

CNA FINANCIAL CORP  
Form 10-K  
February 17, 2016

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

FORM 10-K  
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2015  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-5823

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Common Stock with a par value of \$2.50 per share	Name of each exchange on which registered New York Stock Exchange Chicago Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act:

None  
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No   
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the  
Act. Yes  No   
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the  
Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if  
any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T  
 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required  
to submit and post such files). Yes  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

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

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

As of February 12, 2016, 270,274,361 shares of common stock were outstanding. The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2015 was approximately \$1,033 million based on the closing price of \$38.21 per share of the common stock on the New York Stock Exchange on June 30, 2015.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the CNA Financial Corporation Proxy Statement prepared for the 2016 annual meeting of shareholders, pursuant to Regulation 14A, are incorporated by reference into Part III of this report.

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PART I

ITEM 1. BUSINESS

CNA Financial Corporation (CNAF) was incorporated in 1967 and is an insurance holding company. Collectively, CNAF and its subsidiaries are referred to as CNA or the Company. References to “CNA,” “the Company,” “we,” “our,” “us” or like terms refer to the business of CNAF and its subsidiaries. CNA's property and casualty and remaining life and group insurance operations are primarily conducted by Continental Casualty Company (CCC), The Continental Insurance Company, Western Surety Company, CNA Insurance Company Limited and Hardy Underwriting Bermuda Limited and its subsidiaries (Hardy). Loews Corporation (Loews) owned approximately 90% of our outstanding common stock as of December 31, 2015. On August 1, 2014, we completed the sale of the common stock of Continental Assurance Company (CAC).

Our insurance products primarily include commercial property and casualty coverages, including surety. Our services include risk management, information services, warranty and claims administration. Our products and services are primarily marketed through independent agents, brokers and managing general underwriters to a wide variety of customers, including small, medium and large businesses, insurance companies, associations, professionals and other groups.

Our core business, commercial property and casualty insurance operations, is reported in three business segments: Specialty, Commercial and International. Our non-core businesses are reported in two business segments: Life & Group Non-Core and Corporate & Other Non-Core. Each segment is managed separately due to differences in their markets and product mix. Discussion of each segment, including the products offered, customers served and distribution channels used, are set forth in the Management's Discussion and Analysis (MD&A) included under Item 7 and in Note O to the Consolidated Financial Statements included under Item 8.

Competition

The property and casualty insurance industry is highly competitive both as to rate and service. We compete with a large number of stock and mutual insurance companies and other entities for both distributors and customers. Insurers compete on the basis of factors including products, price, services, ratings and financial strength. We must continuously allocate resources to refine and improve our insurance products and services.

There are approximately 2,700 individual companies that sell property and casualty insurance in the United States. Based on 2014 statutory net written premiums, we are the eighth largest commercial insurance writer and the 14<sup>th</sup> largest property and casualty insurance organization in the United States.

Regulation

The insurance industry is subject to comprehensive and detailed regulation and supervision. Regulatory oversight by applicable agencies is exercised through review of submitted filings and information, examinations (both financial and market conduct), direct inquiries and interviews. Each domestic and foreign jurisdiction has established supervisory agencies with broad administrative powers relative to licensing insurers and agents, approving policy forms, establishing reserve requirements, prescribing the form and content of statutory financial reports and regulating capital adequacy and the type, quality and amount of investments permitted. Such regulatory powers also extend to premium rate regulations, which require that rates not be excessive, inadequate or unfairly discriminatory, governance requirements and risk assessment practice and disclosure. In addition to regulation of dividends by insurance subsidiaries, intercompany transfers of assets may be subject to prior notice or approval by insurance regulators, depending on the size of such transfers and payments in relation to the financial position of the insurance subsidiaries making the transfer or payment.

Domestic insurers are also required by state insurance regulators to provide coverage to insureds who would not otherwise be considered eligible by the insurers. Each state dictates the types of insurance and the level of coverage that must be provided to such involuntary risks. Our share of these involuntary risks is mandatory and generally a function of our respective share of the voluntary market by line of insurance in each state.

Further, domestic insurance companies are subject to state guaranty fund and other insurance-related assessments. Guaranty funds are governed by state insurance guaranty associations which levy assessments to meet the funding needs of insolvent insurer estates. Other insurance-related assessments are generally levied by state agencies to



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fund various organizations including disaster relief funds, rating bureaus, insurance departments and workers' compensation second injury funds, or by industry organizations that assist in the statistical analysis and ratemaking process and we have the ability to recoup certain of these assessments from policyholders.

As our insurance operations are conducted in a multitude of both domestic and foreign jurisdictions, we are subject to a number of regulatory agency requirements in respect of a portion, or all, of our operations. These include, but are not limited to, the State of Illinois Department of Insurance (which is our global group-wide supervisor), the U.K.

Prudential Regulatory Authority and Financial Conduct Authority, the Bermuda Monetary Authority and the Office of Superintendent of Financial Institutions in Canada.

Hardy, a specialized Lloyd's of London (Lloyd's) underwriter, is also supervised by the Council of Lloyd's, which is the franchisor for all Lloyd's operations. The Council of Lloyd's has wide discretionary powers to regulate Lloyd's underwriting, such as establishing the capital requirements for syndicate participation. In addition, the annual business plans of each syndicate are subject to the review and approval of the Lloyd's Franchise Board, which is responsible for business planning and monitoring for all syndicates.

Effective January 1, 2016, the European Union's executive body, the European Commission, implemented new capital adequacy and risk management regulations, Solvency II, that apply to our European operations. Additionally, the International Association of Insurance Supervisors (IAIS) continues to consider regulatory proposals addressing group supervision, capital requirements and enterprise risk management. The U.S. Federal Reserve, the U.S. Federal Insurance Office and the National Association of Insurance Commissioners are working with other global regulators to define such proposals. It is not currently clear to what extent the IAIS activities will impact the Company as any final proposal would ultimately need to be legislated or regulated by each individual country or state.

Although the federal government does not currently directly regulate the business of insurance, federal legislative and regulatory initiatives can impact the insurance industry. These initiatives and legislation include proposals relating to potential federal oversight of certain insurers; terrorism and natural catastrophe exposures; cybersecurity risk management; federal financial services reforms; and certain tax reforms.

The Terrorism Risk Insurance Program Reauthorization Act of 2015 was enacted on January 12, 2015. The reauthorization provides for a federal government backstop for insured terrorism risks for another six years with increases to the insurer co-payment and program trigger. The existence of the mitigating effects of such law is part of the analysis of our overall risk posture for terrorism and, accordingly, our risk positioning may change if such law were modified. We also continue to invest in the security network of our systems on an enterprise-wide basis, especially considering the implications of data and privacy breaches. This requires an investment of a significant amount of resources by us on an ongoing basis. Potential implications of possible cybersecurity legislation on such current investment, if any, are uncertain. The foregoing proposals, either separately or in the aggregate, create a regulatory and legal environment that may require changes in our business plan or significant investment of resources in order to operate in an effective and compliant manner.

Additionally, various legislative and regulatory efforts to reform the tort liability system have, and will continue to, impact our industry. Although there has been some tort reform with positive impact to the insurance industry, new causes of action and theories of damages continue to be proposed in state court actions or by federal or state legislatures that continue to expand liability for insurers and their policyholders.

**Employee Relations**

As of December 31, 2015, we had approximately 6,900 employees and have experienced satisfactory labor relations. We have never had work stoppages due to labor disputes.

We have comprehensive benefit plans for substantially all of our employees, including retirement plans, savings plans, disability programs, group life programs and group health care programs. See Note I to the Consolidated Financial Statements included under Item 8 for further discussion of our benefit plans.

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## Direct Written Premiums by Geographic Concentration

Set forth below is the distribution of our direct written premiums by geographic concentration.

Years ended December 31	Percent of Total					
	2015		2014		2013	
California	9.1	%	9.1	%	9.2	%
Texas	8.1		8.1		8.0	
Illinois	7.5		6.7		5.9	
New York	7.1		7.2		7.2	
Florida	5.7		5.7		5.9	
Pennsylvania	3.8		3.7		3.7	
New Jersey	3.2		3.4		3.7	
Canada	2.2		2.6		3.1	
All other states, countries or political subdivisions	53.3		53.5		53.3	
Total	100.0	%	100.0	%	100.0	%

Approximately 8.0%, 8.8% and 9.0% of our direct written premiums were derived from outside of the United States for the years ended December 31, 2015, 2014 and 2013.

## Property and Casualty Claim and Claim Adjustment Expenses

The following loss reserve development table illustrates the change over time of reserves established for property and casualty claim and claim adjustment expenses at the end of the preceding ten calendar years for our property and casualty insurance companies. The first section shows the reserves as originally reported at the end of the stated year. The second section, reading down, shows the cumulative amounts paid as of the end of successive years with respect to the originally reported reserve liability. The third section, reading down, shows re-estimates of the originally recorded reserves as of the end of each successive year, which is the result of our property and casualty insurance subsidiaries' expanded awareness of additional facts and circumstances that pertain to the unsettled claims. The last section compares the latest re-estimated reserves to the reserves originally established, and indicates whether the original reserves were adequate or inadequate to cover the estimated costs of unsettled claims. The loss reserve development table is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years.

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## Schedule of Loss Reserve Development

Calendar Year Ended	2005	2006	2007	2008	2009	2010 (a)	2011	2012 (b)	2013	2014 (c)	2015
(In millions)											
Originally reported gross reserves for unpaid claim and claim adjustment expenses	\$30,694	\$29,459	\$28,415	\$27,475	\$26,712	\$25,412	\$24,228	\$24,696	\$24,015	\$23,271	\$22,663
Originally reported ceded recoverable	10,438	8,078	6,945	6,213	5,524	6,060	4,967	5,075	4,911	4,344	4,087
Originally reported net reserves for unpaid claim and claim adjustment expenses	\$20,256	\$21,381	\$21,470	\$21,262	\$21,188	\$19,352	\$19,261	\$19,621	\$19,104	\$18,927	\$18,576
Cumulative net paid as of:											
One year later	\$3,442	\$4,436	\$4,308	\$3,930	\$3,762	\$3,472	\$4,277	\$4,588	\$4,352	\$4,089	\$—
Two years later	7,022	7,676	7,127	6,746	6,174	6,504	7,459	7,788	7,375	—	—
Three years later	9,620	9,822	9,102	8,340	8,374	8,822	9,834	9,957	—	—	—
Four years later	11,289	11,312	10,121	9,863	10,038	10,548	11,316	—	—	—	—
Five years later	12,465	11,973	11,262	11,115	11,296	11,627	—	—	—	—	—
Six years later	12,917	12,858	12,252	12,114	12,161	—	—	—	—	—	—
Seven years later	13,680	13,670	13,101	12,806	—	—	—	—	—	—	—
Eight years later	14,409	14,412	13,685	—	—	—	—	—	—	—	—
Nine years later	15,092	14,939	—	—	—	—	—	—	—	—	—
Ten years later	15,575	—	—	—	—	—	—	—	—	—	—
Net reserves re-estimated as of:											
End of initial year	\$20,256	\$21,381	\$21,470	\$21,262	\$21,188	\$19,352	\$19,261	\$19,621	\$19,104	\$18,927	\$18,576
One year later	20,588	21,601	21,463	21,021	20,643	18,923	19,081	19,506	19,065	18,672	—
Two years later	20,975	21,706	21,259	20,472	20,237	18,734	18,946	19,502	18,807	—	—
	21,408	21,609	20,752	20,014	20,012	18,514	18,908	19,214	—	—	—



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Three years later												
Four years later	21,432	21,286	20,350	19,784	19,758	18,378	18,658	—	—	—	—	
Five years later	21,326	20,982	20,155	19,597	19,563	18,202	—	—	—	—	—	
Six years later	21,060	20,815	20,021	19,414	19,459	—	—	—	—	—	—	
Seven years later	20,926	20,755	19,883	19,335	—	—	—	—	—	—	—	
Eight years later	20,900	20,634	19,828	—	—	—	—	—	—	—	—	
Nine years later	20,817	20,606	—	—	—	—	—	—	—	—	—	
Ten years later	20,793	—	—	—	—	—	—	—	—	—	—	
Total net (deficiency) redundancy	\$(537 )	\$775	\$1,642	\$1,927	\$1,729	\$1,150	\$603	\$407	\$297	\$255	\$—	
Reconciliation to gross re-estimated reserves:												
Net reserves re-estimated	\$20,793	\$20,606	\$19,828	\$19,335	\$19,459	\$18,202	\$18,658	\$19,214	\$18,807	\$18,672	\$—	
Re-estimated ceded recoverable	11,826	9,503	8,092	7,048	6,382	6,873	5,609	5,285	4,705	4,476	—	
Total gross re-estimated reserves	\$32,619	\$30,109	\$27,920	\$26,383	\$25,841	\$25,075	\$24,267	\$24,499	\$23,512	\$23,148	\$—	
Total gross (deficiency) redundancy	\$(1,925 )	\$(650 )	\$495	\$1,092	\$871	\$337	\$(39 )	\$197	\$503	\$123	\$—	
Net (deficiency) redundancy related to:												
Asbestos	\$(113 )	\$(112 )	\$(107 )	\$(79 )	\$—	\$—	\$—	\$—	\$—	\$—	\$—	
Environmental pollution	(159 )	(159 )	(159 )	(76 )	—	—	—	—	—	—	—	
Total asbestos and environmental pollution	(272 )	(271 )	(266 )	(155 )	—	—	—	—	—	—	—	
Core (Non-asbestos & environmental pollution)	(265 )	1,046	1,908	2,082	1,729	1,150	603	407	297	255	—	
Total net (deficiency) redundancy	\$(537 )	\$775	\$1,642	\$1,927	\$1,729	\$1,150	\$603	\$407	\$297	\$255	\$—	



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Effective January 1, 2010, we ceded our net asbestos and environmental pollution claim and allocated claim (a) adjustment expense reserves under a retroactive reinsurance agreement, as further discussed in Note E to the Consolidated Financial Statements included under Item 8.

(b) On July 2, 2012, we acquired Hardy. As a result of this acquisition, net reserves were increased by \$291 million.

In the third quarter of 2014, the Company commuted a workers' compensation reinsurance pool which had the (c) impact of \$348 million of favorable gross loss reserve development and \$324 million of unfavorable ceded loss reserve development.

Additional information regarding our property and casualty claim and claim adjustment expense reserves and reserve development is set forth in the MD&A included under Item 7 and in Notes A and E to the Consolidated Financial Statements included under Item 8.

Available Information

We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 (Exchange Act). The public may read and copy any materials that we file with the SEC at the SEC's Reading Rooms at 100 F Street NE, Washington, D.C. 20549. The public may obtain information on the operation of the Reading Rooms by calling the SEC at 1-202-551-8090. The SEC also maintains an internet site that contains reports, proxy and information statements and other information regarding issuers, including CNA, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at [www.sec.gov](http://www.sec.gov).

We also make available free of charge on or through our internet website at [www.cna.com](http://www.cna.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Copies of these reports may also be obtained, free of charge, upon written request to: CNA Financial Corporation, 333 S. Wabash Avenue, Chicago, IL 60604, Attn: Jonathan D. Kantor, Executive Vice President, General Counsel and Secretary.

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ITEM 1A. RISK FACTORS

Our business faces many risks. Each of the risks and uncertainties described below could lead to events or circumstances that have a material adverse effect on our results of operations, equity, business and insurer financial strength and corporate debt ratings. You should carefully consider and evaluate all of the information included in this report and any subsequent reports we may file with the SEC or make available to the public before investing in any securities we issue.

If we determine that our recorded insurance reserves are insufficient to cover our estimated ultimate unpaid liability for claim and claim adjustment expenses, we may need to increase our insurance reserves which would result in a charge to our earnings.

We maintain insurance reserves to cover our estimated ultimate unpaid liability for claim and claim adjustment expenses, including the estimated cost of the claims adjudication process, for reported and unreported claims.

Insurance reserves are not an exact calculation of liability but instead are complex management estimates developed utilizing a variety of actuarial reserve estimation techniques as of a given reporting date. The reserve estimation process involves a high degree of judgment and variability and is subject to a number of variables which are highly uncertain. These variables can be affected by both changes in internal processes and external events. Key variables include claims severity, frequency of claims, mortality, morbidity, discount rates, inflation, claims handling policies and procedures, case reserving approach, underwriting and pricing policies, changes in the legal and regulatory environment and the lag time between the occurrence of an insured event and the time of its ultimate settlement. Mortality is the relative incidence of death. Morbidity is the frequency and severity of injury, illness, sickness and diseases contracted.

There is generally a higher degree of variability in estimating required reserves for long-tail coverages, such as general liability and workers' compensation, as they require a relatively longer period of time for claims to be reported and settled. The impact of changes in inflation and medical costs are more pronounced for long-tail coverages due to the longer settlement period.

We are subject to the uncertain effects of emerging or potential claims and coverage issues that arise as industry practices and legal, judicial, social, economic and other environmental conditions change. These issues have had, and may continue to have, a negative effect on our business by either extending coverage beyond the original underwriting intent or by increasing the number or size of claims, resulting in further increases in our reserves. The effects of these and other unforeseen emerging claim and coverage issues are extremely difficult to predict.

Emerging or potential claims and coverage issues include, but are not limited to, uncertainty in future medical costs in workers' compensation. In particular, medical cost inflation could be greater than expected due to new treatments, drugs and devices; increased healthcare utilization; and/or the future costs of healthcare facilities. In addition, the relationship between workers' compensation and government and private healthcare providers could change, potentially shifting costs to workers' compensation.

In light of the many uncertainties associated with establishing the estimates and making the judgments necessary to establish reserve levels, we continually review and change our reserve estimates in a regular and ongoing process as experience develops from the actual reporting and settlement of claims and as the legal, regulatory and economic environment evolves. If our recorded reserves are insufficient for any reason, the required increase in reserves would be recorded as a charge against our earnings in the period in which reserves are determined to be insufficient. These charges could be substantial.

Our actual experience could vary from the key assumptions used to determine active life reserves for long term care policies.

Our active life reserves for long term care policies are based on our best estimate assumptions as of December 31, 2015 with no margin for adverse deviation. Key assumptions include morbidity, persistency (the percentage of policies remaining in force), discount rate and future premium rate increases. These assumptions, which are critical bases for our reserve estimates, are inherently uncertain. If actual experience varies from these assumptions or the future outlook for these assumptions changes, we may be required to increase our reserves. See the Life & Group Non-Core Policyholder Reserves portion of Reserves - Estimates and Uncertainties section of MD&A in Item 7 for more information.



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Estimating future experience for long term care policies is highly uncertain because the required projection period is very long and there is limited historical data and industry data available to us, as only a small portion of the long term care policies which have been written to date are in claims paying status. Morbidity and persistency trends can be volatile and may be negatively affected by many factors including, but not limited to, policyholder behavior, socioeconomic factors, changes in health trends and advances in medical care.

A prolonged period during which interest rates remain at levels lower than those anticipated in our reserving would result in shortfalls in investment income on assets supporting our obligations under long term care policies, which may require changes to our reserves. This risk is more significant for our long term care products because the long potential duration of the policy obligations exceeds the duration of the supporting investment assets. In addition, we may not receive regulatory approval for the level of premium rate increases we request. Any adverse deviation between the level of future premium rate increases approved and the level included in our reserving assumptions may require an increase to our reserves.

If our estimated reserves are insufficient for any reason, including changes in assumptions, the required increase in reserves would be recorded as a charge against our earnings in the period in which reserves are determined to be insufficient. These charges could be substantial.

Catastrophe losses are unpredictable and could result in material losses.

Catastrophe losses are an inevitable part of our business. Various events can cause catastrophe losses. These events can be natural or man-made, and may include hurricanes, windstorms, earthquakes, hail, severe winter weather, fires, floods, riots, strikes, civil commotion and acts of terrorism. The frequency and severity of these catastrophe events are inherently unpredictable. In addition, longer-term natural catastrophe trends may be changing and new types of catastrophe losses may be developing due to climate change, a phenomenon that has been associated with extreme weather events linked to rising temperatures and includes effects on global weather patterns, greenhouse gases, sea, land and air temperatures, sea levels, rain, hail and snow.

The extent of our losses from catastrophes is a function of the total amount of our insured exposures in the affected areas, the frequency and severity of the events themselves, the level of reinsurance assumed and ceded, reinsurance reinstatement premiums and state residual market assessments, if any. As in the case of catastrophe losses generally, it can take a long time for the ultimate cost to us to be finally determined, as a multitude of factors contribute to such costs, including evaluation of general liability and pollution exposures, additional living expenses, infrastructure disruption, business interruption and reinsurance collectibility. Reinsurance coverage for terrorism events is provided only in limited circumstances, especially in regard to “unconventional” terrorism acts, such as nuclear, biological, chemical or radiological attacks. As a result of the items discussed above, catastrophe losses are particularly difficult to estimate.

Additionally, claim frequency and severity for some lines of business can be correlated to an external factor such as economic activity, financial market volatility, increasing health care costs or changes in the legal or regulatory environment. Claim frequency and severity can also be correlated to insureds' use of common business practices, equipment, vendors or software. This can result in multiple insured losses emanating out of the same underlying cause. In these instances, we may be subject to increased claim frequency and severity across multiple policies or lines of business concurrently. While we do not define such instances as catastrophes for financial reporting purposes, they are similar to catastrophes in terms of the uncertainty and potential impact on our results.

We have exposures related to asbestos and environmental pollution (A&EP) claims, which could result in material losses.

Our property and casualty insurance subsidiaries have exposures related to A&EP claims. Our experience has been that establishing claim and claim adjustment expense reserves for casualty coverages relating to A&EP claims is subject to uncertainties that are greater than those presented by other claims. Additionally, traditional actuarial methods and techniques employed to estimate the ultimate cost of claims for more traditional property and casualty exposures are less precise in estimating claim and claim adjustment expense reserves for A&EP. As a result, estimating the ultimate cost of both reported and unreported A&EP claims is subject to a higher degree of variability.



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On August 31, 2010, we completed a retroactive reinsurance transaction under which substantially all of our legacy A&EP liabilities were ceded to National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., subject to an aggregate limit of \$4 billion (Loss Portfolio Transfer). The cumulative amount ceded under the Loss Portfolio Transfer as of December 31, 2015 is \$2.6 billion. If the other parties to the Loss Portfolio Transfer do not fully perform their obligations, net losses incurred on A&EP claims covered by the Loss Portfolio Transfer exceed the aggregate limit of \$4 billion, or we determine we have exposures to A&EP claims not covered by the Loss Portfolio Transfer, we may need to increase our recorded net reserves which would result in a charge against our earnings. These charges could be substantial.

We face intense competition in our industry; we may be adversely affected by the cyclical nature of the property and casualty business as well as the availability and cost of reinsurance.

All aspects of the insurance industry are highly competitive and we must continuously allocate resources to refine and improve our insurance products and services. We compete with a large number of stock and mutual insurance companies and other entities for both distributors and customers. Insurers compete on the basis of factors including products, price, services, ratings and financial strength. The competitor insurer landscape has evolved substantially in recent years, with significant consolidation and new market entrants, resulting in increased pressures on our ability to remain competitive, particularly in implementing pricing that is both attractive to our customer base and risk-appropriate to the Company. In addition, the property and casualty market is cyclical and has experienced periods characterized by relatively high levels of price competition, resulting in less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively lower levels of competition, more selective underwriting standards and relatively high premium rates. During periods in which price competition is high, we may lose business to competitors offering competitive insurance products at lower prices. As a result, our premium levels and expense ratio could be materially adversely impacted.

Additionally, we purchase reinsurance to help manage our exposure to risk. Under our ceded reinsurance arrangements, another insurer assumes a specified portion of our exposure in exchange for a specified portion of policy premiums. Market conditions determine the availability and cost of the reinsurance protection we purchase, which affects the level of our business and profitability, as well as the level and types of risk we retain. If we are unable to obtain sufficient reinsurance at a cost we deem acceptable, we may be unwilling to bear the increased risk and would reduce the level of our underwriting commitments.

We may not be able to collect amounts owed to us by reinsurers, which could result in higher net incurred losses. We have significant amounts recoverable from reinsurers which are reported as receivables on our Consolidated Balance Sheets and are estimated in a manner consistent with claim and claim adjustment expense reserves or future policy benefits reserves. The ceding of insurance does not, however, discharge our primary liability for claims. As a result, we are subject to credit risk relating to our ability to recover amounts due from reinsurers. Certain of our reinsurance carriers have experienced credit downgrades by rating agencies within the term of our contractual relationship, which increases the likelihood that we will not be able to recover amounts due. In addition, reinsurers could dispute amounts which we believe are due to us. If the amounts we collect from reinsurers are less than the amount recorded for any of the foregoing reasons, our net incurred losses will be higher.

We may not be able to collect amounts owed to us by policyholders who hold deductible policies and/or who purchase retrospectively rated policies, which could result in higher net incurred losses.

A portion of our business is written under deductible policies. Under these policies, we are obligated to pay the related insurance claims and are reimbursed by the policyholder to the extent of the deductible, which may be significant. As a result, we are exposed to credit risk to the policyholder. If the amounts we collect from policyholders are less than the amounts recorded, our incurred losses will be higher.

Moreover, certain policyholders purchase retrospectively rated workers' compensation policies (i.e., policies in which premiums are adjusted after the policy period based on the actual loss experience of the policyholder during the policy period). Retrospectively rated policies expose us to additional credit risk to the extent that the adjusted premium is greater than the original premium.





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We may incur significant realized and unrealized investment losses and volatility in net investment income arising from changes in the financial markets.

Our investment portfolio is exposed to various risks, such as interest rate, credit spread, issuer default, equity prices and foreign currency, which are unpredictable. Financial markets are highly sensitive to changes in economic conditions, monetary policies, domestic and international geopolitical issues and many other factors. Changes in financial markets including fluctuations in interest rates, credit, equity prices and foreign currency prices and many other factors beyond our control can adversely affect the value of our investments, the realization of investment income and the rate at which we discount certain liabilities.

We have significant holdings in fixed maturity investments that are sensitive to changes in interest rates. A decline in interest rates may reduce the returns earned on new fixed maturity investments, thereby reducing our net investment income, while an increase in interest rates may reduce the value of our existing fixed maturity investments. The value of our fixed maturity investments is also subject to risk that certain investments may default or become impaired due to deterioration in the financial condition of issuers of the investments we hold. Any such impairments which we deem to be other-than-temporary would result in a charge to our earnings.

In addition, we invest a portion of our assets in equity securities and limited partnerships which are subject to greater market volatility than our fixed maturity investments. Limited partnership investments generally provide a lower level of liquidity than fixed maturity or equity investments and therefore may also limit our ability to withdraw assets. As a result of all of these factors, we may not earn an adequate return on our investments, may be required to write down the value of our investments and may incur losses on the disposition of our investments.

Changes in tax laws of jurisdictions in which we operate could adversely impact our results of operations.

Federal, state or foreign tax legislation that would lessen or eliminate some or all of the tax attributes currently affecting us could materially and adversely impact our results of operations, in particular, changes to tax laws governing tax credits. Other potential tax law changes, including the taxation of interest from municipal bonds, could also adversely affect the value of our investment portfolio and the rate at which we discount certain liabilities.

Any significant interruption in the operation of our facilities, systems and business functions or breach in our data security infrastructure could result in a materially adverse effect on our operations.

Our business is highly dependent upon our ability to perform, in an efficient and uninterrupted manner, through our employees or vendor relationships, necessary business functions (such as internet support and 24-hour call centers), processing new and renewal business and processing and paying claims and other obligations. Our facilities and systems could become unavailable, inoperable, or otherwise impaired from a variety of causes, including, without limitation, natural events, such as hurricanes, tornadoes, windstorms, earthquakes, severe winter weather and fires, or other events, such as explosions, terrorist attacks, computer security breaches or cyber attacks, riots, hazardous material releases, medical epidemics, utility outages, interruptions of our data processing and storage systems or the systems of third-party vendors, or unavailability of communications facilities. Likewise, we could experience a significant failure or corruption of one or more of our information technology, telecommunications, or other systems for various reasons, including significant failures that might occur as existing systems are replaced or upgraded.

The shut-down or unavailability of one or more of our systems or facilities for any reason could significantly impair our ability to perform critical business functions on a timely basis. In addition, because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such service exceeds capacity or a third-party system fails or experiences an interruption. If sustained or repeated, such events could result in a deterioration of our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner, or perform other necessary business functions, including the ability to issue financial statements in a timely manner. This could result in a materially adverse effect on our business results, prospects and liquidity, as well as damage to customer goodwill.

A significant breach of our data security infrastructure, resulting from actions by our employees, vendors, third-party administrators or by unknown third parties, that impacts our data framework or causes a failure to protect

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personal information of our customers, claimants or employees may result in operational impairments and financial losses, as well as significant harm to our reputation.

The foregoing risks relating to disruption of service, interruption of operations and data loss could expose us to monetary and reputational damages. In addition, potential exposure includes substantially increased compliance costs and requires computer system upgrades and security-related investments. The breach of confidential information also could give rise to legal liability and regulatory action under data protection and privacy laws and regulations, both in the U.S. and foreign jurisdictions. Any such legal or regulatory action could have a material adverse effect on our operations.

Loss of key vendor relationships, issues relating to the transitioning of vendor relationships or exposure relating to claim administration and claim adjudication functions performed by a vendor could result in a materially adverse effect on our operations.

In the event that one or more of our vendors suffers a bankruptcy, is sold to another entity, sustains a significant business interruption or otherwise becomes unable to continue to provide products or services at the requisite level, we may be adversely affected. We may suffer operational impairments and financial losses associated with transferring business to a new vendor, assisting a vendor with rectifying operational difficulties or assuming previously outsourced operations ourselves. Our inability to provide for appropriate servicing if a vendor becomes unable to fulfill its contractual obligations to us, either through transitioning to another service provider temporarily or permanently or assuming servicing internally, may have a materially adverse effect on our operations.

Additionally, we rely on certain third-party claims administrators, including the administrators of our long term care claims, to perform significant claim administration and claim adjudication functions. Any failure by such administrator to properly perform service functions may result in losses as a result of over-payment of claims, legal claims against us and adverse regulatory enforcement exposure.

We face considerable competition within our industry for qualified, specialized talent and any significant inability to attract and retain talent may adversely affect the execution of our business strategies.

The successful execution of our business plan depends on our ability to attract and retain qualified talent. Due to the intense competition in our industry for qualified employees with specialized industry experience, we may encounter obstacles to our ability to attract and retain such employees, which could adversely impact our results of operations. We are subject to capital adequacy requirements and, if we are unable to maintain or raise sufficient capital to meet these requirements, regulatory agencies may restrict or prohibit us from operating our business.

Insurance companies such as ours are subject to capital adequacy standards set by regulators to help identify companies that merit further regulatory attention. These standards apply specified risk factors to various asset, premium and reserve components of our legal entity statutory basis of accounting financial statements. Current rules, including those promulgated by insurance regulators and specialized markets, such as Lloyd's, require companies to maintain statutory capital and surplus at a specified minimum level determined using the applicable jurisdiction's regulatory capital adequacy formula. If we do not meet these minimum requirements, we may be restricted or prohibited from operating our business. If we are required to record a material charge against earnings in connection with a change in estimate or the occurrence of an event, or if we incur significant losses related to our investment portfolio, we may violate these minimum capital adequacy requirements unless we are able to raise sufficient additional capital. We may be limited in our ability to raise significant amounts of capital on favorable terms or at all. Globally, insurance regulators are working cooperatively to develop a common framework for the supervision of internationally active insurance groups. Finalization and adoption of this framework could increase our minimum regulatory capital requirement as well as significantly increase our cost of regulatory compliance.

Our insurance subsidiaries, upon whom we depend for dividends in order to fund our working capital needs, are limited by insurance regulators in their ability to pay dividends.

We are a holding company and are dependent upon dividends, loans and other sources of cash from our subsidiaries in order to meet our obligations. Ordinary dividend payments, or dividends that do not require prior approval by

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the insurance subsidiaries' domiciliary insurance regulator, are generally limited to amounts determined by formula which varies by jurisdiction. If we are restricted, by regulatory rule or otherwise, from paying or receiving intercompany dividends, we may not be able to fund our working capital needs and debt service requirements from available cash. As a result, we would need to look to other sources of capital which may be more expensive or may not be available at all.

Rating agencies may downgrade their ratings of us and thereby adversely affect our ability to write insurance at competitive rates or at all.

Ratings are an important factor in establishing the competitive position of insurance companies. Our insurance company subsidiaries, as well as our public debt, are rated by rating agencies, namely, A.M. Best Company (A.M. Best), Moody's Investors Service, Inc. (Moody's) and Standard & Poor's (S&P). Ratings reflect the rating agency's opinions of an insurance company's or insurance holding company's financial strength, capital adequacy, operating performance, strategic position and ability to meet its obligations to policyholders and debt holders.

The rating agencies may take action to lower our ratings in the future as a result of any significant financial loss or possible changes in the methodology or criteria applied by the rating agencies. The severity of the impact on our business is dependent on the level of downgrade and, for certain products, which rating agency takes the rating action. Among the adverse effects in the event of such downgrades would be the inability to obtain a material volume of business from certain major insurance brokers, the inability to sell a material volume of our insurance products to certain markets and the required collateralization of certain future payment obligations or reserves.

In addition, it is possible that a lowering of the corporate debt ratings of Loews by certain of the rating agencies could result in an adverse impact on our ratings, independent of any change in our circumstances.

We are subject to extensive existing state, local, federal and foreign governmental regulations that restrict our ability to do business and generate revenues; additional regulation or significant modification to existing regulations may have a materially adverse effect on our ability to conduct our business and, accordingly, on our operations.

The insurance industry is subject to comprehensive and detailed regulation and supervision. Most insurance regulations are designed to protect the interests of our policyholders and third-party claimants, rather than our investors. Each jurisdiction in which we do business has established supervisory agencies that regulate the manner in which we do business, generally at the state level. Any changes in federal regulation could also impose significant burdens on us. In addition, the Lloyd's marketplace sets rules under which its members, including our Hardy syndicate, operate.

These rules and regulations relate to, among other things, the standards of solvency (including risk-based capital measures), government-supported backstops for certain catastrophic events (including terrorism), investment restrictions, accounting and reporting methodology, establishment of reserves and potential assessments of funds to settle covered claims against impaired, insolvent or failed private or quasi-governmental insurers.

Regulatory powers also extend to premium rate regulations which require that rates not be excessive, inadequate or unfairly discriminatory. The jurisdictions in which we do business may also require us to provide coverage to persons whom we would not otherwise consider eligible or restrict us from withdrawing from unprofitable lines of business or unprofitable market areas. Each jurisdiction dictates the types of insurance and the level of coverage that must be provided to such involuntary risks. Our share of these involuntary risks is mandatory and generally a function of our respective share of the voluntary market by line of insurance in each jurisdiction.

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## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

The Chicago location, owned by CCC, houses our principal executive offices. Our subsidiaries lease office space in various cities throughout the United States and in other countries. The following table sets forth certain information with respect to our principal office locations.

Location	Amount (Square Feet) of Building Owned and Occupied or Leased and Occupied by CNA	Principal Usage
333 S. Wabash Avenue, Chicago, Illinois	608,388	Principal executive offices of CNAF
2405 Lucien Way, Maitland, Florida	113,169	Property and casualty insurance offices
125 S. Broad Street, New York, New York	64,248	Property and casualty insurance offices
101 S. Reid Street, Sioux Falls, South Dakota	61,308	Property and casualty insurance offices
4150 N. Drinkwater Boulevard, Scottsdale, Arizona	56,281	Property and casualty insurance offices
1 Meridian Boulevard, Wyomissing, Pennsylvania	53,579	Property and casualty insurance offices
675 Placentia Avenue, Brea, California	36,768	Property and casualty insurance offices
1249 S. River Road, Cranbury, New Jersey	36,676	Property and casualty insurance offices
700 N. Pearl Street, Dallas, Texas	36,637	Property and casualty insurance offices
555 Mission Street, San Francisco, California	35,130	Property and casualty insurance offices

We lease the office space described above except for the building in Chicago, Illinois which is owned. We consider our properties to be in generally good condition, well maintained and suitable and adequate to carry on our business.

## ITEM 3. LEGAL PROCEEDINGS

Information on our legal proceedings is set forth in Note F to the Consolidated Financial Statements included under Item 8.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange and the Chicago Stock Exchange under the symbol CNA.

As of February 12, 2016, we had 270,274,361 shares of common stock outstanding and approximately 90% of our outstanding common stock was owned by Loews. We had 1,090 stockholders of record as of February 12, 2016 according to the records maintained by our transfer agent.

Our Board of Directors has approved an authorization to purchase, in the open market or through privately negotiated transactions, our outstanding common stock, as our management deems appropriate. No repurchases were made in 2015 and 2014.

The table below shows the high and low closing prices for our common stock based on the New York Stock Exchange Composite Transactions.

Quarter:	2015			2014		
	High	Low	Dividends Declared	High	Low	Dividends Declared
First	\$43.40	\$36.61	\$2.25	\$42.79	\$38.11	\$1.25
Second	41.82	37.91	0.25	43.08	39.45	0.25
Third	40.43	34.29	0.25	40.74	37.07	0.25
Fourth	37.05	34.24	0.25	39.53	36.29	0.25

The following graph compares the five-year total return of our common stock, the Standard & Poor's 500 (S&P 500) Index and the S&P 500 Property & Casualty Insurance Index. The graph assumes that the value of the investment in our common stock and each index was \$100 at the base period, January 1, 2011, and that dividends, if any, were reinvested.

Company / Index	Base Period	2011	2012	2013	2014	2015
CNA Financial Corporation	\$100.00	\$100.34	\$107.36	\$168.16	\$159.34	\$155.57
S&P 500 Index	100.00	102.11	118.45	156.82	178.28	180.75
S&P 500 Property & Casualty Insurance Index	100.00	99.75	119.81	165.69	191.78	210.05

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## ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected financial data. On July 2, 2012, we acquired Hardy. The results of Hardy are included from the date of acquisition. The table should be read in conjunction with Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8 Financial Statements and Supplementary Data of this Form 10-K. The comparative period Financial Condition data through 2013 includes CAC assets and liabilities.

As of or for the years ended December 31

(In millions, except per share data)	2015	2014	2013	2012	2011
<b>Results of Operations:</b>					
Revenues	\$9,101	\$9,692	\$9,932	\$9,364	\$8,767
Income (loss) from continuing operations, net of tax	\$479	\$888	\$915	\$620	\$740
(Loss) income from discontinued operations, net of tax	—	(197 )	22	8	(112 )
Net (income) loss attributable to noncontrolling interests, net of tax	—	—	—	—	(16 )
Net income (loss) attributable to CNA	\$479	\$691	\$937	\$628	\$612
<b>Basic Earnings (Loss) Per Share:</b>					
Income (loss) from continuing operations	\$1.77	\$3.29	\$3.39	\$2.30	\$2.69
(Loss) income from discontinued operations	—	(0.73 )	0.09	0.03	(0.42 )
Basic earnings (loss) per share	\$1.77	\$2.56	\$3.48	\$2.33	\$2.27
<b>Diluted Earnings (Loss) Per Share:</b>					
Income (loss) from continuing operations	\$1.77	\$3.28	\$3.39	\$2.30	\$2.69
(Loss) income from discontinued operations	—	(0.73 )	0.08	0.03	(0.42 )
Diluted earnings (loss) per share	\$1.77	\$2.55	\$3.47	\$2.33	\$2.27
Dividends declared per common share	\$3.00	\$2.00	\$0.80	\$0.60	\$0.40
<b>Financial Condition:</b>					
Total investments	\$44,699	\$46,262	\$46,107	\$47,636	\$44,373
Total assets	55,047	55,566	57,194	58,522	55,110
Insurance reserves	36,486	36,380	38,394	40,005	37,554
Long and short term debt	2,562	2,559	2,560	2,570	2,608
Total CNA stockholders' equity	11,756	12,794	12,651	12,314	11,488
Book value per common share	\$43.49	\$47.39	\$46.91	\$45.71	\$42.66

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Index to this MD&amp;A

Management's discussion and analysis of financial condition and results of operations is comprised of the following sections:

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OVERVIEW

The following discussion should be read in conjunction with Item 1A Risk Factors, Item 6 Selected Financial Data and Item 8 Financial Statements and Supplementary Data of this Form 10-K.

Sale of CAC

On August 1, 2014, we closed the sale of the common stock of CAC, our life insurance subsidiary. In connection with the sale, we recorded an after-tax loss on sale of \$211 million, which is reflected in (Loss) income from discontinued operations. Further information is provided in Notes A and P to the Consolidated Financial Statements included under Item 8.

In connection with the sale of CAC, we entered into a 100% coinsurance agreement on a separate small block of annuity business outside of CAC. As a result of the funds withheld basis used in this transaction, we recognized an after-tax operating loss of \$34 million in 2014. Further information is provided in Note A to the Consolidated Financial Statements included under Item 8.

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## CONSOLIDATED OPERATIONS

## Results of Operations

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

Years ended December 31

(In millions)	2015	2014	2013
Operating Revenues			
Net earned premiums	\$6,921	\$7,212	\$7,271
Net investment income	1,840	2,067	2,282
Other revenues	407	356	359
Total operating revenues	9,168	9,635	9,912
Claims, Benefits and Expenses			
Net incurred claims and benefits	5,372	5,577	5,793
Policyholders' dividends	12	14	13
Amortization of deferred acquisition costs	1,540	1,317	1,362
Other insurance related expenses	1,093	1,029	1,013
Other expenses	535	548	475
Total claims, benefits and expenses	8,552	8,485	8,656
Operating income before income tax	616	1,150	1,256
Income tax expense on operating income	(101)	) (301)	) (355)
Net operating income	515	849	901
Net realized investment (losses) gains	(67)	) 57	20
Income tax benefit (expense) on net realized investment (losses) gains	31	(18)	) (6)
Net realized investment (losses) gains, after tax	(36)	) 39	14
Income from continuing operations	479	888	915
(Loss) income from discontinued operations, net of tax	—	(197)	) 22
Net income	\$479	\$691	\$937

## 2015 Compared with 2014

Net operating income decreased \$334 million in 2015 as compared with 2014. Net operating income decreased \$44 million for our core segments due to a decrease in net investment income driven by lower limited partnership returns, partially offset by improved underwriting results. Catastrophe losses were \$95 million after tax in 2015 as compared to \$102 million after tax in 2014. Net operating results decreased \$290 million for our non-core segments driven by a \$198 million after-tax charge related to recognition of a premium deficiency and a small deficiency in claim reserves in our long term care business, as further discussed in Reserves-Estimates and Uncertainties within this MD&A, as well as in Note A to the Consolidated Financial Statements included under Item 8. Additionally, results in 2015 decreased \$51 million as compared to 2014 as a result of the application of retroactive reinsurance accounting to adverse reserve development ceded under the 2010 A&EP Loss Portfolio Transfer, as further discussed at Note E to the Consolidated Financial Statements included under Item 8.

Favorable net prior year development of \$218 million and \$53 million was recorded in 2015 and 2014 related to our Specialty, Commercial, International and Corporate & Other Non-Core segments. Further information on net prior year development is in Note E to the Consolidated Financial Statements included under Item 8.

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2014 Compared with 2013

Net income from continuing operations decreased \$27 million in 2014 as compared with 2013, driven by lower net operating income.

Net realized investment gains, after tax, increased \$25 million in 2014 as compared with 2013.

Net operating income decreased \$52 million in 2014 as compared with 2013. Net operating income decreased \$175 million for our core segments. Specialty and Commercial decreased while International produced consistent results.

This decrease was primarily due to lower net investment income and lower favorable net prior year development, partially offset by improved current accident year underwriting results. Catastrophe losses were \$102 million after tax in 2014 as compared to \$111 million after tax in 2013. Net operating results improved \$123 million for our non-core segments, primarily driven by results in our Corporate & Other Non-Core segment related to retroactive reinsurance accounting in 2013.

Favorable net prior year development of \$53 million and \$160 million was recorded in 2014 and 2013 related to our Specialty, Commercial, International and Corporate & Other Non-Core segments. Further information on net prior year development is in Note E to the Consolidated Financial Statements included under Item 8.

Net earned premiums decreased \$59 million in 2014 as compared with 2013 driven by a \$98 million decrease in Commercial, partially offset by a \$43 million increase in Specialty.

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**CRITICAL ACCOUNTING ESTIMATES**

The preparation of Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the amount of revenues and expenses reported during the period. Actual results may differ from those estimates.

Our Consolidated Financial Statements and accompanying notes have been prepared in accordance with GAAP applied on a consistent basis. We continually evaluate the accounting policies and estimates used to prepare the Consolidated Financial Statements. In general, our estimates are based on historical experience, evaluation of current trends, information from third-party professionals and various other assumptions that are believed to be reasonable under the known facts and circumstances.

The accounting estimates discussed below are considered by us to be critical to an understanding of our Consolidated Financial Statements as their application places the most significant demands on our judgment. Note A to the Consolidated Financial Statements included under Item 8 should be read in conjunction with this section to assist with obtaining an understanding of the underlying accounting policies related to these estimates. Due to the inherent uncertainties involved with these types of judgments, actual results could differ significantly from estimates and may have a material adverse impact on our results of operations or equity.

**Insurance Reserves**

Insurance reserves are established for both short and long-duration insurance contracts. Short-duration contracts are primarily related to property and casualty insurance policies where the reserving process is based on actuarial estimates of the amount of loss, including amounts for known and unknown claims. Long-duration contracts are primarily related to long term care and are estimated using actuarial estimates about morbidity and persistency as well as assumptions about expected investment returns and future premium rate increases. The reserve for unearned premiums on property and casualty contracts represents the portion of premiums written related to the unexpired terms of coverage. The reserving process is discussed in further detail in the Reserves - Estimates and Uncertainties section below.

**Reinsurance and Insurance Receivables**

An exposure exists with respect to the collectibility of ceded property and casualty and life reinsurance to the extent that any reinsurer is unable to meet its obligations or disputes the liabilities we have ceded under reinsurance agreements. An allowance for uncollectible reinsurance is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, our past experience and current economic conditions. Further information on our reinsurance receivables is in Note G to the Consolidated Financial Statements included under Item 8.

Additionally, an exposure exists with respect to the collectibility of amounts due from policyholders related to insurance contracts, including amounts due from insureds under high deductible policies and retrospectively rated policies. An allowance for uncollectible insurance receivables is recorded on the basis of periodic evaluations of balances currently due from insureds as well as in the future, management's experience and current economic conditions.

If actual experience differs from the estimates made by management in determining the allowances for uncollectible reinsurance and insurance receivables, net receivables as reflected on our Consolidated Balance Sheets may not be collected. Therefore, our results of operations or equity could be materially adversely affected.

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### Valuation of Investments and Impairment of Securities

We classify our fixed maturity securities and equity securities as either available-for-sale or trading which are both carried at fair value on the balance sheet. Fair value represents the price that would be received in a sale of an asset in an orderly transaction between market participants on the measurement date, the determination of which requires us to make a significant number of assumptions and judgments. Securities with the greatest level of subjectivity around valuation are those that rely on inputs that are significant to the estimated fair value and that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs are based on assumptions consistent with what we believe other market participants would use to price such securities. Further information on our fair value measurements is in Note C to the Consolidated Financial Statements included under Item 8.

Our investment portfolio is subject to market declines below amortized cost that may be other-than-temporary and therefore result in the recognition of impairment losses in earnings. Factors considered in the determination of whether or not a decline is other-than-temporary include a current intention or need to sell the security or an indication that a credit loss exists. Significant judgment exists regarding the evaluation of the financial condition and expected near-term and long-term prospects of the issuer, the relevant industry conditions and trends and whether we expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. Further information on our process for evaluating impairments is in Note A to the Consolidated Financial Statements included under Item 8.

### Long Term Care Policies

Future policy benefits reserves for our long term care policies are based on certain assumptions including morbidity, persistency, discount rates and future premium rate increases. The adequacy of the reserves is contingent on actual experience related to these key assumptions. If actual experience differs from these assumptions, the reserves may not be adequate, requiring us to add to reserves.

A prolonged period during which interest rates remain at levels lower than those anticipated in our reserving discount rate assumption could result in shortfalls in investment income on assets supporting our obligations under long term care policies, which may also require an increase to our reserves. In addition, we may not receive regulatory approval for the premium rate increases we request.

These changes to our reserves could materially adversely impact our results of operations and equity. The reserving process is discussed in further detail in the Reserves - Estimates and Uncertainties section below.

### Pension and Postretirement Benefit Obligations

We make a significant number of assumptions in estimating the liabilities and costs related to our pension and postretirement benefit obligations under our benefit plans. The assumptions that most affect these costs are the discount rate and the expected long term rate of return on plan assets. These assumptions are evaluated relative to current economic factors such as inflation, interest rates and broader capital market expectations. Changes in these assumptions can have a material impact on pension obligations and pension expense.

To determine the discount rate assumption as of the year-end measurement date for our CNA Retirement Plan and CNA Health and Group Benefits Program, we considered the estimated timing of plan benefit payments and available yields on high quality fixed income debt securities. For this purpose, high quality is considered a rating of Aa or better by Moody's or a rating of AA or better from S&P. We reviewed several yield curves constructed using the cash flow characteristics of the plans as well as bond indices as of the measurement date. The trend of those data points was also considered.

In determining the expected long term rate of return on plan assets assumption for our CNA Retirement Plan, we considered the historical performance of the investment portfolio as well as the long term market return expectations based on the investment mix of the portfolio and the expected investment horizon.

Further information on our pension and postretirement benefit obligations is in Note I to the Consolidated Financial Statements included under Item 8.

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Income Taxes

We account for income taxes under the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial statement and tax return basis of assets and liabilities. Any resulting future tax benefits are recognized to the extent that realization of such benefits is more likely than not, and a valuation allowance is established for any portion of a deferred tax asset that management believes will not be realized. The assessment of the need for a valuation allowance requires management to make estimates and assumptions about future earnings, reversal of existing temporary differences and available tax planning strategies. If actual experience differs from these estimates and assumptions, the recorded deferred tax asset may not be fully realized resulting in an increase to income tax expense in our results of operations. In addition, the ability to record deferred tax assets in the future could be limited, resulting in a higher effective tax rate in that future period.

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RESERVES - ESTIMATES AND UNCERTAINTIES

The level of reserves we maintain represents our best estimate, as of a particular point in time, of what the ultimate settlement and administration of claims will cost based on our assessment of facts and circumstances known at that time. Reserves are not an exact calculation of liability but instead are complex estimates that we derive, generally utilizing a variety of actuarial reserve estimation techniques, from numerous assumptions and expectations about future events, both internal and external, many of which are highly uncertain. As noted below, we review our reserves for each segment of our business periodically and any such review could result in the need to increase reserves in amounts which could be material and could adversely affect our results of operations, equity, business and insurer financial strength and corporate debt ratings. Further information on reserves is provided in Note E to the Consolidated Financial Statements included under Item 8.

Property and Casualty Claim and Claim Adjustment Expense Reserves

We maintain loss reserves to cover our estimated ultimate unpaid liability for claim and claim adjustment expenses, including the estimated cost of the claims adjudication process, for claims that have been reported but not yet settled (case reserves) and claims that have been incurred but not reported (IBNR). Claim and claim adjustment expense reserves are reflected as liabilities and are included on the Consolidated Balance Sheets under the heading "Insurance Reserves." Adjustments to prior year reserve estimates, if necessary, are reflected in results of operations in the period that the need for such adjustments is determined. The carried case and IBNR reserves as of each balance sheet date are provided in the Segment Results section of this MD&A and in Note E to the Consolidated Financial Statements included under Item 8.

We are subject to the uncertain effects of emerging or potential claims and coverage issues that arise as industry practices and legal, judicial, social, economic and other environmental conditions change. These issues have had, and may continue to have, a negative effect on our business by either extending coverage beyond the original underwriting intent or by increasing the number or size of claims.

Emerging or potential claims and coverage issues include, but are not limited to, uncertainty in future medical costs in workers' compensation. In particular, medical cost inflation could be greater than expected due to new treatments, drugs and devices; increased healthcare utilization; and/or the future costs of healthcare facilities. In addition, the relationship between workers' compensation and government and private healthcare providers could change, potentially shifting costs to workers' compensation.

The impact of these and other unforeseen emerging or potential claims and coverage issues is difficult to predict and could materially adversely affect the adequacy of our claim and claim adjustment expense reserves and could lead to future reserve additions.

Our property and casualty insurance subsidiaries also have actual and potential exposures related to A&EP claims. Our experience has been that establishing reserves for casualty coverages relating to A&EP claims and the related claim adjustment expenses are subject to uncertainties that are greater than those presented by other claims. Additionally, traditional actuarial methods and techniques employed to estimate the ultimate cost of claims for more traditional property and casualty exposures are less precise in estimating claim and claim adjustment reserves for A&EP. As a result, estimating the ultimate cost of both reported and unreported A&EP claims are subject to a higher degree of variability.

To mitigate the risks posed by our exposure to A&EP claims and claim adjustment expenses, we completed a transaction with NICO under which substantially all of our legacy A&EP liabilities were ceded to NICO effective January 1, 2010.

The Loss Portfolio Transfer is a retroactive reinsurance contract. The cumulative amounts ceded under the Loss Portfolio Transfer exceed the consideration paid, therefore we have recognized a deferred retroactive reinsurance gain. This deferred gain is recognized in earnings in proportion to actual recoveries under the Loss Portfolio Transfer. Over the life of the contract, there is no economic impact as long as any additional losses are within the limit of the contract.

See Note E to the Consolidated Financial Statements included under Item 8 for further discussion of the Loss Portfolio Transfer, its impact on our results of operations and the deferred retroactive reinsurance gain.





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Historically we performed our actuarial review of A&EP claims in the fourth quarter. In 2014 we were unable to complete the fourth quarter review because we determined that additional information and analysis of inuring third-party reinsurance recoveries was required. The reserve review was completed in the second quarter of 2015 and management adopted the second quarter of the year as the timing for all future annual A&EP claims actuarial reviews.

Establishing Property & Casualty Reserve Estimates

In developing claim and claim adjustment expense (“loss” or “losses”) reserve estimates, our actuaries perform detailed reserve analyses that are staggered throughout the year. The data is organized at a reserve group level. A reserve group can be a line of business covering a subset of insureds such as commercial automobile liability for small or middle market customers, it can encompass several lines of business provided to a specific set of customers such as dentists, or it can be a particular type of claim such as construction defect. Every reserve group is reviewed at least once during the year. The analyses generally review losses gross of ceded reinsurance and apply the ceded reinsurance terms to the gross estimates to establish estimates net of reinsurance. In addition to the detailed analyses, we review actual loss emergence for all products each quarter.

The detailed analyses use a variety of generally accepted actuarial methods and techniques to produce a number of estimates of ultimate loss. Our actuaries determine a point estimate of ultimate loss by reviewing the various estimates and assigning weight to each estimate given the characteristics of the reserve group being reviewed. The reserve estimate is the difference between the estimated ultimate loss and the losses paid to date. The difference between the estimated ultimate loss and the case incurred loss (paid loss plus case reserve) is IBNR. IBNR calculated as such includes a provision for development on known cases (supplemental development) as well as a provision for claims that have occurred but have not yet been reported (pure IBNR).

Most of our business can be characterized as long-tail. For long-tail business, it will generally be several years between the time the business is written and the time when all claims are settled. Our long-tail exposures include commercial automobile liability, workers' compensation, general liability, medical professional liability, other professional liability and management liability coverages, assumed reinsurance run-off and products liability. Short-tail exposures include property, commercial automobile physical damage, marine, surety and warranty. Specialty, Commercial and International contain both long-tail and short-tail exposures. Corporate & Other Non-Core contains long-tail exposures.

Various methods are used to project ultimate loss for both long-tail and short-tail exposures including, but not limited to, the following:

- paid development;
- incurred development;
- loss ratio;
- Bornhuetter-Ferguson using paid loss;
- Bornhuetter-Ferguson using incurred loss;
- frequency times severity; and
- stochastic modeling.

The paid development method estimates ultimate losses by reviewing paid loss patterns and applying them to accident or policy years with further expected changes in paid loss. Selection of the paid loss pattern may require consideration of several factors including the impact of inflation on claims costs, the rate at which claims professionals make claim payments and close claims, the impact of judicial decisions, the impact of underwriting changes, the impact of large claim payments and other factors. Claim cost inflation itself may require evaluation of changes in the cost of repairing or replacing property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors. Because this method assumes that losses are paid at a consistent rate, changes in any of these factors can impact the results. Since the method does not rely on case reserves, it is not directly influenced by changes in the adequacy of case reserves.

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For many reserve groups, paid loss data for recent periods may be too immature or erratic for accurate predictions. This situation often exists for long-tail exposures. In addition, changes in the factors described above may result in inconsistent payment patterns. Finally, estimating the paid loss pattern subsequent to the most mature point available in the data analyzed often involves considerable uncertainty for long-tail products such as workers' compensation. The incurred development method is similar to the paid development method, but it uses case incurred losses instead of paid losses. Since the method uses more data (case reserves in addition to paid losses) than the paid development method, the incurred development patterns may be less variable than paid patterns. However, selection of the incurred loss pattern typically requires analysis of all of the same factors described above. In addition, the inclusion of case reserves can lead to distortions if changes in case reserving practices have taken place, and the use of case incurred losses may not eliminate the issues associated with estimating the incurred loss pattern subsequent to the most mature point available.

The loss ratio method multiplies earned premiums by an expected loss ratio to produce ultimate loss estimates for each accident or policy year. This method may be useful for immature accident or policy periods or if loss development patterns are inconsistent, losses emerge very slowly, or there is relatively little loss history from which to estimate future losses. The selection of the expected loss ratio typically requires analysis of loss ratios from earlier accident or policy years or pricing studies and analysis of inflationary trends, frequency trends, rate changes, underwriting changes and other applicable factors.

The Bornhuetter-Ferguson method using paid loss is a combination of the paid development method and the loss ratio method. This method normally determines expected loss ratios similar to the approach used to estimate the expected loss ratio for the loss ratio method and typically requires analysis of the same factors described above. This method assumes that future losses will develop at the expected loss ratio level. The percent of paid loss to ultimate loss implied from the paid development method is used to determine what percentage of ultimate loss is yet to be paid. The use of the pattern from the paid development method typically requires consideration of the same factors listed in the description of the paid development method. The estimate of losses yet to be paid is added to current paid losses to estimate the ultimate loss for each year. For long-tail lines, this method will react very slowly if actual ultimate loss ratios are different from expectations due to changes not accounted for by the expected loss ratio calculation.

The Bornhuetter-Ferguson method using incurred loss is similar to the Bornhuetter-Ferguson method using paid loss except that it uses case incurred losses. The use of case incurred losses instead of paid losses can result in development patterns that are less variable than paid patterns. However, the inclusion of case reserves can lead to distortions if changes in case reserving have taken place, and the method typically requires analysis of the same factors that need to be reviewed for the loss ratio and incurred development methods.

The frequency times severity method multiplies a projected number of ultimate claims by an estimated ultimate average loss for each accident or policy year to produce ultimate loss estimates. Since projections of the ultimate number of claims are often less variable than projections of ultimate loss, this method can provide more reliable results for reserve groups where loss development patterns are inconsistent or too variable to be relied on exclusively. In addition, this method can more directly account for changes in coverage that impact the number and size of claims. However, this method can be difficult to apply to situations where very large claims or a substantial number of unusual claims result in volatile average claim sizes. Projecting the ultimate number of claims may require analysis of several factors including the rate at which policyholders report claims to us, the impact of judicial decisions, the impact of underwriting changes and other factors. Estimating the ultimate average loss may require analysis of the impact of large losses and claim cost trends based on changes in the cost of repairing or replacing property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors.

Stochastic modeling produces a range of possible outcomes based on varying assumptions related to the particular reserve group being modeled. For some reserve groups, we use models which rely on historical development patterns at an aggregate level, while other reserve groups are modeled using individual claim variability assumptions supplied by the claims department. In either case, multiple simulations are run and the results are analyzed to produce a range of potential outcomes. The results will typically include a mean and percentiles of the possible reserve distribution which aid in the selection of a point estimate.



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For many exposures, especially those that can be considered long-tail, a particular accident or policy year may not have a sufficient volume of paid losses to produce a statistically reliable estimate of ultimate losses. In such a case, our actuaries typically assign more weight to the incurred development method than to the paid development method. As claims continue to settle and the volume of paid loss increases, the actuaries may assign additional weight to the paid development method. For most of our products, even the incurred losses for accident or policy years that are early in the claim settlement process will not be of sufficient volume to produce a reliable estimate of ultimate losses. In these cases, we will not assign any weight to the paid and incurred development methods. We will use the loss ratio, Bornhuetter-Ferguson and frequency times severity methods. For short-tail exposures, the paid and incurred development methods can often be relied on sooner, primarily because our history includes a sufficient number of years to cover the entire period over which paid and incurred losses are expected to change. However, we may also use the loss ratio, Bornhuetter-Ferguson and frequency times severity methods for short-tail exposures. For other more complex reserve groups where the above methods may not produce reliable indications, we use additional methods tailored to the characteristics of the specific situation.

Periodic Reserve Reviews

The reserve analyses performed by our actuaries result in point estimates. Each quarter, the results of the detailed reserve reviews are summarized and discussed with senior management to determine the best estimate of reserves. Senior management considers many factors in making this decision. The factors include, but are not limited to, the historical pattern and volatility of the actuarial indications, the sensitivity of the actuarial indications to changes in paid and incurred loss patterns, the consistency of claims handling processes, the consistency of case reserving practices, changes in our pricing and underwriting, pricing and underwriting trends in the insurance market and legal, judicial, social and economic trends.

Our recorded reserves reflect our best estimate as of a particular point in time based upon known facts, consideration of the factors cited above and our judgment. The carried reserve may differ from the actuarial point estimate as the result of our consideration of the factors noted above as well as the potential volatility of the projections associated with the specific reserve group being analyzed and other factors affecting claims costs that may not be quantifiable through traditional actuarial analysis. This process results in management's best estimate which is then recorded as the loss reserve.

Currently, our recorded reserves are modestly higher than the actuarial point estimate. For Commercial, Specialty and International, the difference between our reserves and the actuarial point estimate is primarily driven by uncertainty with respect to immature accident years, claim cost inflation, changes in claims handling, changes to the tort environment which may adversely impact claim costs and the effects from the economy. For Corporate & Other Non-Core, the difference between our reserves and the actuarial point estimate is primarily driven by the potential tail volatility of run-off exposures.

The key assumptions fundamental to the reserving process are often different for various reserve groups and accident or policy years. Some of these assumptions are explicit assumptions that are required of a particular method, but most of the assumptions are implicit and cannot be precisely quantified. An example of an explicit assumption is the pattern employed in the paid development method. However, the assumed pattern is itself based on several implicit assumptions such as the impact of inflation on medical costs and the rate at which claim professionals close claims. As a result, the effect on reserve estimates of a particular change in assumptions typically cannot be specifically quantified, and changes in these assumptions cannot be tracked over time.

Our recorded reserves are management's best estimate. In order to provide an indication of the variability associated with our net reserves, the following discussion provides a sensitivity analysis that shows the approximate estimated impact of variations in significant factors affecting our reserve estimates for particular types of business. These significant factors are the ones that we believe could most likely materially affect the reserves. This discussion covers the major types of business for which we believe a material deviation to our reserves is reasonably possible. There can be no assurance that actual experience will be consistent with the current assumptions or with the variation indicated by the discussion. In addition, there can be no assurance that other factors and assumptions will not have a material impact on our reserves.



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The three areas for which we believe a significant deviation to our net reserves is reasonably possible are (i) professional liability, management liability, and surety products; (ii) workers' compensation; and (iii) general liability. Professional liability and management liability products and surety products include professional liability coverages provided to various professional firms, including architects, real estate agents, small and mid-sized accounting firms, law firms and other professional firms. They also include directors and officers (D&O), employment practices, fiduciary, fidelity and surety coverages, as well as insurance products serving the healthcare delivery system. The most significant factor affecting reserve estimates for these liability coverages is claim severity. Claim severity is driven by the cost of medical care, the cost of wage replacement, legal fees, judicial decisions, legislative changes and other factors. Underwriting and claim handling decisions such as the classes of business written and individual claim settlement decisions can also impact claim severity. If the estimated claim severity increases by 9%, we estimate that the net reserves would increase by approximately \$500 million. If the estimated claim severity decreases by 3%, we estimate that net reserves would decrease by approximately \$150 million. Our net reserves for these products were approximately \$5.4 billion as of December 31, 2015.

For workers' compensation, since many years will pass from the time the business is written until all claim payments have been made, claim cost inflation on claim payments is the most significant factor affecting workers' compensation reserve estimates. Workers' compensation claim cost inflation is driven by the cost of medical care, the cost of wage replacement, expected claimant lifetimes, judicial decisions, legislative changes and other factors. If estimated workers' compensation claim cost inflation increases by 100 basis points for the entire period over which claim payments will be made, we estimate that our net reserves would increase by approximately \$400 million. If estimated workers' compensation claim cost inflation decreases by 100 basis points for the entire period over which claim payments will be made, we estimate that our net reserves would decrease by approximately \$350 million. Our net reserves for workers' compensation were approximately \$4.3 billion as of December 31, 2015.

For general liability, the most significant factor affecting reserve estimates is claim severity. Claim severity is driven by changes in the cost of repairing or replacing property, the cost of medical care, the cost of wage replacement, judicial decisions, legislation and other factors. If the estimated claim severity for general liability increases by 6%, we estimate that our net reserves would increase by approximately \$200 million. If the estimated claim severity for general liability decreases by 3%, we estimate that our net reserves would decrease by approximately \$100 million. Our net reserves for general liability were approximately \$3.6 billion as of December 31, 2015.

Given the factors described above, it is not possible to quantify precisely the ultimate exposure represented by claims and related litigation. As a result, we regularly review the adequacy of our reserves and reassess our reserve estimates as historical loss experience develops, additional claims are reported and settled and additional information becomes available in subsequent periods. In reviewing our reserve estimates, we make adjustments in the period that the need for such adjustments is determined. These reviews have resulted in our identification of information and trends that have caused us to change our reserves in prior periods and could lead to the identification of a need for additional material increases or decreases in claim and claim adjustment expense reserves, which could materially affect our results of operations, equity, business and insurer financial strength and corporate debt ratings positively or negatively. See the Ratings section of this MD&A for further information regarding our financial strength and corporate debt ratings.

#### Life & Group Non-Core Policyholder Reserves

We maintain both claim and claim adjustment expense reserves as well as future policy benefits reserves for policyholder benefits for our Life & Group Non-Core segment. Claim and claim expense reserves consist of estimated reserves for long term care policyholders that are currently receiving benefits, including claims that have been incurred but are not yet reported. In developing the claim and claim adjustment expense reserve estimates for our long term care policies, our actuaries perform a detailed claim experience study on an annual basis. The study reviews the sufficiency of existing reserves for policyholders currently on claim and includes an evaluation of expected benefit utilization and claim duration. Our recorded claim and claim adjustment expense reserves reflect our best estimate after incorporating the results of the most recent study. In addition, claim and claim adjustment reserves are also maintained for structured settlement obligations that are not funded by annuities related to certain property and casualty claimants. Future policy benefits reserves represent the active life reserves related



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to our long term care policies and are the present value of expected future benefit payments and expenses less expected future premium. The determination of these reserves is fundamental to our financial results and requires management to make estimates and assumptions about expected investment and policyholder experience over the life of the contract. Since many of these contracts may be in force for several decades, these assumptions are subject to significant estimation risk.

While the structured settlement obligations arise under short duration contracts, long duration contract principles and actuarial methods are used to determine management's best estimate of the required claim and claim adjustment reserve.

Under GAAP, reserves for long term care future policy benefits and the unfunded structured settlement annuity claim and claim adjustment expense reserves were first established based on our actuarial best estimate assumptions at the date the contract was issued plus a margin for adverse deviation. Actuarial assumptions include estimates of morbidity, persistency, discount rates and expenses over the life of the contracts. These assumptions are locked in throughout the life of the contract unless a premium deficiency develops. The impact of differences between the actuarial assumptions and actual experience is reflected in results of operations each period.

Long term care policies provide benefits for nursing homes, assisted living and home health care subject to various daily and lifetime caps. Policyholders must continue to make periodic premium payments to keep the policy in force. Generally we have the ability to increase policy premiums, subject to state regulatory approval.

The actuarial assumptions that management believes are subject to the most variability are morbidity, persistency and discount rate. Persistency can be affected by policy lapses and death. Discount rate is influenced by the investment yield on assets supporting long term care reserves which is subject to interest rate and market volatility. There is limited historical company and industry data available to us for long term care morbidity and mortality, as only a portion of the policies written to date are in claims paying status. As a result of this variability, our long term care reserves may be subject to material increases if actual experience develops adversely to our expectations.

Annually, management assesses the adequacy of its GAAP long term care future policy benefits reserves as well as the claim and claim adjustment expense reserves for unfunded structured settlement obligations by performing a gross premium valuation (GPV) to determine if there is a premium deficiency. Under the GPV, management estimates required reserves using best estimate assumptions, including anticipated future premium rate increases, as of the date of the assessment without provisions for adverse deviation. The GPV reserves are then compared to the recorded reserves. If the GPV reserves are greater than the existing net GAAP reserves (i.e. reserves net of any deferred acquisition costs asset), the existing net GAAP reserves are unlocked and are increased to the greater amount. Any such increase is reflected in our results of operations in the period in which the need for such adjustment is determined, and could materially adversely affect our results of operations, equity and business and insurer financial strength and corporate debt ratings.

Prior to December 31, 2015, the active life reserves for long term care were based on the actuarial assumptions established at policy issuance. The December 31, 2014 GPV indicated the carried reserves included a margin of approximately \$100 million. The December 31, 2015 GPV indicated a premium deficiency of \$296 million. A summary of the changes in the GPV results is presented in the table below:

Long Term Care Active Life Reserve - Change in GPV (In millions)

December 31, 2014 Margin	\$ 100	
Changes in underlying morbidity assumptions	(398	)
Changes in underlying persistency assumptions	(80	)
Changes in underlying discount rate assumptions	47	
Changes in underlying premium rate action assumptions	50	
Changes in underlying expense and other assumptions	(15	)
December 31, 2015 Premium Deficiency	\$ (296	)



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The premium deficiency was primarily driven by changes in morbidity assumptions, in particular by higher claim incidence, reflective of trends observed in our emerging experience. There are a variety of factors that impact claim incidence rates, including, but not limited to, policyholder behavior, socioeconomic factors, changes in health trends and advances in medical care. The premium deficiency was also adversely affected by changes in persistency assumptions, primarily from lower projected active life mortality rates. Adverse changes from morbidity and persistency were somewhat offset by increases in planned rate increase actions and changes in discount rate assumptions. The increase in planned rate actions was primarily due to updated assumptions on the approval rate and timing of future premium rate increases in our group block. Changes in discount rate assumptions were primarily due to changes in future interest rate assumptions, contemplating both near-term market indications and long-term normative assumptions. Changes in expenses and other assumptions had a small adverse impact on the premium deficiency.

The indicated premium deficiency necessitated a charge to income that was effected by the write off of the entire long term care deferred acquisition cost asset of \$289 million and an increase to active life reserves of \$7 million. As a result, the long term care active life reserves carried as of December 31, 2015 represent management's best estimate assumptions at that date with no margin for adverse deviation. Since there is no margin in the carried reserves, we may have to unlock our reserve assumptions in the future. Factors that could affect the need to unlock reserve assumptions include the significance and persistence of variances between actual experience and the expected results contemplated in the best estimate reserves as well as changes in our outlook of the future.

In addition to the premium deficiency, our annual experience study of claim reserves indicated a deficiency of \$9 million. The deficiency was primarily related to updating claim frequency assumptions on incurred but not reported claims, offset by favorable severity on existing claims. The total after-tax impact of the premium deficiency and claim reserve deficiency was \$198 million.

The table below summarizes the estimated pretax impact on our results of operations from various hypothetical revisions to our assumptions. We have assumed that revisions to such assumptions would occur in each policy type, age and duration within each policy group and would occur absent any changes, mitigating or otherwise, in the other assumptions. Although such hypothetical revisions are not currently required or anticipated, we believe they could occur based on past variances in experience and our expectations of the ranges of future experience that could reasonably occur. The hypothetical revisions have been updated from the disclosures in prior periods to be reflective of our updated best estimate assumptions as of December 31, 2015 in support of our active life reserves. As a result, in some cases the scenarios described below are not directly comparable to prior periods. Persistency now reflects active life mortality and lapse whereas prior periods reflected total lives. Discount rates now reflect future interest rates only whereas prior periods reflected future interest rates and changes in our existing investment portfolio yield. The hypothetical scenarios for morbidity and premium rate actions are comparable to prior periods.

December 31, 2015

Hypothetical revisions (In millions)	Estimated reduction to pretax income
Morbidity:	
5% increase in morbidity	\$611
10% increase in morbidity	1,223
Persistency:	
5% decrease in active life mortality and lapse	\$211
10% decrease in active life mortality and lapse	436
Discount Rates:	
50 basis point decline in future interest rates	\$321
100 basis point decline in future interest rates	675
Premium Rate Actions:	
25% decrease in anticipated future rate increases premium	\$165
50% decrease in anticipated future rate increases premium	329

Any actual adjustment would be dependent on the specific policies affected and, therefore, may differ from the estimates summarized above.

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## SEGMENT RESULTS

The following discusses the results of continuing operations for our business segments.

Our core property and casualty commercial insurance operations are aggregated and reported in three business segments: Specialty, Commercial and International. Specialty provides a broad array of professional, financial and specialty property and casualty products and services, through a network of independent agents, brokers and managing general underwriters. Commercial includes property and casualty coverages sold to small businesses and middle market entities and organizations primarily through an independent agency distribution system. Commercial also includes commercial insurance and risk management products sold to large corporations primarily through insurance brokers. International provides management and professional liability coverages as well as a broad range of other property and casualty insurance products and services abroad through a network of brokers, independent agencies and managing general underwriters, as well as the Lloyd's marketplace.

Our non-core operations are managed and reported in two segments: Life & Group Non-Core and Corporate & Other Non-Core. Life & Group Non-Core primarily includes the results of our long term care business that is in run-off. Corporate & Other Non-Core primarily includes certain corporate expenses, including interest on corporate debt, and the results of certain property and casualty business in run-off, including CNA Re and A&EP. Intersegment eliminations are also included in this segment.

Our property and casualty field structure consists of 49 underwriting locations across the United States. In addition, there are five centralized processing operations which handle policy processing, billing and collection activities and also act as call centers to optimize service. The claims structure consists of two regional claim centers designed to efficiently handle the high volume of low severity claims including property damage, liability and workers' compensation medical only claims, and 16 principal claim offices handling the more complex claims. We also have a presence in Canada, Europe and Singapore consisting of 19 branch operations and access to business placed at Lloyd's of London through Hardy Syndicate 382.

We utilize the net operating income financial measure to monitor our operations. Net operating income (loss) is calculated by excluding from net income (loss) the after-tax effects of 1) net realized investment gains or losses, 2) income or loss from discontinued operations and 3) any cumulative effects of changes in accounting guidance. See further discussion regarding how we manage our business in Note O to the Consolidated Financial Statements included under Item 8.

In evaluating the results of our Specialty, Commercial and International segments, we utilize the loss ratio, the expense ratio, the dividend ratio, and the combined ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of insurance underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of policyholders' dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios. In addition we also utilize rate, retention and new business in evaluating operating trends. Rate represents the average change in price on policies that renew excluding exposure change. Retention represents the percentage of premium dollars renewed in comparison to the expiring premium dollars from policies available to renew. New business represents premiums from policies written with new customers and additional policies written with existing customers.

Changes in estimates of claim and allocated claim adjustment expense reserves and premium accruals, net of reinsurance, for prior years are defined as net prior year development within this MD&A. These changes can be favorable or unfavorable. Net prior year development does not include the impact of related acquisition expenses. Further information on our reserves is provided in Note E to the Consolidated Financial Statements included under Item 8.

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Specialty

Specialty provides management and professional liability and other coverages through property and casualty products and services using a network of brokers, independent agencies and managing general underwriters. Specialty includes the following business groups:

Management & Professional Liability provides management and professional liability insurance and risk management services and other specialized property and casualty coverages. This group provides professional liability coverages to various professional firms, including architects, real estate agents, accounting firms, law firms and other professional firms. Management & Professional Liability also provides D&O, employment practices, fiduciary and fidelity coverages. Specific areas of focus include small and mid-size firms, public as well as privately held firms and not-for-profit organizations, where tailored products for these client segments are offered. Products within Management & Professional Liability are distributed through brokers, independent agents and managing general underwriters. Management & Professional Liability, through CNA HealthCare, also offers insurance products to serve the healthcare industry. Products include professional and general liability as well as associated standard property and casualty coverages, and are distributed on a national basis through brokers, independent agents and managing general underwriters. Key customer groups include aging services, allied medical facilities, life sciences, dentists, physicians, hospitals and nurses and other medical practitioners.

Surety offers small, medium and large contract and commercial surety bonds. Surety provides surety and fidelity bonds in all 50 states through a network of independent agencies and brokers.

Warranty and Alternative Risks provides extended service contracts and related products that provide protection from the financial burden associated with mechanical breakdown and other related losses, primarily for vehicles and portable electronic communication devices.

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The following table details the results of operations for Specialty.

Years ended December 31

(In millions, except ratios, rate and retention)

	2015	2014	2013	
Net written premiums	\$2,781	\$2,839	\$2,880	
Net earned premiums	2,782	2,838	2,795	
Net investment income	474	560	629	
Net operating income	560	634	668	
Net realized investment (losses) gains, after tax	(22	) 10	(3	)
Net income	538	644	665	
Other performance metrics:				
Loss and loss adjustment expense ratio	57.4	% 57.3	% 57.0	%
Expense ratio	31.1	30.1	29.9	
Dividend ratio	0.2	0.2	0.2	
Combined ratio	88.7	% 87.6	% 87.1	%
Rate	1	% 3	% 6	%
Retention	86	% 87	% 85	%
New Business	\$279	\$309	\$342	

2015 Compared with 2014

Net written premiums for Specialty decreased \$58 million in 2015 as compared with 2014, driven by lower new business. The decrease in net earned premiums was consistent with the trend in net written premiums.

Net operating income decreased \$74 million in 2015 as compared with 2014, primarily due to lower net investment income.

The combined ratio increased 1.1 points in 2015 as compared with 2014. The loss ratio increased 0.1 points due to deterioration in the current accident year loss ratio, primarily offset by higher net favorable prior year development. Catastrophe losses were \$13 million, or 0.4 points of the loss ratio, for 2015 as compared to \$21 million, or 0.7 points of the loss ratio, for 2014. The expense ratio increased 1.0 point in 2015 as compared with 2014, driven by increased underwriting expenses and the unfavorable effect of lower net earned premiums.

Favorable net prior year development of \$152 million and \$149 million was recorded in 2015 and 2014. Further information on net prior year development is in Note E to the Consolidated Financial Statements included under Item 8.

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The following table summarizes the gross and net carried reserves for Specialty.

December 31

(In millions)

	2015	2014
Gross Case Reserves	\$2,011	\$2,136
Gross IBNR Reserves	4,258	4,093
Total Gross Carried Claim and Claim Adjustment Expense Reserves	\$6,269	\$6,229
Net Case Reserves	\$1,810	\$1,929
Net IBNR Reserves	3,758	3,726
Total Net Carried Claim and Claim Adjustment Expense Reserves	\$5,568	\$5,655

2014 Compared with 2013

Net written and earned premiums for Specialty in 2014 were largely consistent with 2013, although the level of new business has declined reflecting competitive market conditions.

Net income decreased \$21 million in 2014 as compared with 2013. This decrease was due to lower net operating income, partially offset by improved net realized investment results.

Net operating income decreased \$34 million in 2014 as compared with 2013, primarily due to lower net investment income and less favorable net prior year development, partially offset by improved current accident year underwriting results.

The combined ratio increased 0.5 points in 2014 as compared with 2013. The loss ratio increased 0.3 points due to less favorable net prior year development, partially offset by improvement in the current accident year loss ratio.

Favorable net prior year development of \$149 million and \$210 million was recorded in 2014 and 2013. Further information on net prior year development is in Note E to the Consolidated Financial Statements included under Item 8.

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## Commercial

Commercial works with an independent agency distribution system and a network of brokers to market a broad range of property and casualty insurance products and services to small, middle-market and large businesses and organizations. Property products include standard and excess property, marine and boiler and machinery coverages. Casualty products include standard casualty insurance products such as workers' compensation, general and product liability, commercial auto and umbrella coverages. Most insurance programs are provided on a guaranteed cost basis; however, we also offer specialized loss-sensitive insurance programs.

These property and casualty products are offered as part of our Middle Market, Small Business and Other Commercial insurance groups. Other Commercial also includes total risk management services relating to claim and information services to the large commercial insurance marketplace, through a wholly-owned subsidiary, CNA ClaimPlus, Inc., a third-party administrator.

The following table details the results of operations for Commercial.

Years ended December 31

(In millions, except ratios, rate and retention)

	2015	2014	2013	
Net written premiums	\$2,818	\$2,817	\$2,960	
Net earned premiums	2,788	2,906	3,004	
Net investment income	593	723	899	
Net operating income	369	307	448	
Net realized investment (losses) gains, after tax	(31	) 10	(10	)
Net income	338	317	438	
Other performance metrics:				
Loss and loss adjustment expense ratio	65.1	% 75.3	% 75.2	%
Expense ratio	36.1	33.7	34.0	
Dividend ratio	0.3	0.3	0.3	
Combined ratio	101.5	% 109.3	% 109.5	%
Rate	2	% 5	% 9	%
Retention	79	% 73	% 74	%
New Business	\$552	\$491	\$622	

2015 Compared with 2014

Net written premiums for Commercial were consistent in 2015 as compared with 2014. Positive rate and higher retention and new business were offset by the residual effect of previous underwriting actions undertaken in certain business classes. Net earned premiums decreased \$118 million in 2015 as compared with 2014, consistent with the trend in recent quarters in net written premiums.

Net operating income increased \$62 million in 2015 as compared with 2014. This increase was primarily due to improved underwriting results partially offset by lower net investment income.

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The combined ratio improved 7.8 points in 2015 as compared to 2014. The loss ratio improved 10.2 points, due to favorable net prior year development for 2015 as compared to unfavorable net prior year development for 2014 and an improved current accident year loss ratio. Catastrophe losses were \$101 million, or 3.6 points of the loss ratio, for 2015, as compared to \$125 million, or 4.4 points of the loss ratio, for 2014. The expense ratio increased 2.4 points in 2015 as compared with 2014, due to higher expenses including increased commissions, the favorable impact in 2014 of recoveries on insurance receivables written off in prior years and the unfavorable effect of lower net earned premiums.

Favorable net prior year development of \$30 million was recorded in 2015 as compared with unfavorable net prior year development of \$156 million in 2014. Further information on net prior year development is in Note E to the Consolidated Financial Statements included under Item 8.

The following table summarizes the gross and net carried reserves for Commercial.

December 31

(In millions)

	2015	2014
Gross Case Reserves	\$4,975	\$5,298
Gross IBNR Reserves	4,208	4,216
Total Gross Carried Claim and Claim Adjustment Expense Reserves	\$9,183	\$9,514
Net Case Reserves	\$4,651	\$4,947
Net IBNR Reserves	3,925	3,906
Total Net Carried Claim and Claim Adjustment Expense Reserves	\$8,576	\$8,853

2014 Compared with 2013

Net written premiums for Commercial decreased \$143 million in 2014 as compared with 2013 primarily driven by a lower level of new business, reflecting competitive market conditions, and underwriting actions taken in certain business classes, partially offset by continued rate increases. Net earned premiums decreased \$98 million in 2014 as compared with 2013, consistent with decreased net written premiums.

Net income decreased \$121 million in 2014 as compared with 2013. This decrease was due to lower net operating income, partially offset by improved net realized investment results.

Net operating income decreased \$141 million in 2014 as compared with 2013. This decrease was primarily due to lower net investment income and higher unfavorable net prior year development, partially offset by improved current accident year underwriting results. In addition, 2013 results included a legal settlement benefit of \$31 million after tax.

The combined ratio and loss ratio in 2014 were largely consistent with 2013. The unfavorable impact of net prior year development was offset by an improved current accident year loss ratio. Catastrophe losses were \$125 million, or 4.4 points of the loss ratio for 2014, as compared to \$133 million, or 4.4 points of the loss ratio for 2013. The expense ratio improved 0.3 points in 2014 as compared with 2013, primarily due to the favorable impact of recoveries on insurance receivables written off in prior years.

Unfavorable net prior year development of \$156 million and \$114 million was recorded in 2014 and 2013. Further information on net prior year development is in Note E to the Consolidated Financial Statements included under Item 8.



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International

International provides property and casualty insurance and specialty coverages on a global basis through its operations in Canada, the United Kingdom, Continental Europe and Singapore, as well as through its presence at Lloyd's of London.

The International business is grouped into broad business units - Energy & Marine, Property, Casualty, Specialty, and Healthcare & Technology - and is managed across three territorial platforms.

Canada provides standard commercial and specialty insurance products, primarily in the marine, oil & gas, construction, manufacturing and life science industries.

CNA Europe provides a diverse range of specialty products as well as commercial insurance products primarily in the marine, property, financial services and healthcare & technology, industries throughout Europe on both a domestic and cross border basis.

Hardy operates through Lloyd's Syndicate 382 underwriting primarily short-tail exposures in energy, marine, property, casualty and specialty lines with risks located in many countries around the world. The capacity of and results from the syndicate are 100% attributable to CNA.

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The following table details the results of operations for International.

Years ended December 31

(In millions, except ratios, rate and retention)

	2015		2014		2013	
Net written premiums	\$822		\$880		\$959	
Net earned premiums	804		913		916	
Net investment income	52		61		60	
Net operating income	37		69		69	
Net realized investment gains, after tax	1		—		3	
Net income	38		69		72	
Other performance metrics:						
Loss and loss adjustment expense ratio	59.5	%	53.5	%	53.4	%
Expense ratio	38.1		38.9		39.7	
Dividend ratio	—		—		—	
Combined ratio	97.6	%	92.4	%	93.1	%
Rate	(1	)%	(1	)%	1	%
Retention	76	%	74	%	79	%
New Business (a)	\$111		\$115		\$117	

(a) This does not include Hardy new business.

2015 Compared with 2014

Net written premiums for International decreased \$58 million in 2015 as compared with 2014, driven by the unfavorable effect of foreign currency exchange rates, the 2014 termination of a specialty product managing general underwriter relationship in Canada and unfavorable premium development at Hardy. Excluding the effect of foreign currency exchange rates, net written premiums increased 2.4% in 2015 as compared with 2014. Net earned premiums decreased \$109 million in 2015 as compared with 2014, consistent with the trend in net written premiums.

Net operating income decreased \$32 million in 2015 as compared with 2014. This decrease was due to less favorable underwriting results, partially offset by less unfavorable effects of foreign currency exchange rates.

The combined ratio increased 5.2 points in 2015 as compared with 2014. The loss ratio increased 6.0 points, primarily due to less favorable net prior year development and an increase in the current accident year loss ratio driven by large losses. Catastrophe losses were \$27 million, or 3.3 points of the loss ratio, for 2015, as compared to \$10 million, or 1.0 point of the loss ratio, for 2014. The expense ratio improved 0.8 points in 2015 as compared with 2014 due to lower expenses, partially offset by the unfavorable effect of lower net earned premiums.

Favorable net prior year development of \$36 million and \$57 million was recorded in 2015 and 2014. Further information on net prior year development is in Note E to the Consolidated Financial Statements included under Item 8.

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The following table summarizes the gross and net carried reserves for International.

December 31 (In millions)	2015	2014
Gross Case Reserves	\$622	\$752
Gross IBNR Reserves	725	689
Total Gross Carried Claim and Claim Adjustment Expense Reserves	\$1,347	\$1,441
Net Case Reserves	\$531	\$598
Net IBNR Reserves	688	663
Total Net Carried Claim and Claim Adjustment Expense Reserves	\$1,219	\$1,261

## 2014 Compared with 2013

Net written premiums for International decreased \$79 million in 2014 as compared with 2013, primarily due to the 2013 Hardy commutation of a third-party capital provider's 15% share of the 2012 year of account as well as the termination of a specialty product managing general underwriter relationship in Canada. The Hardy commutation increased 2013 net written premiums by \$51 million and 2013 net earned premiums by \$45 million. Net earned premiums decreased \$3 million in 2014 as compared with 2013, consistent with decreases in net written premiums. There was no change in net operating income in 2014 as compared with 2013. The effects of foreign currency exchange rates and unfavorable current accident year underwriting results were offset by the release of the allowance for uncollectible reinsurance related to commutations in the first quarter of 2014.

The combined ratio improved 0.7 points in 2014 as compared with 2013. The loss ratio increased 0.1 points, due to the higher current accident year loss ratio, substantially offset by the impact of commutations. Catastrophe losses were \$10 million, or 1.0 point of the loss ratio for 2014, as compared to \$14 million, or 1.5 points of the loss ratio for 2013. The expense ratio improved 0.8 points in 2014 as compared with 2013, primarily due to decreased acquisition expenses.

Favorable net prior year development of \$57 million and \$59 million was recorded in 2014 and 2013. Further information on net prior year development is in Note E to the Consolidated Financial Statements included under Item 8.

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## Life &amp; Group Non-Core

The Life & Group Non-Core segment primarily includes the results of our long term care business that is in run-off. Long term care policies were sold on both an individual and group basis. While considered non-core, new enrollees in existing groups were accepted through February 1, 2016.

The following table summarizes the results of operations for Life & Group Non-Core.

Years ended December 31

(In millions)	2015	2014	2013	
Net earned premiums	\$548	\$556	\$559	
Net investment income	704	700	662	
Net operating loss	(314	) (69	) (74	)
Net realized investment gains, after tax	8	7	18	
Net loss	(306	) (62	) (56	)

2015 Compared with 2014

Net earned premiums for Life & Group Non-Core decreased \$8 million in 2015 as compared with 2014. The effect of policy lapses was substantially offset by premium rate increases.

Net operating loss increased \$245 million in 2015 as compared with 2014. The increase was driven by a \$296 million charge related to recognition of a premium deficiency and a \$9 million deficiency in claim reserves in our long term care business. The after-tax impact of both of these items was \$198 million. Excluding the effects of these items, results in 2015 were also negatively affected by higher morbidity in our long term care business. Results in 2014 were negatively affected by a \$34 million after-tax loss on a coinsurance transaction related to the sale of CAC. For further discussion of drivers of the premium deficiency, see the Reserves - Estimates and Uncertainties section of this MD&A.

As a result of recognizing the premium deficiency, the actuarial assumptions used to determine long term care Future policy benefits reserves were unlocked. The December 31, 2015 Future policy benefits reserves for long term care are based on our best estimate assumptions with no margin for adverse deviation. Since there is no margin in the carried reserves, we may have to unlock our reserve assumptions in the future. Factors that could affect the need to unlock reserve assumptions include the significance and persistence of variances between actual experience and the expected results contemplated in the best estimate reserves as well as changes in our outlook of the future.

The periodic operating results for this business in 2016 will reflect any variance between actual experience and the expected results contemplated in our best estimate reserves.

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The following table summarizes policyholder reserves for Life & Group Non-Core.  
December 31, 2015

(In millions)	Claim and claim adjustment expenses	Future policy benefits	Total
Long term care	\$2,229	\$8,335	\$10,564
Structured settlement annuities	581	—	581
Other	21	—	21
Total	2,831	8,335	11,166
Shadow adjustments <sup>(a)</sup>	99	1,610	1,709
Ceded reserves	290	207	497
Total gross reserves December 31, 2014	\$3,220	\$10,152	\$13,372

(In millions)	Claim and claim adjustment expenses	Future policy benefits	Total
Long term care	\$2,064	\$7,782	\$9,846
Structured settlement annuities	606	—	606
Other	28	1	29
Total	2,698	7,783	10,481
Shadow adjustments <sup>(a)</sup>	145	1,522	1,667
Ceded reserves	340	185	525
Total gross reserves	\$3,183	\$9,490	\$12,673

(a) To the extent that unrealized gains on fixed income securities supporting long term care products and annuity contracts would result in a premium deficiency if those gains were 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). The Shadow adjustment presented above as of December 31, 2014 does not include \$314 million related to Deferred acquisition costs.

## 2014 Compared with 2013

Net earned premiums for Life & Group Non-Core were largely consistent in 2014 as compared with 2013, as the effect of policy lapses was substantially offset by rate increases.

Net loss increased \$6 million in 2014 as compared with 2013, driven by decreased net realized investment results, partially offset by a lower net operating loss.

Net operating loss decreased \$5 million in 2014 as compared with 2013. Results in our long term care and life settlement businesses improved in 2014, but that improvement was substantially offset by the \$34 million after-tax loss on the previously discussed coinsurance transaction and results for our remaining structured settlements. The improved results in long term care were driven by higher net investment income attributable to a higher invested asset base and portfolio allocation of tax-exempt bonds, rate increase actions and the slightly more favorable net morbidity and persistency.

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## Corporate &amp; Other Non-Core

Corporate & Other Non-Core primarily includes certain corporate expenses, including interest on corporate debt and the results of certain property and casualty business in run-off, including CNA Re and A&EP.

The following table summarizes the results of operations for the Corporate & Other Non-Core segment, including intersegment eliminations.

Years ended December 31

(In millions)	2015	2014	2013	
Net investment income	\$17	\$23	\$32	
Interest expense	154	182	160	
Net operating loss	(137	) (92	) (210	)
Net realized investment gains, after tax	8	12	6	
Net loss	(129	) (80	) (204	)

2015 Compared with 2014

Net operating loss increased \$45 million in 2015 as compared with 2014. Results in 2015 were negatively affected by an increase in gross A&EP claim reserves. While all of this reserve development is reinsured under the Loss Portfolio Transfer, only a portion of the reinsurance recovery is currently recognized because of the application of retroactive reinsurance accounting. As a result, the net operating loss comparison was negatively affected by \$51 million, as further discussed in Note E to the Consolidated Financial Statements included under Item 8. Results in 2015 benefited from lower interest expense due to the maturity of higher coupon debt in the fourth quarter of 2014. Results in 2014 included a \$56 million after-tax curtailment gain related to a change in postretirement benefits, substantially offset by a \$55 million after-tax lump sum pension plan settlement, as further discussed in Note I to the Consolidated Financial Statements included under Item 8.

No net prior year development was recorded for the year ended December 31, 2015 as compared with favorable net prior year development of \$3 million for the year ended December 31, 2014.

The following table summarizes the gross and net carried reserves for Corporate & Other Non-Core.

December 31

(In millions)	2015	2014
Gross Case Reserves	\$1,521	\$1,189
Gross IBNR Reserves	1,123	1,715
Total Gross Carried Claim and Claim Adjustment Expense Reserves	\$2,644	\$2,904
Net Case Reserves	\$130	\$144
Net IBNR Reserves	153	171
Total Net Carried Claim and Claim Adjustment Expense Reserves	\$283	\$315

2014 Compared with 2013

Net loss decreased \$124 million in 2014 as compared with 2013. Results in 2013 included the unfavorable impact of a \$123 million after-tax deferred gain under retroactive reinsurance accounting related to the Loss Portfolio Transfer, as further discussed in Note E to the Consolidated Financial Statements included under Item 8. Results in 2014 included a \$56 million after-tax benefit related to a postretirement plan curtailment, substantially offset by a \$55 million after-tax lump sum pension plan settlement, as further discussed in Note I to the Consolidated Financial Statements included under Item 8.

Favorable net prior year development of \$3 million and \$5 million was recorded in 2014 and 2013.

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## INVESTMENTS

## Net Investment Income

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

Years ended December 31

(In millions)

Fixed maturity securities:

	2015	2014	2013
Taxable	\$1,375	\$1,399	\$1,510
Tax-Exempt	376	404	317
Total fixed maturity securities	1,751	1,803	1,827
Limited partnership investments	92	263	451
Other, net of investment expense	(3	) 1	4
Net investment income	\$1,840	\$2,067	\$2,282
Net investment income, after tax	\$1,329	\$1,473	\$1,578

Effective income yield for the fixed maturity securities portfolio, pretax	4.7	% 4.8	% 5.0	%
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Effective income yield for the fixed maturity securities portfolio, after tax	3.4	% 3.5	% 3.5	%
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Net investment income, after tax, decreased \$144 million in 2015 as compared with 2014. The decrease was driven by limited partnership investments, which returned 3.0% in 2015 as compared with 9.7% in the prior year. Income from fixed maturity securities, after tax, decreased \$34 million driven by a \$25 million change in estimate effected by a change in accounting principle to better reflect the yield on fixed maturity securities that have call provisions.

Additionally income from fixed maturity securities decreased due to lower reinvestment rates, partially offset by favorable changes in estimates for prepayments for asset-backed securities. See further discussion of the accounting change in Note A to the Consolidated Financial Statements included under Item 8.

Net investment income, after tax, decreased \$105 million in 2014 as compared with 2013. The decrease was primarily driven by limited partnerships, which produced a rate of return of 9.7% as compared with 18.3% in the prior year.

This was partially offset by an increase in after-tax fixed maturity securities investment income due to additional investments in tax-exempt securities.

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## Net Realized Investment Gains (Losses)

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

Years ended December 31

(In millions)	2015	2014	2013	
Fixed maturity securities:				
Corporate and other bonds	\$(55	) \$67	\$42	
States, municipalities and political subdivisions	(22	) (7	) 36	
Asset-backed	10	(21	) (40	)
Foreign government	1	2	4	
Redeemable preferred stock	—	—	(1	)
Total fixed maturity securities	(66	) 41	41	
Equity securities	(23	) 1	(22	)
Derivative securities	10	(1	) (9	)
Short term investments and other	12	16	10	
Net realized investment (losses) gains	(67	) 57	20	
Income tax benefit (expense) on net realized investment (losses) gains	31	(18	) (6	)
Net realized investment (losses) gains , after tax	\$(36	) \$39	\$14	

Net realized investment results, after tax, decreased \$75 million for 2015 as compared with 2014, driven by higher OTTI losses recognized in earnings and lower net realized investment gains on sales of securities. Net realized investment gains, after tax, increased \$25 million for 2014 as compared with 2013, driven by higher net realized investment gains on sales of securities. Further information on our realized gains and losses, including our OTTI losses and derivative gains (losses), as well as our impairment decision process, is set forth in Notes A and B to the Consolidated Financial Statements included under Item 8.



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## Portfolio Quality

The following table presents the estimated fair value and net unrealized gains (losses) of our fixed maturity securities by rating distribution.

December 31	2015	Net	2014	Net
(In millions)	Estimated Fair Value	Unrealized Gains (Losses)	Estimated Fair Value	Unrealized Gains (Losses)
U.S. Government, Government agencies and Government-sponsored enterprises	\$3,910	\$101	\$3,882	\$144
AAA	1,938	123	2,850	203
AA	8,919	900	9,404	1,016
A	10,044	904	10,594	1,064
BBB	11,595	307	11,093	889
Non-investment grade	3,166	(16 )	2,945	117
Total	\$39,572	\$2,319	\$40,768	\$3,433

As of December 31, 2015 and 2014, only 1% of our fixed maturity portfolio was rated internally.

The following table presents available-for-sale fixed maturity securities in a gross unrealized loss position by ratings distribution.

(In millions)	December 31, 2015	
	Estimated Fair Value	Gross Unrealized Losses
U.S. Government, Government agencies and Government-sponsored enterprises	684	4
AAA	293	5
AA	518	7
A	1,015	20
BBB	4,045	239
Non-investment grade	1,395	113
Total	\$7,950	\$388

The following table presents the maturity profile for these available-for-sale fixed maturity securities. Securities not due to mature on a single date are allocated based on weighted average life.

(In millions)	December 31, 2015	
	Estimated Fair Value	Gross Unrealized Losses
Due in one year or less	\$252	\$3
Due after one year through five years	1,127	37
Due after five years through ten years	5,091	224
Due after ten years	1,480	124
Total	\$7,950	\$388

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## Duration

A primary objective in the management of the investment portfolio is to optimize return relative to corresponding liabilities and respective liquidity needs. Our views on the current interest rate environment, tax regulations, asset class valuations, specific security issuer and broader industry segment conditions and the domestic and global economic conditions, are some of the factors that enter into an investment decision. We also continually monitor exposure to issuers of securities held and broader industry sector exposures and may from time to time adjust such exposures based on our views of a specific issuer or industry sector.

A further consideration in the management of the investment portfolio is the characteristics of the corresponding liabilities and the ability to align the duration of the portfolio to those liabilities and to meet future liquidity needs, minimize interest rate risk and maintain a level of income sufficient to support the underlying insurance liabilities. For portfolios where future liability cash flows are determinable and typically long term in nature, we segregate investments for asset/liability management purposes. The segregated investments support the long term care and structured settlement liabilities in the Life & Group Non-Core segment.

The effective durations of fixed maturity securities and short term investments are presented in following table. Amounts presented are net of payable and receivable amounts for securities purchased and sold, but not yet settled.

December 31	2015		2014	
(In millions)	Estimated Fair Value	Effective Duration (In years)	Estimated Fair Value	Effective Duration (In years)
Investments supporting Life & Group Non-Core	\$14,879	9.6	\$14,668	10.5
Other interest sensitive investments	26,435	4.3	27,748	4.0
Total	\$41,314	6.2	\$42,416	6.3

The investment portfolio is periodically analyzed for changes in duration and related price risk. Additionally, we periodically review the sensitivity of the portfolio to the level of foreign exchange rates and other factors that contribute to market price changes. A summary of these risks and specific analysis on changes is in Quantitative and Qualitative Disclosures About Market Risk included under Item 7A.

## Short Term Investments

The carrying value of the components of the Short term investments are presented in the following table.

December 31	2015	2014
(In millions)		
Short term investments:		
Commercial paper	\$998	\$922
U.S. Treasury securities	411	466
Money market funds	60	206
Other	191	112
Total short term investments	\$1,660	\$1,706

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LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Our primary operating cash flow sources are premiums and investment income from our insurance subsidiaries. Our primary operating cash flow uses are payments for claims, policy benefits and operating expenses, including interest expense on corporate debt. Additionally, cash may be paid or received for income taxes.

For 2015, net cash provided by operating activities was \$1,387 million as compared with \$1,440 million for 2014. In 2015, cash provided by operating activities reflected lower premiums collected and decreased receipts relating to returns on limited partnerships offset by lower net claim payments. Net cash provided by operating activities was \$1,204 million in 2013. Operating cash flows in 2014 reflected increased receipts relating to returns on limited partnerships and lower net claim payments, substantially offset by increased tax payments. Additionally, in 2013 we contributed \$75 million to the CNA Retirement Plan.

Cash flows from investing activities include the purchase and disposition of available-for-sale financial instruments and may include the purchase and sale of businesses, land, buildings, equipment and other assets not generally held for resale.

Net cash used by investing activities was \$372 million for 2015, as compared with \$918 million and \$898 million for 2014 and 2013. The cash flow from investing activities is affected by various factors such as the anticipated payment of claims, financing activity, asset/liability management and individual security buy and sell decisions made in the normal course of portfolio management.

Cash flows from financing activities may include proceeds from the issuance of debt and equity securities, outflows for stockholder dividends or repayment of debt and outlays to reacquire equity instruments.

Net cash used by financing activities was \$807 million, \$519 million and \$264 million for 2015, 2014 and 2013. Cash used by financing activities reflected an increased special stockholder dividend in 2015 as compared to 2014. Additionally, in 2014, we issued \$550 million of senior notes.

Liquidity

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

CCC paid dividends of \$900 million, \$650 million and \$400 million to CNAF during 2015, 2014 and 2013.

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

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## Common Stock Dividends

Dividends of \$3.00 per share of our common stock, including a special dividend of \$2.00 per share, were declared and paid in 2015. On February 5, 2016, our Board of Directors declared a quarterly dividend of \$0.25 per share and a special dividend of \$2.00 per share, payable March 9, 2016 to stockholders of record on February 22, 2016. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board of Directors and will depend on many factors, including our earnings, financial condition, business needs and regulatory constraints.

Our ability to pay dividends and other credit obligations is significantly dependent on receipt of dividends from our subsidiaries. The payment of dividends to us by our insurance subsidiaries without prior approval of the insurance department of each subsidiary's domiciliary jurisdiction is limited by formula. Dividends in excess of these amounts are subject to prior approval by the respective state insurance departments.

Further information on our dividends from subsidiaries is provided in Note M to the Consolidated Financial Statements included under Item 8.

## Commitments, Contingencies and Guarantees

We have various commitments, contingencies and guarantees which arose in the ordinary course of business. The impact of these commitments, contingencies and guarantees should be considered when evaluating our liquidity and capital resources.

A summary of our commitments is presented in the following table.

December 31, 2015

(In millions)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt (a)	\$3,306	\$495	\$399	\$1,048	\$1,364
Lease obligations	261	35	61	48	117
Claim and claim adjustment expense reserves (b)	24,056	5,256	6,563	3,303	8,934
Future policy benefits reserves (c)	33,074	(420)	(216)	450	33,260
Total (d), (e), (f)	\$60,697	\$5,366	\$6,807	\$4,849	\$43,675

(a) Includes estimated future interest payments.

Claim and claim adjustment expense reserves are not discounted and represent our estimate of the amount and timing of the ultimate settlement and administration of gross claims based on our assessment of facts and circumstances known as of December 31, 2015. See the Reserves - Estimates and Uncertainties section of this MD&A for further information.

Future policy benefits reserves are not discounted and represent our estimate of the ultimate amount and timing of the settlement of benefits based on our assessment of facts and circumstances known as of December 31, 2015. See the Reserves - Estimates and Uncertainties section of this MD&A for further information.

(d) Does not include expected estimated contribution of \$15 million to our pension and postretirement plans in 2016.

(e) Does not include investment commitments of \$548 million related to limited partnerships, privately placed debt securities and mortgage loans.

(f) Does not include commitments of \$166 million related to the new lease agreements discussed in Note L to the Consolidated Financial Statements under Item 8.

Further information on our commitments, contingencies and guarantees is provided in Notes A, B, E, F, H, I and L to the Consolidated Financial Statements included under Item 8.

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## Ratings

Ratings are an important factor in establishing the competitive position of insurance companies. Our insurance company subsidiaries are rated by major rating agencies and these ratings reflect the rating agency's opinion of the insurance company's financial strength, operating performance, strategic position and ability to meet our obligations to policyholders. Agency ratings are not a recommendation to buy, sell or hold any security and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating. One or more of these agencies could take action in the future to change the ratings of our insurance subsidiaries.

The table below reflects the various group ratings issued by A.M. Best, Moody's and S&P. The table also includes the ratings for CNAF senior debt.

December 31, 2015	Insurance Financial Strength Ratings		Corporate Debt Ratings
	CCC Group	Western Surety Group	CNAF - Senior Debt
A.M. Best	A	A	bbb
Moody's	A3	Not rated	Baa2
S&P	A	A	BBB

A.M. Best, Moody's and S&P each maintain a stable outlook on the Company.

Hardy, through Syndicate 382, benefits from the collective financial strength of the Lloyd's market, which is rated A+ by S&P with a stable outlook and A by A.M. Best with a positive outlook.

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### ACCOUNTING STANDARDS UPDATE

For discussion of Accounting Standards Updates that will be adopted in the future, see Note A to the Consolidated Financial Statements included under Item 8.

### FORWARD-LOOKING STATEMENTS

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

#### Company-Specific Factors

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

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

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

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

#### Industry and General Market Factors

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

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

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

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

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

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



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Regulatory Factors

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

Impact of Catastrophic Events and Related Developments

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

Our forward-looking statements speak only as of the date on which they are made and we do not undertake any obligation to update or revise any forward-looking statement to reflect events or circumstances after the date of the statement, even if our expectations or any related events or circumstances change.



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**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our financial instruments are exposed to various market risks, such as interest rate risk, equity price risk and foreign currency risk. Due to the level of risk associated with certain invested assets and the level of uncertainty related to changes in the value of these assets, it is possible that changes in these risks in the near term could have a material adverse impact on our results of operations or equity.

Discussions herein regarding market risk focus on only one element of market risk, which is price risk. Price risk relates to changes in the level of prices due to changes in interest rates, equity prices, foreign exchange rates or other factors such as credit spreads. The fair value of the financial instruments is generally adversely affected when interest rates rise, equity markets decline and the dollar strengthens against foreign currency.

Active management of market risk is integral to our operations. We may take the following actions to manage our exposure to market risk within defined tolerance ranges: (1) change the character of future investments purchased or sold or (2) use derivatives to offset the market behavior of existing assets and liabilities or assets expected to be purchased and liabilities to be incurred.

**Sensitivity Analysis**

We monitor our sensitivity to interest rate changes by revaluing financial assets and liabilities using a variety of different interest rates. The Company uses duration and convexity at the security level to estimate the change in fair value that would result from a change in each security's yield. Duration measures the price sensitivity of an asset to changes in the yield rate. Convexity measures how the duration of the asset changes with interest rates. The duration and convexity analysis takes into account the unique characteristics (e.g., call and put options and prepayment expectations) of each security in determining the hypothetical change in fair value. The analysis is performed at the security level and aggregated up to the asset category levels for reporting in the tables below.

The evaluation is performed by applying an instantaneous change in yield rates of varying magnitudes on a static balance sheet to determine the effect such a change in rates would have on our fair value at risk and the resulting effect on stockholders' equity. The analysis presents the sensitivity of the fair value of our financial instruments to selected changes in capital market rates and index levels. The range of change chosen reflects our view of changes that are reasonably possible over a one-year period. The selection of the range of values chosen to represent changes in interest rates should not be construed as our prediction of future market events, but rather an illustration of the impact of such events.

The sensitivity analysis estimates the decline in the fair value of our interest sensitive assets and liabilities that were held as of December 31, 2015 and 2014 due to an instantaneous change in the yield of the security at the end of the period of 100 and 150 basis points.

The sensitivity analysis also assumes an instantaneous 10% and 20% decline in the foreign currency exchange rates versus the United States dollar from their levels as of December 31, 2015 and 2014, with all other variables held constant.

Equity price risk was measured assuming an instantaneous 10% and 25% decline in the S&P 500 from its level as of December 31, 2015 and 2014, with all other variables held constant. Our equity holdings were assumed to be highly and positively correlated with the S&P 500 index.

The value of limited partnerships can be affected by changes in equity markets. A model was developed to analyze the observed changes in the value of limited partnerships held by the Company over a multiple year period along with the corresponding changes in the S&P 500 index. The result of the model allowed us to estimate the change in value of limited partnerships when equity markets decline by 10% and 25%.

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The following tables present the estimated effects on the fair value of our financial instruments as of December 31, 2015 and 2014, due to an increase in yield rates of 100 basis points, a 10% decline in foreign currency exchange rates and a 10% decline in the S&P 500.

## Market Risk Scenario 1

December 31, 2015

(In millions)	Estimated Fair Value	Increase (Decrease)		
		Interest Rate Risk	Foreign Currency Risk	Equity Price Risk
Assets:				
Fixed maturity securities available-for-sale:				
Corporate and other bonds	\$17,757	\$(1,051)	\$(153)	\$—
States, municipalities and political subdivisions	13,174	(1,137)	—	—
Asset-backed	8,190	(355)	(2)	—
U.S. Treasury and obligations of government-sponsored enterprises	67	(2)	—	—
Foreign government	346	(16)	(31)	—
Redeemable preferred stock	35	—	—	(1)
Total fixed maturity securities available-for-sale	39,569	(2,561)	(186)	(1)
Fixed maturity securities trading	3	—	—	—
Equity securities available-for-sale	197	(8)	(1)	(20)
Limited partnership investments	2,548	—	—	(115)
Other invested assets	44	—	—	—
Mortgage loans (a)	688	(31)	—	—
Short term investments	1,660	(2)	(5)	—
Total assets	44,709	(2,602)	(192)	(136)
Derivative financial instruments, included in Other liabilities	5	13	—	—
Total securities	\$44,714	\$(2,589)	\$(192)	\$(136)
Long term debt (a)	\$2,433	\$(117)	\$—	\$—

(a) Reported at amortized value in the Consolidated Balance Sheets included under Item 8 and not adjusted for fair value changes.

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## Market Risk Scenario 1

December 31, 2014

(In millions)	Estimated Fair Value	Increase (Decrease)		
		Interest Rate Risk	Foreign Currency Risk	Equity Price Risk
General account:				
Fixed maturity securities available-for-sale:				
Corporate and other bonds	\$18,870	\$(1,116)	\$(173)	\$—
States, municipalities and political subdivisions	12,740	(1,188)	—	—
Asset-backed	8,612	(329)	(6)	—
U.S. Treasury and obligations of government-sponsored enterprises	31	(1)	—	—
Foreign government	454	(15)	(38)	—
Redeemable preferred stock	42	(1)	—	(2)
Total fixed maturity securities available-for-sale	40,749	(2,650)	(217)	(2)
Fixed maturity securities trading	19	—	—	—
Equity securities available-for-sale	222	(9)	(1)	(22)
Limited partnership investments	2,937	—	—	(132)
Other invested assets	41	—	(3)	—
Mortgage loans (a)	608	(30)	—	—
Short term investments	1,706	(2)	(22)	—
Total assets	46,282	(2,691)	(243)	(156)
Derivative financial instruments, included in Other liabilities	(3)	17	—	—
Total securities	\$46,279	\$(2,674)	\$(243)	\$(156)
Long term debt (a)	\$2,883	\$(144)	\$—	\$—

(a) Reported at amortized value in the Consolidated Balance Sheets included under Item 8 and not adjusted for fair value changes.

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The following tables present the estimated effects on the fair value of our financial instruments as of December 31, 2015 and 2014, due to an increase in yield rates of 150 basis points, a 20% decline in foreign currency exchange rates and a 25% decline in the S&P 500.

## Market Risk Scenario 2

December 31, 2015

(In millions)	Estimated Fair Value	Increase (Decrease)		
		Interest Rate Risk	Foreign Currency Risk	Equity Price Risk
Assets:				
Fixed maturity securities available-for-sale:				
Corporate and other bonds	\$17,757	\$(1,575)	\$(307)	\$—
States, municipalities and political subdivisions	13,174	(1,707)	—	—
Asset-backed	8,190	(533)	(3)	—
U.S. Treasury and obligations of government-sponsored enterprises	67	(3)	—	—
Foreign government	346	(24)	(61)	—
Redeemable preferred stock	35	(1)	—	(4)
Total fixed maturity securities available-for-sale	39,569	(3,843)	(371)	(4)
Fixed maturity securities trading	3	—	—	—
Equity securities available-for-sale	197	(11)	(3)	(49)
Limited partnership investments	2,548	—	—	(287)
Other invested assets	44	—	—	—
Mortgage loans (a)	688	(47)	—	—
Short term investments	1,660	(3)	(9)	—
Total assets	44,709	(3,904)	(383)	(340)
Derivative financial instruments, included in Other liabilities	5	20	—	—
Total securities	\$44,714	\$(3,884)	\$(383)	\$(340)
Long term debt (a)	\$2,433	\$(175)	\$—	\$—

(a) Reported at amortized value in the Consolidated Balance Sheets included under Item 8 and not adjusted for fair value changes.

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## Market Risk Scenario 2

December 31, 2014

(In millions)	Estimated Fair Value	Increase (Decrease)		
		Interest Rate Risk	Foreign Currency Risk	Equity Price Risk
General account:				
Fixed maturity securities available-for-sale:				
Corporate and other bonds	\$18,870	\$(1,673)	\$(348)	\$—
States, municipalities and political subdivisions	12,740	(1,783)	—	—
Asset-backed	8,612	(493)	(11)	—
U.S. Treasury and obligations of government-sponsored enterprises	31	(2)	—	—
Foreign government	454	(22)	(75)	—
Redeemable preferred stock	42	(1)	—	(4)
Total fixed maturity securities available-for-sale	40,749	(3,974)	(434)	(4)
Fixed maturity securities trading	19	—	—	—
Equity securities available-for-sale	222	(13)	(3)	(56)
Limited partnership investments	2,937	—	—	(330)
Other invested assets	41	—	(5)	—
Mortgage loans (a)	608	(45)	—	—
Short term investments	1,706	(5)	(44)	—
Total general account	46,282	(4,037)	(486)	(390)
Derivative financial instruments, included in Other liabilities	(3)	) 26	—	—
Total securities	\$46,279	\$(4,011)	\$(486)	\$(390)
Long term debt (a)	\$2,883	\$(216)	\$—	\$—

(a) Reported at amortized value in the Consolidated Balance Sheets included under Item 8 and not adjusted for fair value changes.

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## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CNA Financial Corporation

Consolidated Statements of Operations

Years ended December 31

(In millions, except per share data)

	2015	2014	2013
Revenues			
Net earned premiums	\$6,921	\$7,212	\$7,271
Net investment income	1,840	2,067	2,282
Net realized investment (losses) gains:			
Other-than-temporary impairment losses	(156	) (77	) (74
Portion of other-than-temporary impairments recognized in Other comprehensive income	—	—	(2
Net other-than-temporary impairment losses recognized in earnings	(156	) (77	) (76
Other net realized investment gains	89	134	96
Net realized investment (losses) gains	(67	) 57	20
Other revenues	407	356	359
Total revenues	9,101	9,692	9,932
Claims, Benefits and Expenses			
Insurance claims and policyholders' benefits	5,384	5,591	5,806
Amortization of deferred acquisition costs	1,540	1,317	1,362
Other operating expenses	1,473	1,394	1,322
Interest	155	183	166
Total claims, benefits and expenses	8,552	8,485	8,656
Income from continuing operations before income tax	549	1,207	1,276
Income tax expense	(70	) (319	) (361
Income from continuing operations	479	888	915
(Loss) income from discontinued operations, net of income tax benefit (expense) of \$-, \$34 and \$(15)	—	(197	) 22
Net income	\$479	\$691	\$937
Basic Earnings Per Share			
Income from continuing operations	\$1.77	\$3.29	\$3.39
(Loss) income from discontinued operations	—	(0.73	) 0.09
Basic earnings per share	\$1.77	\$2.56	\$3.48
Diluted Earnings Per Share			
Income from continuing operations	\$1.77	\$3.28	\$3.39
(Loss) income from discontinued operations	—	(0.73	) 0.08
Diluted earnings per share	\$1.77	\$2.55	\$3.47
Dividends declared per share	\$3.00	\$2.00	\$0.80
Weighted Average Outstanding Common Stock and Common Stock Equivalents			
Basic	270.2	269.9	269.7
Diluted	270.7	270.6	270.2

The accompanying Notes are an integral part of these Consolidated Financial Statements.



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CNA Financial Corporation

Consolidated Statements of Comprehensive (Loss) Income

Years ended December 31

(In millions)

Comprehensive (Loss) Income

Net income

Other Comprehensive (Loss) Income, Net of Tax

Changes in:

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

Net unrealized gains on other investments

Net unrealized gains on investments

Net unrealized losses on discontinued operations

Foreign currency translation adjustment

Pension and postretirement benefits

Other comprehensive (loss), net of tax

Total comprehensive (loss) income

2015                      2014                      2013

\$479                      \$691                      \$937

(9                      ) 15                      6

(552                      ) 267                      (679                      )

(561                      ) 282                      (673                      )

—                      (22                      ) —

(139                      ) (95                      ) (11                      )

(15                      ) (207                      ) 295

(715                      ) (42                      ) (389                      )

\$(236                      ) \$649                      \$548

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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Consolidated Balance Sheets  
December 31

(In millions, except share data)

	2015	2014
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of \$37,253 and \$37,335)	\$39,572	\$40,768
Equity securities at fair value (cost of \$191 and \$210)	197	222
Limited partnership investments	2,548	2,937
Other invested assets	44	41
Mortgage loans	678	588
Short term investments	1,660	1,706
Total investments	44,699	46,262
Cash	387	190
Reinsurance receivables (less allowance for uncollectible receivables of \$38 and \$48)	4,453	4,694
Insurance receivables (less allowance for uncollectible receivables of \$51 and \$61)	2,078	1,936
Accrued investment income	404	405
Deferred acquisition costs	598	600
Deferred income taxes	638	191
Property and equipment at cost (less accumulated depreciation of \$382 and \$364)	343	295
Goodwill	150	152
Other assets	1,297	841
Total assets	\$55,047	\$55,566
Liabilities		
Insurance reserves:		
Claim and claim adjustment expenses	\$22,663	\$23,271
Unearned premiums	3,671	3,592
Future policy benefits	10,152	9,490
Policyholders' funds	—	27
Short term debt	350	—
Long term debt	2,212	2,559
Other liabilities (includes \$82 and \$153 due to Loews Corporation)	4,243	3,833
Total liabilities	43,291	42,772
Commitments and contingencies (Notes B, F and L)		
Stockholders' Equity		
Common stock (\$2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; 270,274,361 and 269,980,202 shares outstanding)	683	683
Additional paid-in capital	2,153	2,151
Retained earnings	9,313	9,645
Accumulated other comprehensive income	(315)	) 400
Treasury stock (2,765,882 and 3,060,041 shares), at cost	(78)	) (84)
Notes receivable for the issuance of common stock	—	(1)
Total stockholders' equity	11,756	12,794
Total liabilities and stockholders' equity	\$55,047	\$55,566

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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## CNA Financial Corporation

## Consolidated Statements of Cash Flows

Years ended December 31

(In millions)

## Cash Flows from Operating Activities

	2015	2014	2013
Net income	\$479	\$691	\$937
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Loss on sale of subsidiaries	—	251	—
Deferred income tax (benefit) expense	(150	) 3	77
Trading portfolio activity	17	16	(10
Net realized investment losses (gains)	67	(60	) (31
Equity method investees	195	83	(323
Net amortization of investments	17	3	(24
Depreciation and amortization	84	83	101
Changes in:			
Receivables, net	82	731	44
Accrued investment income	(1	) —	(9
Deferred acquisition costs	311	44	2
Insurance reserves	241	(363	) (68
Other assets	(79	) (48	) (27
Other liabilities	126	(48	) 525
Other, net	(2	) 54	10
Total adjustments	908	749	267
Net cash flows provided by operating activities	1,387	1,440	1,204
Cash Flows from Investing Activities			
Dispositions:			
Fixed maturity securities - sales	4,390	4,914	6,869
Fixed maturity securities - maturities, calls and redemptions	4,095	3,983	3,271
Equity securities	57	31	103
Limited partnerships	174	167	108
Mortgage loans	26	57	22
Purchases:			
Fixed maturity securities	(8,675	) (9,365	) (11,197
Equity securities	(62	) (67	) (77
Limited partnerships	(188	) (271	) (223
Mortgage loans	(123	) (137	) (129
Change in other investments	4	15	(22
Change in short term investments	34	(388	) 425
Purchases of property and equipment	(125	) (71	) (91
Proceeds from sale of subsidiaries	—	198	—
Other dispositions	—	—	32
Other, net	21	16	11
Net cash flows used by investing activities	\$(372	) \$(918	) \$(898

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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Years ended December 31

(In millions)

	2015	2014	2013
Cash Flows from Financing Activities			
Dividends paid to common stockholders	\$(811 )	\$(541 )	\$(216 )
Proceeds from the issuance of debt	—	546	—
Repayment of debt	—	(549 )	(13 )
Other, net	4	25	(35 )
Net cash flows used by financing activities	(807 )	(519 )	(264 )
Effect of foreign exchange rate changes on cash	(11 )	(8 )	(3 )
Net change in cash	197	(5 )	39
Cash, beginning of year	190	195	156
Cash, end of year	\$387	\$190	\$195

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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## CNA Financial Corporation

## Consolidated Statements of Stockholders' Equity

Years ended December 31

(In millions)

	2015	2014	2013
<b>Common Stock</b>			
Balance, beginning of year	\$683	\$683	\$683
Balance, end of year	683	683	683
<b>Additional Paid-in Capital</b>			
Balance, beginning of year	2,151	2,145	2,146
Stock-based compensation	2	6	(1)
Balance, end of year	2,153	2,151	2,145
<b>Retained Earnings</b>			
Balance, beginning of year	9,645	9,495	8,774
Dividends paid to common stockholders	(811)	(541)	(216)
Net income	479	691	937
Balance, end of year	9,313	9,645	9,495
<b>Accumulated Other Comprehensive Income</b>			
Balance, beginning of year	400	442	831
Other comprehensive income (loss)	(715)	(42)	(389)
Balance, end of year	(315)	400	442
<b>Treasury Stock</b>			
Balance, beginning of year	(84)	(91)	(99)
Stock-based compensation	6	7	8
Balance, end of year	(78)	(84)	(91)
<b>Notes Receivable for the Issuance of Common Stock</b>			
Balance, beginning of year	(1)	(23)	(21)
Decrease (increase) in notes receivable for common stock	1	22	(2)
Balance, end of year	—	(1)	(23)
<b>Total stockholders' equity</b>	<b>\$11,756</b>	<b>\$12,794</b>	<b>\$12,651</b>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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## CNA Financial Corporation

## Notes to Consolidated Financial Statements

## Note A. Summary of Significant Accounting Policies

## Basis of Presentation

The Consolidated Financial Statements include the accounts of CNA Financial Corporation (CNAF) and its subsidiaries. Collectively, CNAF and its subsidiaries are referred to as CNA or the Company. Loews Corporation (Loews) owned approximately 90% of the outstanding common stock of CNAF as of December 31, 2015.

The accompanying 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. The preparation of 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 Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

## Sale of Continental Assurance Company (CAC)

On August 1, 2014, the Company completed the sale of the common stock of CAC. The business sold, which was previously reported within the Life & Group Non-Core segment, is reported as discontinued operations. The Company elected to include CAC cash flow activity in the comparative Consolidated Statements of Cash Flow. Further information related to the sale of CAC is provided in Note P to the Consolidated Financial Statements.

In connection with the sale of CAC, the Company entered into a 100% coinsurance agreement on a separate small block of annuity business outside of CAC. The coinsurance agreement required the transfer of assets with a book value equal to the ceded reserves on the inception date of the contract. Because a substantial portion of the assets supporting these liabilities are held in trust for the benefit of the original cedant, those assets were transferred on a funds withheld basis. Under this approach the Company maintains legal ownership of the assets, but the investment income and realized gains and losses on those assets inure to the reinsurer. As a result, the \$34 million difference between market value and book value of the funds withheld assets at the coinsurance contract's inception was recognized as a loss in Other operating expenses in 2014. The funds withheld aspect of the agreement is considered an embedded derivative. The embedded derivative is separately accounted for at fair value and reported with the host contract in Other liabilities on the Company's Consolidated Balance Sheet. The Company recognizes Other operating expense equal to the Net investment income generated by these trust assets.

## Insurance Operations

**Premiums:** Insurance premiums on property and casualty insurance contracts are recognized in proportion to the underlying risk insured which are principally earned ratably over the duration of the policies. Premiums on long term care contracts are earned ratably over the policy year in which they are due. The reserve for unearned premiums represents the portion of premiums written relating to the unexpired terms of coverage.

Insurance receivables include balances due currently or in the future, including amounts due from insureds related to losses under high deductible policies, and are presented at unpaid balances, net of an allowance for uncollectible receivables. Amounts are considered past due based on policy payment terms. That allowance is determined based on periodic evaluations of aged receivables, management's experience and current economic conditions. Insurance receivables and any related allowance are written off after collection efforts are exhausted or a negotiated settlement is reached.

Property and casualty contracts that are retrospectively rated contain provisions that result in an adjustment to the initial policy premium depending on the contract provisions and loss experience of the insured during the experience period. For such contracts, the Company estimates the amount of ultimate premiums that the Company may earn upon completion of the experience period and recognizes either an asset or a liability for the difference between the initial policy premium and the estimated ultimate premium. The Company adjusts such estimated ultimate premium amounts during the course of the experience period based on actual results to date. The resulting adjustment is recorded as either a reduction of or an increase to the earned premiums for the period.



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Claim and claim adjustment expense reserves: Claim and claim adjustment expense reserves, except reserves for structured settlements not associated with asbestos and environmental pollution (A&EP), workers' compensation lifetime claims and accident and health claims, are not discounted and are based on 1) case basis estimates for losses reported on direct business, adjusted in the aggregate for ultimate loss expectations; 2) estimates of incurred but not reported (IBNR) losses; 3) estimates of losses on assumed reinsurance; 4) estimates of future expenses to be incurred in the settlement of claims; 5) estimates of salvage and subrogation recoveries and 6) estimates of amounts due from insureds related to losses under high deductible policies. Management considers current conditions and trends as well as past Company and industry experience in establishing these estimates. The effects of inflation, which can be significant, are implicitly considered in the reserving process and are part of the recorded reserve balance. Ceded claim and claim adjustment expense reserves are reported as a component of Reinsurance receivables on the Consolidated Balance Sheets.

Claim and claim adjustment expense reserves are presented net of anticipated amounts due from insureds related to losses under deductible policies of \$1.2 billion and \$1.4 billion as of December 31, 2015 and 2014. A significant portion of these amounts are supported by collateral. The Company has an allowance for uncollectible deductible amounts, which is presented as a component of the allowance for doubtful accounts included in Insurance receivables on the Consolidated Balance Sheets.

Structured settlements have been negotiated for certain property and casualty insurance claims. Structured settlements are agreements to provide fixed periodic payments to claimants. The Company's obligations for structured settlements not funded by annuities are included in claim and claim adjustment expense reserves and carried at present values determined using interest rates ranging from 5.5% to 8.0% as of December 31, 2015 and as of 2014. As of December 31, 2015 and 2014, the discounted reserves for unfunded structured settlements were \$560 million and \$582 million, net of discount of \$880 million and \$924 million.

Workers' compensation lifetime claim reserves are calculated using mortality assumptions determined through statutory regulation and economic factors. Accident and health claim reserves are calculated using mortality and morbidity assumptions based on Company and industry experience. Workers' compensation lifetime claim reserves and accident and health claim reserves are discounted at interest rates ranging from 3.5% to 6.8% as of December 31, 2015 and 2014. As of December 31, 2015 and 2014, such discounted reserves totaled \$2.6 billion and \$2.5 billion, net of discount of \$653 million and \$654 million.

Future policy benefits reserves: Future policy benefits reserves represent the active life reserves related to the Company's long term care policies and are computed using the net level premium method, which incorporates actuarial assumptions as to morbidity, persistency, discount rate and expenses. Expense assumptions primarily relate to claim adjudication. Actuarial assumptions generally vary by plan, age at issue and policy duration. The initial assumptions are determined at issuance, include a margin for adverse deviation and are locked in throughout the life of the contract unless a premium deficiency develops. If a premium deficiency emerges, the assumptions are unlocked and deferred acquisition costs, if any, and the future policy benefits reserves are adjusted. The December 31, 2015 gross premium valuation indicated a premium deficiency of \$296 million. The indicated premium deficiency necessitated a charge to income that was affected by the write off of the entire long term care deferred acquisition cost asset of \$289 million and an increase to active life reserves of \$7 million. As a result, the long term care active life reserves carried as of December 31, 2015 represent management's best estimate assumptions at that date with no margin for adverse deviation. Interest rates for long term care products range from 6.6% to 7.0% as of December 31, 2015 and 4.5% to 7.9% as of December 31, 2014.

Guaranty fund and other insurance-related assessments: Liabilities for guaranty fund and other insurance-related assessments are accrued when an assessment is probable, when it can be reasonably estimated and when the event obligating the entity to pay an imposed or probable assessment has occurred. Liabilities for guaranty funds and other insurance-related assessments are not discounted and are included as part of Other liabilities on the Consolidated Balance Sheets. As of December 31, 2015 and 2014, the liability balances were \$129 million and \$131 million.

Reinsurance: Reinsurance accounting allows for contractual cash flows to be reflected as premiums and losses. To qualify for reinsurance accounting, reinsurance agreements must include risk transfer. To meet risk transfer requirements, a reinsurance contract must include both insurance risk, consisting of underwriting and timing risk, and

a reasonable possibility of a significant loss for the assuming entity.

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Reinsurance receivables related to paid losses are presented at unpaid balances. Reinsurance receivables related to unpaid losses are estimated in a manner consistent with claim and claim adjustment expense reserves or future policy benefits reserves. Reinsurance receivables are reported net of an allowance for uncollectible amounts on the Consolidated Balance Sheets. The cost of reinsurance is primarily accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies or over the reinsurance contract period. The ceding of insurance does not discharge the primary liability of the Company.

The Company has established an allowance for uncollectible reinsurance receivables which relates to both amounts already billed on ceded paid losses as well as ceded reserves that will be billed when losses are paid in the future. The allowance for uncollectible reinsurance receivables is estimated on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions. Reinsurer financial strength ratings are updated and reviewed on an annual basis or sooner if the Company becomes aware of significant changes related to a reinsurer. Because billed receivables generally approximate 4% or less of total reinsurance receivables, the age of the reinsurance receivables related to paid losses is not a significant input into the allowance analysis. Changes in the allowance for uncollectible reinsurance receivables are presented as a component of Insurance claims and policyholders' benefits on the Consolidated Statements of Operations.

Amounts are considered past due based on the reinsurance contract terms. Reinsurance receivables related to paid losses and any related allowance are written off after collection efforts have been exhausted or a negotiated settlement is reached with the reinsurer. Reinsurance receivables related to paid losses from insolvent insurers are written off when the settlement due from the estate can be reasonably estimated. At the time reinsurance receivables related to paid losses are written off, any required adjustment to reinsurance receivables related to unpaid losses is recorded as a component of Insurance claims and policyholders' benefits on the Consolidated Statements of Operations.

Reinsurance contracts that do not effectively transfer the economic risk of loss on the underlying policies are recorded using the deposit method of accounting, which requires that premium paid or received by the ceding company or assuming company be accounted for as a deposit asset or liability. The Company had \$3 million recorded as deposit assets as of December 31, 2015 and 2014, and \$8 million and \$9 million recorded as deposit liabilities as of December 31, 2015 and 2014. Income on reinsurance contracts accounted for under the deposit method is recognized using an effective yield based on the anticipated timing of payments and the remaining life of the contract. When the anticipated timing of payments changes, the effective yield is recalculated to reflect actual payments to date and the estimated timing of future payments. The deposit asset or liability is adjusted to the amount that would have existed had the new effective yield been applied since the inception of the contract.

A loss portfolio transfer is a retroactive reinsurance contract. If the cumulative claim and allocated claim adjustment expenses ceded under a loss portfolio transfer exceed the consideration paid, the resulting gain from such excess is deferred and amortized into earnings in future periods in proportion to actual recoveries under the loss portfolio transfer. In the period in which an excess arises, a portion of the deferred gain is cumulatively recognized in earnings as if the revised estimate was available at the inception date of the loss portfolio transfer.

Deferred acquisition costs: Deferrable acquisition costs include commissions, premium taxes and certain underwriting and policy issuance costs which are incremental direct costs of successful contract acquisitions. Deferred acquisition costs related to long term care contracts issued prior to January 1, 2004 include costs which vary with and are primarily related to the acquisition of business.

Acquisition costs related to property and casualty business are deferred and amortized ratably over the period the related premiums are earned.

As noted under Future policy benefits reserves, all of the long term care deferred acquisition costs of \$289 million were written off as of December 31, 2015 in recognition of a premium deficiency. Deferred acquisition costs related to long term care contracts are amortized over the premium-paying period of the related policies using assumptions consistent with those used for computing future policy benefits reserves for such contracts. Assumptions are made at the date of policy issuance or acquisition and are consistently applied during the lives of the contracts. Deviations from estimated experience are included in results of operations when they occur. For these contracts, the amortization period is typically the estimated life of the policy.



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The Company evaluates deferred acquisition costs for recoverability. Anticipated investment income is considered in the determination of the recoverability of deferred acquisition costs. Adjustments, if necessary, are recorded in current period results of operations.

Deferred acquisition costs are presented net of ceding commissions and other ceded acquisition costs. Unamortized deferred acquisition costs relating to contracts that have been substantially changed by a modification in benefits, features, rights or coverages that were not anticipated in the original contract are not deferred and are included as a charge to operations in the period during which the contract modification occurred.

Investments in life settlement contracts and related revenue recognition: Prior to 2002, the Company purchased investments in life settlement contracts. The Company obtained the ownership and beneficiary rights of an underlying life insurance policy through a life settlement contract with the owner of the life insurance contract.

The Company accounts for its investments in life settlement contracts using the fair value method. Under the fair value method, each life settlement contract is carried at its fair value at the end of each reporting period. The change in fair value, life insurance proceeds received and periodic maintenance costs, such as premiums, necessary to keep the underlying policy in force, are recorded in Other revenues on the Consolidated Statements of Operations.

The fair value of the Company's investments in life settlement contracts were \$74 million and \$82 million as of December 31, 2015 and 2014, and are included in Other assets on the Consolidated Balance Sheets. The cash receipts and payments related to life settlement contracts are included in Cash flows from operating activities on the Consolidated Statements of Cash Flows.

The following table details the values for life settlement contracts. The determination of fair value is discussed in Note C to the Consolidated Financial Statements.

December 31, 2015	Number of Life Settlement Contracts	Fair Value of Life Settlement Contracts (In millions)	Face Amount of Life Insurance Policies (In millions)
Estimated maturity during:			
2016	60	\$11	\$35
2017	60	10	31
2018	50	8	27
2019	40	6	24
2020	40	5	21
Thereafter	300	34	167
Total	550	\$74	\$305

The Company uses an actuarial model to estimate the aggregate face amount of life insurance that is expected to mature in each future year and the corresponding fair value. This model projects the likelihood of the insured's death for each inforce policy based upon the Company's estimated mortality rates, which may vary due to the relatively small size of the portfolio of life settlement contracts. The number of life settlement contracts presented in the table above is based upon the average face amount of inforce policies estimated to mature in each future year.

The increase (decrease) in fair value recognized for the years ended December 31, 2015, 2014 and 2013 on contracts still held at each respective period-end was \$1 million, \$8 million and \$(2) million. The gains recognized during the years ended December 31, 2015, 2014 and 2013 on contracts that settled were \$24 million, \$25 million and \$15 million.

#### Investments

The Company classifies its fixed maturity securities and its equity securities as either available-for-sale or trading, and as such, they are carried at fair value. Changes in fair value of trading securities are reported within Net investment income on the Consolidated Statements of Operations. Changes in fair value related to available-for-sale securities are reported as a component of Other comprehensive income. Losses may be recognized within Net realized investment gains (losses) on the Consolidated Statements of Operations when a decline in value is determined by the Company to be other-than-temporary.



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The cost of fixed maturity securities classified as available-for-sale is adjusted for amortization of premiums and accretion of discounts, which are included in Net investment income on the Consolidated Statements of Operations. The amortization of premium and accretion of discount for fixed maturity securities takes into consideration call and maturity dates that produce the lowest yield. This represents a change from prior reporting periods as previously the amortization of premiums was to maturity. This change in estimate effected by a change in accounting principle will result in a better reflection of the yield on fixed maturity securities with call provisions. This change, which was adopted in the fourth quarter of 2015, decreased Net investment income and the amortized cost of fixed maturity securities by \$39 million in the Consolidated Statement of Operations for the year-ended December 31, 2015 and the Consolidated Balance Sheet as of December 31, 2015, respectively. This adjustment decreased Basic and Diluted earnings per share by \$0.09 for the year ended December 31, 2015.

To the extent that unrealized gains on fixed income securities supporting long term care products and structured settlements not funded by annuities would result in a premium deficiency if those gains were 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 (Shadow Adjustments). Shadow Adjustments, net of tax, decreased \$177 million and increased \$756 million for the years ended December 31, 2015 and 2014. As of December 31, 2015 and 2014, net unrealized gains on investments included in Accumulated other comprehensive income (AOCI) were correspondingly reduced by \$1,111 million and \$1,288 million.

For asset-backed securities included in fixed maturity securities, the Company recognizes income using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The amortized cost of high credit quality fixed rate securities is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the securities. Such adjustments are reflected in Net investment income on the Consolidated Statements of Operations. Interest income on lower rated and variable rate securities is determined using the prospective yield method.

The Company's carrying value of investments in limited partnerships is its share of the net asset value of each partnership, as determined by the General Partner. Certain partnerships for which results are not available on a timely basis are reported on a lag, primarily three months or less. Changes in net asset values are accounted for under the equity method and recorded within Net investment income on the Consolidated Statements of Operations.

Mortgage loans are commercial in nature, are carried at unpaid principal balance, net of unamortized fees and any valuation allowance, and are recorded once funded. Mortgage loans are considered to be impaired loans when it is probable that contractual principal and interest payments will not be collected. A valuation allowance is established for impaired loans to the extent that the present value of expected future cash flows discounted at the loan's original effective interest rate is less than the carrying value of the loan. Interest income from mortgage loans is recognized on an accrual basis using the effective yield method. Accrual of income is generally suspended for mortgage loans that are impaired and collection of principal and interest payments is unlikely. Mortgage loans are considered past due when full principal or interest payments have not been received according to contractual terms.

Other invested assets are carried at fair value and include overseas deposits, Federal Home Loan Bank of Chicago (FHLBC) stock and certain derivative securities. Overseas deposits are primarily short-term government securities, agency securities and corporate bonds held in trusts that are managed by Lloyd's of London. These funds are required of Lloyd's syndicates to protect policyholders in overseas markets and may be denominated in local currency.

Short term investments are carried at fair value, with the exception of cash accounts earning interest, which are carried at cost and approximate fair value. Changes in fair value are reported as a component of Other comprehensive income. Purchases and sales of all securities are recorded on the trade date, except for private placement debt securities, including bank loan participations, which are recorded once funded. Realized investment gains and losses are determined on the basis of the cost or amortized cost of the specific securities sold.

In the normal course of investing activities, the Company enters into relationships with variable interest entities (VIEs), primarily as a passive investor in certain limited partnerships and asset-backed securities issued by third-



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party VIEs. The Company is not the primary beneficiary of these VIEs, and therefore does not consolidate them. The Company determines whether it is the primary beneficiary of a VIE based on a qualitative assessment of the entity's purpose, the nature of its operations, its capital structure, its contractual terms and the Company's relative exposure to the related risks of the VIE. The Company's maximum exposure to loss with respect to these investments is limited to the investment carrying values included in the Company's Consolidated Balance Sheets and any unfunded commitments.

A security is impaired if the fair value of the security is less than its cost adjusted for accretion, amortization and previously recorded other-than-temporary impairment (OTTI) losses, otherwise defined as an unrealized loss. When a security is impaired, the impairment is evaluated to determine whether it is temporary or other-than-temporary. Significant judgment is required in the determination of whether an OTTI loss has occurred for a security. The Company follows a consistent and systematic process for determining and recording an OTTI loss. The Company has established a committee responsible for the OTTI process referred to as the Impairment Committee. The Impairment Committee is responsible for evaluating all securities in an unrealized loss position on at least a quarterly basis. The Impairment Committee's assessment of whether an OTTI loss has occurred incorporates both quantitative and qualitative information. Fixed maturity securities that the Company intends to sell, or it more likely than not will be required to sell before recovery of amortized cost, are considered to be other-than-temporarily impaired and the entire difference between the amortized cost basis and fair value of the security is recognized as an OTTI loss in earnings. The remaining fixed maturity securities in an unrealized loss position are evaluated to determine if a credit loss exists. The factors considered by the Impairment Committee include (a) the financial condition and near-term and long-term prospects of the issuer, (b) whether the debtor is current on interest and principal payments, (c) credit ratings of the securities and (d) general market conditions and industry or sector specific outlook. The Company also considers results and analysis of cash flow modeling for asset-backed securities, and when appropriate, other fixed maturity securities. The focus of the analysis for asset-backed securities is on assessing the sufficiency and quality of underlying collateral and timing of cash flows based on scenario tests. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss is judged to exist and the asset-backed security is deemed to be temporarily impaired. If the present value of the expected cash flows is less than amortized cost, the security is judged to be other-than-temporarily impaired for credit reasons and that shortfall, referred to as the credit component, is recognized as an OTTI loss in earnings. The difference between the adjusted amortized cost basis and fair value, referred to as the non-credit component, is recognized as OTTI in Other comprehensive income. In subsequent reporting periods, a change in intent to sell or further credit impairment on a security whose fair value has not deteriorated will cause the non-credit component originally recorded as OTTI in Other comprehensive income to be recognized as an OTTI loss in earnings. The Company performs the discounted cash flow analysis using stressed scenarios to determine future expectations regarding recoverability. Significant assumptions enter into these cash flow projections including delinquency rates, probable risk of default, loss severity upon a default, over collateralization and interest coverage triggers and credit support from lower level tranches. The Company applies the same impairment model as described above for the majority of non-redeemable preferred stock securities on the basis that these securities possess characteristics similar to debt securities and that the issuers maintain their ability to pay dividends. For all other equity securities, in determining whether the security is other-than-temporarily impaired, the Impairment Committee considers a number of factors including, but not limited to: (a) the length of time and the extent to which the fair value has been less than amortized cost, (b) the financial condition and near term prospects of the issuer, (c) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for an anticipated recovery in value and (d) general market conditions and industry or sector specific outlook.

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## Income Taxes

The Company and its eligible subsidiaries (CNA Tax Group) are included in the consolidated federal income tax return of Loews and its eligible subsidiaries. The Company accounts for income taxes under the asset and liability method. Under the asset and liability method, deferred income taxes are recognized for temporary differences between the financial statement and tax return bases of assets and liabilities, based on enacted tax rates and other provisions of the tax law. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not, and a valuation allowance is established for any portion of a deferred tax asset that management believes will not be realized.

## Pension and Postretirement Benefits

The Company recognizes the overfunded or underfunded status of its defined benefit plans in Other assets or Other liabilities on the Consolidated Balance Sheets. Changes in funded status related to prior service costs and credits and actuarial gains and losses are recognized in the year in which the changes occur through Other comprehensive income. Annual service cost, interest cost, expected return on plan assets, amortization of prior service costs and credits and amortization of actuarial gains and losses are recognized in the Consolidated Statements of Operations. The vested benefit obligation for the CNA Retirement Plan is determined based on eligible compensation and accrued service for previously entitled employees. Effective June 30, 2015 the future benefit accruals under the CNA Retirement Plan were eliminated and the benefit obligations were frozen.

## Stock-Based Compensation

The Company records compensation expense using the fair value method for all awards it grants, modifies or cancels primarily on a straight-line basis over the requisite service period, generally three to four years.

## Foreign Currency

Foreign currency translation gains and losses are reflected in Stockholders' equity as a component of AOCI. The Company's foreign subsidiaries' balance sheet accounts are translated at the exchange rates in effect at each reporting date and income statement accounts are either translated at the exchange rate on the date of the transaction or at the average exchange rates. Foreign currency transaction gains (losses) of \$(11) million, \$(25) million and \$2 million were included in determining Net income (loss) for the years ended December 31, 2015, 2014 and 2013.

## Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is based on the estimated useful lives of the various classes of property and equipment and is determined principally on the straight-line method. Furniture and fixtures are depreciated over seven years. Office equipment is depreciated over five years. The estimated lives for data processing equipment and software generally range from three to five years, but can be as long as ten years. Leasehold improvements are depreciated over the corresponding lease terms not to exceed the underlying asset life. The Company's owned building and related capital improvements are depreciated over periods not to exceed fifty years.

## Goodwill

Goodwill represents the excess of purchase price over the fair value of the net assets of acquired entities and businesses. Goodwill in the International segment may change from period to period as a result of foreign currency translation.

Goodwill is tested for impairment annually or when certain triggering events require such tests. As a result of reviews completed for the year ended December 31, 2015, the Company determined that the estimated fair value of the reporting units were in excess of their carrying value including Goodwill. Changes in future periods in assumptions about the level of economic capital, business growth, earnings projections or the weighted average cost of capital could result in a goodwill impairment.



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Other Intangible Assets

Other intangible assets are reported within Other assets. Finite-lived intangible assets are amortized over their estimated useful lives. Indefinite-lived other intangible assets are tested for impairment annually or when certain triggering events require such tests.

Earnings (Loss) Per Share Data

Earnings (loss) per share is based on 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 years ended December 31, 2015, 2014 and 2013, approximately 534 thousand, 675 thousand and 552 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 106 thousand, 170 thousand and 111 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.

Supplementary Cash Flow Information

Cash payments made for interest were \$152 million, \$179 million and \$164 million for the years ended December 31, 2015, 2014 and 2013. Cash payments made for income taxes were \$310 million, \$313 million and \$129 million for the years ended December 31, 2015, 2014 and 2013.

Recently Issued Accounting Standards Updates (ASU)

In May of 2015, the Financial Accounting Standards Board issued ASU No. 2015-09, Financial Services-Insurance (Topic 944): Disclosures about Short-Duration Contracts. The updated accounting guidance requires enhanced disclosures to provide additional information about insurance liabilities for short-duration contracts. The updated guidance is effective for annual financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within the annual periods beginning after December 15, 2016. The Company is currently evaluating the effect the updated guidance will have on the Company's financial statement disclosures.

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

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## Note B. Investments

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

Years ended December 31

(In millions)	2015	2014	2013
Fixed maturity securities	\$1,751	\$1,803	\$1,827
Equity securities	12	12	12
Limited partnership investments	92	263	451
Mortgage loans	33	31	23
Short term investments	6	3	3
Trading portfolio	8	10	17
Other	1	3	2
Gross investment income	1,903	2,125	2,335
Investment expense	(63	) (58	) (53
Net investment income	\$1,840	\$2,067	\$2,282

As of December 31, 2015, the Company held \$54 million of non-income producing fixed maturity securities. As of December 31, 2014, the Company held no non-income producing fixed maturity securities. As of December 31, 2015 and 2014, no investments in a single issuer exceeded 10% of stockholders' equity, other than investments in securities issued by the U.S. Treasury and obligations of government-sponsored enterprises.

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

Years ended December 31

(In millions)	2015	2014	2013
Net realized investment gains (losses):			
Fixed maturity securities:			
Gross realized gains	\$131	\$170	\$185
Gross realized losses	(197	) (129	) (144
Net realized investment gains (losses) on fixed maturity securities	(66	) 41	41
Equity securities:			
Gross realized gains	2	8	13
Gross realized losses	(25	) (7	) (35
Net realized investment gains (losses) on equity securities	(23	) 1	(22
Derivatives	10	(1	) (9
Short term investments and other	12	16	10
Net realized investment gains (losses)	\$(67	) \$57	\$20

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Net change in unrealized gains on investments is presented in the following table.

Years ended December 31

(In millions)	2015	2014	2013
Net change in unrealized gains on investments:			
Fixed maturity securities	\$(1,114 )	\$1,511	\$(2,541 )
Equity securities	(6 )	6	(15 )
Other	1	—	—
Total net change in unrealized gains on investments	\$(1,119 )	\$1,517	\$(2,556 )

The components of OTTI losses recognized in earnings by asset type are presented in the following table.

Years ended December 31

(In millions)	2015	2014	2013
Fixed maturity securities available-for-sale:			
Corporate and other bonds	\$104	\$18	\$20
States, municipalities and political subdivisions	18	46	—
Asset-backed:			
Residential mortgage-backed	8	5	19
Other asset-backed	1	1	2
Total asset-backed	9	6	21
Total fixed maturity securities available-for-sale	131	70	41
Equity securities available-for-sale:			
Common stock	25	7	8
Preferred stock	—	—	26
Total equity securities available-for-sale	25	7	34
Short term investments	—	—	1
OTTI losses recognized in earnings	\$156	\$77	\$76

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

December 31, 2015	Cost or	Gross	Gross	Estimated	Unrealized
(In millions)	Amortized	Unrealized	Unrealized	Fair	OTTI
	Cost	Gains	Losses	Value	Losses
					(Gains)
Fixed maturity securities available-for-sale:					
Corporate and other bonds	\$17,080	\$1,019	\$342	\$17,757	\$—
States, municipalities and political subdivisions	11,729	1,453	8	13,174	(4 )
Asset-backed:					
Residential mortgage-backed	4,935	154	17	5,072	(37 )
Commercial mortgage-backed	2,154	55	12	2,197	—
Other asset-backed	923	6	8	921	—
Total asset-backed	8,012	215	37	8,190	(37 )
U.S. Treasury and obligations of government-sponsored enterprises	62	5	—	67	—
Foreign government	334	13	1	346	—
Redeemable preferred stock	33	2	—	35	—
Total fixed maturity securities available-for-sale	37,250	2,707	388	39,569	\$(41 )
Total fixed maturity securities trading	3			3	
Equity securities available-for-sale:					
Common stock	46	3	1	48	
Preferred stock	145	7	3	149	
Total equity securities available-for-sale	191	10	4	197	
Total	\$37,444	\$2,717	\$392	\$39,769	
December 31, 2014					
(In millions)	Cost or	Gross	Gross	Estimated	Unrealized
	Amortized	Unrealized	Unrealized	Fair	OTTI
	Cost	Gains	Losses	Value	Losses
					(Gains)
Fixed maturity securities available-for-sale:					
Corporate and other bonds	\$17,210	\$1,721	\$61	\$18,870	\$—
States, municipalities and political subdivisions	11,285	1,463	8	12,740	—
Asset-backed:					