	—	—	—	—	—
Settlements	(2)	—	(4)	—	(6)
Transfers into Level 3	—	—	5	—	5
Transfers out of Level 3	(31)	—	(37)	—	(68)
Balance as of March 31, 2019	$ 253	$ —	$ 184	$ 20	$ 457
Unrealized gains (losses) on Level 3 assets and liabilities held as of March 31, 2019 recognized in Net income (loss)	$ —	$ —	$ —	$ 2	$ 2
Unrealized gains (losses) on Level 3 assets and liabilities held as of March 31, 2019 recognized in Other comprehensive income (loss)	7	—	3	—	10

Level 3 (In millions)	**Corporate bonds and other**	**States, municipalities and political subdivisions**	**Asset-backed**	**Equity securities**	**Total**
Balance as of January 1, 2018	$ 98	$ 1	$ 335	$ 20	$ 454
Total realized and unrealized investment gains (losses):					
Reported in Net investment gains (losses)	(1)	—	7	(2)	4
Reported in Other comprehensive income (loss)	—	—	(5)	—	(5)
Total realized and unrealized investment gains (losses)	(1)	—	2	(2)	(1)
Purchases	—	—	30	—	30
Sales	—	—	(72)	—	(72)
Settlements	(2)	—	(6)	—	(8)
Transfers into Level 3	5	—	—	—	5
Transfers out of Level 3	—	—	(10)	—	(10)
Balance as of March 31, 2018	$ 100	$ 1	$ 279	$ 18	$ 398
Unrealized gains (losses) on Level 3 assets and liabilities held as of March 31, 2018 recognized in Net income (loss)	$ —	$ —	$ —	$ (2)	$ (2)

Securities 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.

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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 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.

Short Term and Other Invested Assets

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 Consolidated Balance Sheets because certain short term investments, such as time deposits, are not measured at fair value.

As of March 31, 2019 and December 31, 2018, there were approximately $54 million and $48 million 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.

Derivative Financial Investments

Level 2 investments primarily include the embedded derivative on the 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.

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Significant Unobservable Inputs

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

March 31, 2019	**Estimated Fair Value (In millions)**	**Valuation Technique(s)**	**Unobservable Input(s)**	**Range (Weighted Average)**
Fixed maturity securities	$ 293	Discounted cash flow	Credit spread	1% - 5% (3%)

December 31, 2018	**Estimated Fair Value (In millions)**	**Valuation Technique(s)**	**Unobservable Input(s)**	**Range (Weighted Average)**
Fixed maturity securities	$ 228	Discounted cash flow	Credit spread	1% - 12% (3%)

For fixed maturity securities, an increase to the credit spread assumptions 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 assets and liabilities which are not measured at fair value on the Condensed Consolidated Balance Sheets are presented in the following tables.

March 31, 2019	**Carrying Amount**	**Estimated Fair Value**			
(In millions)		**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
Mortgage loans	$ 863	$—	$—	$ 868	$ 868
Note receivable	20	—	—	20	20
Liabilities					
Long term debt	$ 2,681	$—	$ 2,792	$—	$ 2,792

December 31, 2018	**Carrying Amount**	**Estimated Fair Value**			
(In millions)		**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
Mortgage loans	$ 839	$—	$—	$ 827	$ 827
Note receivable	35	—	—	35	35
Liabilities					
Long term debt	$ 2,680	$—	$ 2,731	$—	$ 2,731

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

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.

The fair value of the note receivable was based on the present value of the expected future cash flows discounted at the current interest rate for origination of similar notes, adjusted for specific credit risk. The note receivable is included within Other assets on the Condensed Consolidated Balance Sheets.

The Company's senior notes and debentures were valued based on observable market prices. The fair value for other debt was estimated using discounted cash flows based on current incremental borrowing rates for similar borrowing arrangements.

The carrying amounts reported on the Condensed Consolidated Balance Sheets for Cash, Short term investments not carried at fair value, Accrued investment income and certain Other assets and Other liabilities approximate fair value due to the short term nature of these items. These assets and liabilities are not listed in the tables above.

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Note E. Claim and Claim Adjustment Expense Reserves

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 historical patterns such as claim reserving trends and settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions and 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 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 our results of operations and/or equity. The Company reported catastrophe losses, net of reinsurance, of $58 million and $34 million for the three months ended March 31, 2019 and 2018. Net catastrophe losses in the first quarter of 2019 and 2018 related primarily to U.S. weather related events.

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Liability for Unpaid Claim and Claim Adjustment Expenses

The following table presents a reconciliation between beginning and ending claim and claim adjustment expense reserves, including claim and claim adjustment expense reserves of the Life & Group segment.

For the three months ended March 31		
(In millions)	**2019**	**2018**
Reserves, beginning of year:		
Gross	$21,984	$22,004
Ceded	4,019	3,934
Net reserves, beginning of year	17,965	18,070
Net incurred claim and claim adjustment expenses:		
Provision for insured events of current year	1,309	1,246
Increase (decrease) in provision for insured events of prior years	8	(34)
Amortization of discount	50	47
Total net incurred [(1)]	1,367	1,259
Net payments attributable to:		
Current year events	(100)	(91)
Prior year events	(1,309)	(1,219)
Total net payments	(1,409)	(1,310)
Foreign currency translation adjustment and other	13	(9)
Net reserves, end of period	17,936	18,010
Ceded reserves, end of period	3,900	4,057
Gross reserves, end of period	$21,836	$22,067

(1) Total net incurred above does not agree to Insurance claims and policyholders' benefits as reflected on the Condensed Consolidated Statements of Operations due to amounts related to retroactive reinsurance deferred gain accounting, uncollectible reinsurance and loss deductible receivables, and benefit expenses related to future policy benefits, which are not reflected in the table above.

Net Prior Year Development

Changes in estimates of claim and claim adjustment expense reserves, net of reinsurance, for prior years are defined as net prior year loss reserve development (development). These changes can be favorable or unfavorable. The following table presents development recorded for the Specialty, Commercial, International and Corporate & Other segments.

For the three months ended March 31		
(In millions)	**2019**	**2018**
Pretax (favorable) unfavorable development:		
Specialty	$(20)	$(30)
Commercial	(8)	(9)
International	14	—
Corporate & Other	—	—
Total pretax (favorable) unfavorable development	$(14)	$(39)

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Specialty

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

Three months ended March 31		
(In millions)	**2019**	**2018**
Pretax (favorable) unfavorable development:		
Medical Professional Liability	$ 15	$ 20
Other Professional Liability and Management Liability	(12)	(34)
Surety	(25)	(15)
Warranty	—	—
Other	2	(1)
Total pretax (favorable) unfavorable development	$ (20)	$ (30)

2019

Unfavorable development in medical professional liability was primarily due to higher than expected severity in accident year 2013 in our allied healthcare business.

Favorable development in other professional liability and management liability was primarily due to lower than expected claim frequency and favorable outcomes on individual claims in accident years 2017 and prior related to financial institutions. This was partially offset by unfavorable development in management liability in accident year 2014 due to large claim activity.

Favorable development in surety was due to lower than expected frequency for accident years 2016 and prior.

2018

Unfavorable development in medical professional liability was primarily due to higher than expected severity in accident years 2014 and 2017 in our hospitals business.

Favorable development in other professional liability and management liability was primarily due to lower than expected claim frequency in accident years 2013 through 2015 related to financial institutions.

Favorable development in surety was due to lower than expected loss emergence for accident years 2015 and prior.

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Commercial

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

Three months ended March 31		
(In millions)	**2019**	**2018**
Pretax (favorable) unfavorable development:		
Commercial Auto	$ (5)	$ (1)
General Liability	(20)	(8)
Workers' Compensation	2	(6)
Property and Other	15	6
Total pretax (favorable) unfavorable development	$ (8)	$ (9)

2019

Favorable development in general liability was primarily due to lower than expected frequency on latent construction defect claims in multiple accident years.

Unfavorable development in property and other was primarily due to higher than expected frequency and large loss activity in accident year 2018 in our marine business.

2018

Favorable development in general liability was primarily due to lower than expected frequency and severity in accident years 2015 and prior for our middle market construction business.

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International

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

Three months ended March 31		
(In millions)	**2019**	**2018**
Pretax (favorable) unfavorable development:		
Casualty	$—	$ —
Property	15	(1)
Energy and Marine	(1)	—
Specialty [(1)]	—	1
Total pretax (favorable) unfavorable development	$ 14	$ —

(1) Effective January 1, 2019 the Healthcare and Technology line of business has been absorbed within the Specialty line of business in the International segment. Prior period information has been conformed to the new line of business presentation.

2019

Unfavorable development in property was driven by higher than expected claims in Hardy on 2018 accident year catastrophes.

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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.

In years subsequent to the effective date of the LPT, the Company recognized adverse prior year development on its A&EP reserves resulting in additional amounts ceded under the LPT. As a result, the cumulative amounts ceded under the LPT have exceeded the $2.2 billion consideration paid, resulting in the NICO LPT moving into a gain position, requiring retroactive reinsurance accounting. Under retroactive reinsurance accounting, this gain is deferred and only 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 the Company recognizes a change in the estimate of A&EP reserves that increases or decreases the amounts ceded under the LPT, the proportion of actual paid recoveries to total ceded losses is affected and the change in the deferred gain is recognized in earnings as if the revised estimate of ceded losses was available at the effective date of the LPT. The effect of the deferred retroactive reinsurance benefit is recorded in Insurance claims and policyholders' benefits in the Condensed Consolidated Statements of Operations.

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

Three months ended March 31		
(In millions)	**2019**	**2018**
Additional amounts ceded under LPT:		
Net A&EP adverse development before consideration of LPT	$—	$113
Provision for uncollectible third-party reinsurance on A&EP	—	(16)
Total additional amounts ceded under LPT	—	97
Retroactive reinsurance benefit recognized	(22)	(57)
Pretax impact of deferred retroactive reinsurance	$(22)	$40

The Company intends to complete its annual A&EP reserve review in the fourth quarter of 2019 and maintain this timing for all future annual A&EP reserve reviews. The Company completed A&EP reserve reviews in both the first and fourth quarters of 2018. Based upon the Company's 2018 first quarter A&EP reserve review, net unfavorable prior year development of $113 million was recognized before consideration of cessions to the LPT for the three months ended March 31, 2018. The 2018 unfavorable development was driven by higher than anticipated defense costs on direct asbestos and environmental accounts and paid losses on assumed reinsurance exposures. Additionally, in 2018, the Company released a portion of its provision for uncollectible third-party reinsurance.

As of March 31, 2019 and December 31, 2018, the cumulative amounts ceded under the LPT were $3.1 billion. The unrecognized deferred retroactive reinsurance benefit was $352 million and $374 million as of March 31, 2019 and December 31, 2018 and is included within Other liabilities on the Condensed Consolidated Balance Sheets.

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NICO established a collateral trust account as security for its obligations to the Company. The fair value of the collateral trust account was $3.0 billion and $2.7 billion as of March 31, 2019 and December 31, 2018. In addition, Berkshire Hathaway Inc. guaranteed the payment obligations of NICO up to the 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 majority of the Company's A&EP claims.

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Note F. **Legal Proceedings, Contingencies and Guarantees**

The Company is a party to routine litigation incidental to its business, which, based on the facts and circumstances currently known, is not material to the Company's results of operations or financial position.

Guarantees

As of March 31, 2019 and December 31, 2018, the Company had recorded liabilities of approximately $5 million related to guarantee and indemnification agreements and management does not believe 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 previously owned subsidiaries 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 March 31, 2019, the aggregate amount related to quantifiable guarantees was $375 million and the aggregate amount related to quantifiable indemnification agreements was $252 million. In certain cases, should the Company be required to make payments under any such guarantee, it would have the right to seek reimbursement from an affiliate of a previously owned subsidiary.

In addition, the Company has agreed to provide indemnification to third-party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of March 31, 2019, the Company had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser's ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. Certain provisions of the indemnification agreements survive indefinitely, while others survive until the applicable statutes of limitation expire, or until the agreed-upon contract terms expire.

The Company also provided guarantees, if the primary obligor fails to perform, to holders of structured settlement annuities provided by a previously owned subsidiary. As of March 31, 2019, the potential amount of future payments the Company could be required to pay under these guarantees was approximately $1.7 billion, which will be paid over the lifetime of the annuitants. The Company does not believe any payment is likely under these guarantees, as the Company is the beneficiary of a trust that must be maintained at a level that approximates the discounted reserves for these annuities.

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Note G. Benefit Plans

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

Three months ended March 31		
(In millions)	**2019**	**2018**
Net periodic pension cost (benefit)		
Service cost	$—	$—
Non-service cost (benefit):		
Interest cost on projected benefit obligation	25	23
Expected return on plan assets	(36)	(40)
Amortization of net actuarial (gain) loss	10	9
Settlement loss	—	4
Total non-service cost (benefit)	(1)	(4)
Total net periodic pension cost (benefit)	$(1)	$(4)

For the three months ended March 31, 2019, the Company recognized less than $1 million of non-service benefit in Insurance claims and policyholders' benefits and $1 million of non-service benefit in Other operating expenses. For the three months ended March 31, 2018, the Company recognized $1 million of non-service cost in Insurance claims and policyholders' benefits and $3 million of non-service cost in Other operating expenses.

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Note H. 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 January 1, 2019	$ 16	$ 61	$ (775)	$ (180)	$ (878)
Other comprehensive income (loss) before reclassifications	4	521	(1)	17	541
Amounts reclassified from accumulated other comprehensive income (loss) net of tax (expense) benefit of $-, $1, $2, $- and $3	—	(5)	(8)	—	(13)
Other comprehensive income (loss) net of tax (expense) benefit of $(1), $(141), $(2), $- and $(144)	4	526	7	17	554
Balance as of March 31, 2019	$ 20	$ 587	$ (768)	$ (163)	$ (324)

(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, 2018	$ 30	$ 859	$ (775)	$ (98)	$ 16
Other comprehensive income (loss) before reclassifications	(10)	(414)	—	12	(412)
Amounts reclassified from accumulated other comprehensive income (loss) net of tax (expense) benefit of $-, $(4), $3, $- and $(1)	(1)	15	(10)	—	4
Other comprehensive income (loss) net of tax (expense) benefit of $2, $109, $(3), $- and $108	(9)	(429)	10	12	(416)
Balance as of March 31, 2018	$ 21	$ 430	$ (765)	$ (86)	$ (400)

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

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

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Note I. Business Segments

The Company's property and casualty commercial insurance operations are managed and reported in three business segments: Specialty, Commercial and International. These three segments are collectively referred to as Property & Casualty Operations. The Company's operations outside of Property & Casualty Operations are managed and reported in two segments: Life & Group and Corporate & Other.

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, 2018. 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, Goodwill and Deferred non-insurance warranty acquisition expense and revenue are readily identifiable for 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 Net investment gains or losses are allocated primarily based on each segment's net carried insurance reserves, as adjusted. All significant intersegment income and expense have 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.

The performance of the Company's insurance operations is monitored by management through core income (loss), which is derived from certain income statement amounts. 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.

Core income (loss) is calculated by excluding from net income (loss) the after-tax effects of i) net investment gains (losses), ii) income or loss from discontinued operations, iii) any cumulative effects of changes in accounting guidance and iv) deferred tax asset and liability remeasurement as a result of an enacted U.S. Federal tax rate change. The calculation of core income (loss) excludes net investment gains or losses because net investment gains or losses are generally driven by economic factors that are not necessarily consistent with key drivers of underwriting performance, and are therefore not considered an indication of trends in insurance operations.

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

Three months ended March 31, 2019 (In millions)	**Specialty**	**Commercial**	**International**	**Life & Group**	**Corporate & Other**	**Eliminations**	**Total**
Operating revenues							
Net earned premiums	$ 661	$ 763	$ 250	$ 130	$ —	$ (1)	$ 1,803
Net investment income	155	190	15	204	7	—	571
Non-insurance warranty revenue	281	—	—	—	—	—	281
Other revenues	1	7	—	1	2	(2)	9
Total operating revenues	1,098	960	265	335	9	(3)	2,664
Claims, benefits and expenses							
Net incurred claims and benefits	392	510	162	308	(21)	—	1,351
Policyholders' dividends	1	5	—	—	—	—	6
Amortization of deferred acquisition costs	147	127	68	—	—	—	342
Non-insurance warranty expense	260	—	—	—	—	—	260
Other insurance related expenses	70	130	25	28	(1)	(1)	251
Other expenses	12	11	4	2	39	(2)	66
Total claims, benefits and expenses	882	783	259	338	17	(3)	2,276
Core income (loss) before income tax	216	177	6	(3)	(8)	—	388
Income tax (expense) benefit on core income (loss)	(47)	(38)	—	13	2	—	(70)
Core income (loss)	$ 169	$ 139	$ 6	$ 10	$ (6)	$ —	318
Net investment gains (losses)							31
Income tax (expense) benefit on net investment gains (losses)							(7)
Net investment gains (losses), after tax							24
Net income							$ 342

March 31, 2019							
(In millions)							
Reinsurance receivables	$ 674	$ 761	$ 237	$ 408	$ 2,226	$ —	$ 4,306
Insurance receivables	933	1,234	302	7	—	—	2,476
Deferred acquisition costs	315	247	102	—	—	—	664
Goodwill	117	—	30	—	—	—	147
Deferred non-insurance warranty acquisition expense	2,576	—	—	—	—	—	2,576
Insurance reserves							
Claim and claim adjustment expenses	5,470	8,623	1,787	3,645	2,311	—	21,836
Unearned premiums	2,201	1,553	528	142	—	(2)	4,422
Future policy benefits	—	—	—	11,078	—	—	11,078
Deferred non-insurance warranty revenue	3,472	—	—	—	—	—	3,472

Three months ended March 31, 2018 (In millions)	**Specialty**	**Commercial**	**International**	**Life & Group**	**Corporate & Other**	**Eliminations**	**Total**
Operating revenues							
Net earned premiums	$ 672	$ 743	$ 236	$ 134	$ —	$ —	$ 1,785
Net investment income	122	149	14	200	5	—	490
Non-insurance warranty revenue	238	—	—	—	—	—	238
Other revenues	1	8	—	1	1	(1)	10
Total operating revenues	1,033	900	250	335	6	(1)	2,523
Claims, benefits and expenses							
Net incurred claims and benefits	379	468	142	303	41	—	1,333
Policyholders' dividends	1	5	—	—	—	—	6
Amortization of deferred acquisition costs	145	121	30	—	—	—	296
Non-insurance warranty expense	216	—	—	—	—	—	216
Other insurance related expenses	64	127	56	30	—	—	277
Other expenses	11	11	(4)	2	42	(1)	61
Total claims, benefits and expenses	816	732	224	335	83	(1)	2,189
Core income (loss) before income tax	217	168	26	—	(77)	—	334
Income tax (expense) benefit on core income (loss)	(46)	(35)	(3)	14	17	—	(53)
Core income (loss)	$ 171	$ 133	$ 23	$ 14	$ (60)	$ —	281
Net investment gains (losses)							12
Income tax (expense) benefit on net investment gains (losses)							(2)
Net investment gains (losses), after tax							10
Net income							$ 291

December 31, 2018 (In millions)							
Reinsurance receivables	$ 649	$ 795	$ 250	$ 414	$ 2,347	$ —	$ 4,455
Insurance receivables	947	1,277	284	9	(152)	—	2,365
Deferred acquisition costs	308	230	95	—	—	—	633
Goodwill	117	—	29	—	—	—	146
Deferred non-insurance warranty acquisition expense	2,513	—	—	—	—	—	2,513
Insurance reserves							
Claim and claim adjustment expenses	5,465	8,743	1,750	3,601	2,425	—	21,984
Unearned premiums	2,132	1,454	475	122	—	—	4,183
Future policy benefits	—	—	—	10,597	—	—	10,597
Deferred non-insurance warranty revenue	3,402	—	—				