

CNA FINANCIAL CORP  
Form 10-Q  
April 30, 2013

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

FORM 10-Q  
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-5823

CNA FINANCIAL CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

333 S. Wabash  
Chicago, Illinois  
(Address of principal executive offices)

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

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

60604  
(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

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

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

Class Outstanding at April 26, 2013  
Common Stock, Par value \$2.50 269,684,313



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## Part I. Financial Information

## Item 1. Condensed Consolidated Financial Statements

## CNA Financial Corporation

## Condensed Consolidated Statements of Operations (Unaudited)

Three months ended March 31

(In millions, except per share data)

|   | 2013    |   | 2012    |
|---|---------|---|---------|
| Revenues  |         |   |         |
| Net earned premiums   | \$1,764 |   | \$1,649 |
| Net investment income   | 633     |   | 648     |
| Net realized investment gains (losses):   |         |   |         |
| Other-than-temporary impairment losses  | (18     | ) | (15     |
| Portion of other-than-temporary impairments recognized in Other comprehensive income (loss) | —       |   | (12     |
| Net other-than-temporary impairment losses recognized in earnings                           | (18     | ) | (27     |
| Other net realized investment gains   | 46      |   | 63      |
| Net realized investment gains   | 28      |   | 36      |
| Other revenues  | 78      |   | 68      |
| Total revenues  | 2,503   |   | 2,401   |
| Claims, Benefits and Expenses   |         |   |         |
| Insurance claims and policyholders' benefits  | 1,429   |   | 1,381   |
| Amortization of deferred acquisition costs  | 328     |   | 295     |
| Other operating expenses  | 341     |   | 319     |
| Interest  | 42      |   | 42      |
| Total claims, benefits and expenses   | 2,140   |   | 2,037   |
| Income before income tax  | 363     |   | 364     |
| Income tax expense  | (113    | ) | (114    |
| Net income  | \$250   |   | \$250   |
| Basic and diluted earnings per share  | \$0.93  |   | \$0.93  |
| Dividends per share   | \$0.20  |   | \$0.15  |
| Weighted Average Outstanding Common Stock and Common Stock Equivalents                      |         |   |         |
| Basic   | 269.5   |   | 269.3   |
| Diluted   | 269.9   |   | 269.7   |

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

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CNA Financial Corporation

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Three months ended March 31

(In millions)

Other Comprehensive Income (Loss), Net of Tax

2013

2012

Changes in:

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

\$ 14

\$ 40

Net unrealized gains (losses) on other investments

(62

) 217

Net unrealized gains (losses) on investments

(48

) 257

Foreign currency translation adjustment

(61

) 21

Pension and postretirement benefits

5

6

Other comprehensive income (loss), net of tax

(104

) 284

Net income

250

250

Total comprehensive income

\$ 146

\$ 534

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

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## CNA Financial Corporation

## Condensed Consolidated Balance Sheets (Unaudited)

| (In millions, except share data)  | March 31,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| Assets  |                   |                      |
| Investments:  |                   |                      |
| Fixed maturity securities at fair value (amortized cost of \$38,533 and \$38,170)   | \$42,799          | \$42,633             |
| Equity securities at fair value (cost of \$177 and \$228)   | 201               | 249                  |
| Limited partnership investments   | 2,564             | 2,462                |
| Other invested assets   | 49                | 59                   |
| Mortgage loans  | 425               | 401                  |
| Short term investments  | 1,555             | 1,832                |
| Total investments   | 47,593            | 47,636               |
| Cash  | 123               | 156                  |
| Reinsurance receivables (less allowance for uncollectible receivables of \$71 and \$73)   | 6,066             | 6,158                |
| Insurance receivables (less allowance for uncollectible receivables of \$98 and \$101)  | 1,974             | 1,882                |
| Accrued investment income   | 476               | 434                  |
| Deferred acquisition costs  | 641               | 598                  |
| Deferred income taxes   | 21                | 93                   |
| Property and equipment at cost (less accumulated depreciation of \$406 and \$404)   | 323               | 326                  |
| Goodwill  | 151               | 154                  |
| Other assets (includes \$0 and \$4 due from Loews Corporation)  | 1,080             | 773                  |
| Separate account business   | 279               | 312                  |
| Total assets  | \$58,727          | \$58,522             |
| Liabilities   |                   |                      |
| Insurance reserves:   |                   |                      |
| Claim and claim adjustment expenses   | \$24,511          | \$24,763             |
| Unearned premiums   | 3,759             | 3,610                |
| Future policy benefits  | 11,469            | 11,475               |
| Policyholders' funds  | 154               | 157                  |
| Short term debt   | 13                | 13                   |
| Long term debt  | 2,558             | 2,557                |
| Other liabilities (includes \$1 and \$0 due to Loews Corporation)   | 3,579             | 3,321                |
| Separate account business   | 279               | 312                  |
| Total liabilities   | 46,322            | 46,208               |
| Commitments and contingencies (Notes C, G and J)  |                   |                      |
| Stockholders' Equity  |                   |                      |
| Common stock (\$2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; 269,681,511 and 269,399,390 shares outstanding) | 683               | 683                  |
| Additional paid-in capital  | 2,138             | 2,146                |
| Retained earnings   | 8,969             | 8,774                |
| Accumulated other comprehensive income  | 727               | 831                  |
| Treasury stock (3,358,732 and 3,640,853 shares), at cost  | (92               | ) (99                |
| Notes receivable for the issuance of common stock   | (20               | ) (21                |
| Total stockholders' equity  | 12,405            | 12,314               |
| Total liabilities and stockholders' equity  | \$58,727          | \$58,522             |

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



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CNA Financial Corporation

Condensed Consolidated Statements of Cash Flows (Unaudited)

Three months ended March 31

(In millions)

Cash Flows from Operating Activities

|   | 2013    | 2012    |
|---|---------|---------|
| Net income  | \$250   | \$250   |
| Adjustments to reconcile net income to net cash flows provided by operating activities: |         |         |
| Loss on disposal of property and equipment  | —       | 1       |
| Deferred income tax expense   | 99      | 73      |
| Trading portfolio activity  | (48)    | (6)     |
| Net realized investment gains   | (28)    | (36)    |
| Equity method investees   | (91)    | (69)    |
| Amortization of investments   | (10)    | (23)    |
| Depreciation and amortization   | 33      | 20      |
| Changes in:   |         |         |
| Receivables, net  | (20)    | 53      |
| Accrued investment income   | (42)    | (42)    |
| Deferred acquisition costs  | (40)    | (15)    |
| Insurance reserves  | 79      | 99      |
| Other assets  | (20)    | 73      |
| Other liabilities   | 16      | (67)    |
| Other, net  | 13      | 1       |
| Total adjustments   | (59)    | 62      |
| Net cash flows provided by operating activities   | \$191   | \$312   |
| Cash Flows from Investing Activities  |         |         |
| Dispositions:   |         |         |
| Fixed maturity securities - sales   | \$1,409 | \$1,929 |
| Fixed maturity securities - maturities, calls and redemptions                           | 866     | 683     |
| Equity securities   | 51      | 19      |
| Limited partnerships  | 58      | 46      |
| Mortgage loans  | 1       | 1       |
| Purchases:  |         |         |
| Fixed maturity securities   | (2,720) | (2,842) |
| Equity securities   | (12)    | (12)    |
| Limited partnerships  | (41)    | (36)    |
| Mortgage loans  | (25)    | (48)    |
| Change in other investments   | 3       | —       |
| Change in short term investments  | 264     | (8)     |
| Purchases of property and equipment   | (21)    | (22)    |
| Other, net  | 6       | 3       |
| Net cash flows used by investing activities   | \$(161) | \$(287) |

Cash Flows from Investing Activities

Dispositions:

Fixed maturity securities - sales

Fixed maturity securities - maturities, calls and redemptions

Equity securities

Limited partnerships

Mortgage loans

Purchases:

Fixed maturity securities

Equity securities

Limited partnerships

Mortgage loans

Change in other investments

Change in short term investments

Purchases of property and equipment

Other, net

Net cash flows used by investing activities

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



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Three months ended March 31

(In millions)

|   | 2013  |   | 2012  |   |
|---|-------|---|-------|---|
| Cash Flows from Financing Activities            |       |   |       |   |
| Dividends paid to common stockholders           | \$(55 | ) | \$(41 | ) |
| Stock options exercised                         | 1     |   | —     |   |
| Other, net                                      | (2    | ) | (1    | ) |
| Net cash flows used by financing activities     | \$(56 | ) | \$(42 | ) |
| Effect of foreign exchange rate changes on cash | \$(7  | ) | \$1   |   |
| Net change in cash                              | \$(33 | ) | \$(16 | ) |
| Cash, beginning of year                         | 156   |   | 75    |   |
| Cash, end of period                             | \$123 |   | \$59  |   |

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

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## CNA Financial Corporation

## Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

Three months ended March 31

(In millions)

|  | 2013     |   | 2012     |
|--|----------|---|----------|
| Common Stock   |          |   |          |
| Balance, beginning of period   | \$683    |   | \$683    |
| Balance, end of period   | 683      |   | 683      |
| Additional Paid-in Capital   |          |   |          |
| Balance, beginning of period   | 2,146    |   | 2,141    |
| Stock-based compensation   | (8       | ) | (1       |
| Balance, end of period   | 2,138    |   | 2,140    |
| Retained Earnings  |          |   |          |
| Balance, beginning of period   | 8,774    |   | 8,308    |
| Dividends paid to common stockholders                                    | (55      | ) | (41      |
| Net income   | 250      |   | 250      |
| Balance, end of period   | 8,969    |   | 8,517    |
| Accumulated Other Comprehensive Income                                   |          |   |          |
| Balance, beginning of period   | 831      |   | 480      |
| Other comprehensive income (loss)  | (104     | ) | 284      |
| Balance, end of period   | 727      |   | 764      |
| Treasury Stock   |          |   |          |
| Balance, beginning of period   | (99      | ) | (102     |
| Stock-based compensation   | 7        |   | 2        |
| Balance, end of period   | (92      | ) | (100     |
| Notes Receivable for the Issuance of Common Stock                        |          |   |          |
| Balance, beginning of period   | (21      | ) | (22      |
| (Increase) decrease in notes receivable for the issuance of common stock | 1        |   | (1       |
| Balance, end of period   | (20      | ) | (23      |
| Total Stockholders' Equity   | \$12,405 |   | \$11,981 |

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

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CNA Financial Corporation

Notes to Condensed Consolidated Financial Statements

Note A. General

Basis of Presentation

The Condensed Consolidated Financial Statements (Unaudited) include the accounts of CNA Financial Corporation (CNAF) and its subsidiaries. Collectively, CNAF and its subsidiaries are referred to as CNA or the Company. The Company acquired Hardy Underwriting Bermuda Limited and its subsidiaries on July 2, 2012. Loews Corporation (Loews) owned approximately 90% of the outstanding common stock of CNAF as of March 31, 2013.

The accompanying Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Certain financial information that is normally included in annual financial statements, including certain financial statement notes, prepared in accordance with GAAP, is not required for interim reporting purposes and has been condensed or omitted. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in CNAF's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) for the year ended December 31, 2012, including the summary of significant accounting policies in Note A. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

The interim financial data as of March 31, 2013 and for the three months ended March 31, 2013 and 2012 is unaudited. However, in the opinion of management, the interim data includes all adjustments, consisting of normal recurring accruals, necessary for a fair statement of the Company's results for the interim periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

Intercompany amounts have been eliminated.

Note B. Earnings Per Share

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

For the three months ended March 31, 2013 and 2012, approximately 372 thousand and 339 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 335 thousand and 668 thousand potential shares attributable to exercises under stock-based employee compensation plans were not included in the calculation of diluted earnings per share because the effect would have been antidilutive.

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## Note C. Investments

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

## Net Investment Income

Three months ended March 31

| (In millions)                   | 2013  | 2012  |
|---------------------------------|-------|-------|
| Fixed maturity securities       | \$499 | \$516 |
| Short term investments          | 1     | 1     |
| Limited partnership investments | 131   | 130   |
| Equity securities               | 3     | 4     |
| Mortgage loans                  | 5     | 3     |
| Trading portfolio (a)           | 5     | 7     |
| Other                           | 1     | 1     |
| Gross investment income         | 645   | 662   |
| Investment expense              | (12   | ) (14 |
| Net investment income           | \$633 | \$648 |

There were \$1 million of net unrealized gains for the three months ended March 31, 2013 and no net unrealized (a) gains (losses) for the three months ended March 31, 2012 related to changes in fair value of trading securities still held included in net investment income.

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

## Net Realized Investment Gains (Losses)

Three months ended March 31

| (In millions)   | 2013 | 2012  |
|---|------|-------|
| Net realized investment gains (losses):                             |      |       |
| Fixed maturity securities:  |      |       |
| Gross realized gains  | \$44 | \$69  |
| Gross realized losses   | (12  | ) (39 |
| Net realized investment gains (losses) on fixed maturity securities | 32   | 30    |
| Equity securities:  |      |       |
| Gross realized gains  | 2    | 3     |
| Gross realized losses   | (15  | ) (2  |
| Net realized investment gains (losses) on equity securities         | (13  | ) 1   |
| Derivatives   | 2    | (1    |
| Short term investments and other                                    | 7    | 6     |
| Net realized investment gains (losses)                              | \$28 | \$36  |

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

Three months ended March 31

| (In millions)   | 2013 | 2012 |
|---|------|------|
| Fixed maturity securities available-for-sale:                     |      |      |
| Corporate and other bonds   | \$3  | \$10 |
| Asset-backed - residential mortgage-backed                        | —    | 14   |
| U.S. Treasury and obligations of government-sponsored enterprises | —    | 1    |
| Total fixed maturity securities available-for-sale                | 3    | 25   |
| Equity securities available-for-sale:                             |      |      |
| Common stock  | —    | 2    |
| Preferred stock   | 15   | —    |
| Total equity securities available-for-sale                        | 15   | 2    |
| Net OTTI losses recognized in earnings                            | \$18 | \$27 |

A security is impaired if the fair value of the security is less than its cost adjusted for accretion, amortization and previously recorded 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. This committee, referred to as the Impairment Committee, is made up of three officers appointed by the Company's Chief Financial Officer (CFO). 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 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 (loss). 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 (loss) 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. For asset-backed securities, 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.

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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.

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

## Summary of Fixed Maturity and Equity Securities

March 31, 2013

| (In millions)  | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value | Unrealized<br>OTTI<br>Losses<br>(Gains) |
|--|------------------------------|------------------------------|-------------------------------|----------------------------|---|
| Fixed maturity securities available-for-sale:                        |                              |                              |                               |                            |   |
| Corporate and other bonds  | \$19,747                     | \$2,562                      | \$18                          | \$22,291                   | \$—                                     |
| States, municipalities and political subdivisions                    | 9,599                        | 1,408                        | 59                            | 10,948                     | —                                       |
| Asset-backed:  |                              |                              |                               |                            |   |
| Residential mortgage-backed  | 5,518                        | 235                          | 70                            | 5,683                      | (49 )                                   |
| Commercial mortgage-backed   | 1,853                        | 147                          | 10                            | 1,990                      | (3 )                                    |
| Other asset-backed   | 932                          | 23                           | —                             | 955                        | —                                       |
| Total asset-backed   | 8,303                        | 405                          | 80                            | 8,628                      | (52 )                                   |
| U.S. Treasury and obligations of<br>government-sponsored enterprises | 170                          | 11                           | —                             | 181                        | —                                       |
| Foreign government   | 528                          | 24                           | —                             | 552                        | —                                       |
| Redeemable preferred stock   | 123                          | 14                           | 1                             | 136                        | —                                       |
| Total fixed maturity securities available-for-sale                   | 38,470                       | 4,424                        | 158                           | 42,736                     | \$(52 )                                 |
| Total fixed maturity securities trading                              | 63                           | —                            | —                             | 63                         |   |
| Equity securities available-for-sale:                                |                              |                              |                               |                            |   |
| Common stock   | 38                           | 17                           | —                             | 55                         |   |
| Preferred stock  | 139                          | 7                            | —                             | 146                        |   |
| Total equity securities available-for-sale                           | 177                          | 24                           | —                             | 201                        |   |
| Total  | \$38,710                     | \$4,448                      | \$158                         | \$43,000                   |   |

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| December 31, 2012<br>(In millions)                                   | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value | Unrealized<br>OTTI<br>Losses<br>(Gains) |
|--|------------------------------|------------------------------|-------------------------------|----------------------------|---|
| Fixed maturity securities available-for-sale:                        |                              |                              |                               |                            |   |
| Corporate and other bonds  | \$19,530                     | \$2,698                      | \$21                          | \$22,207                   | \$—                                     |
| States, municipalities and political subdivisions                    | 9,372                        | 1,455                        | 44                            | 10,783                     | —                                       |
| Asset-backed:  |                              |                              |                               |                            |   |
| Residential mortgage-backed  | 5,745                        | 246                          | 71                            | 5,920                      | (28 )                                   |
| Commercial mortgage-backed   | 1,692                        | 147                          | 17                            | 1,822                      | (3 )                                    |
| Other asset-backed   | 929                          | 23                           | —                             | 952                        | —                                       |
| Total asset-backed   | 8,366                        | 416                          | 88                            | 8,694                      | (31 )                                   |
| U.S. Treasury and obligations of<br>government-sponsored enterprises | 172                          | 11                           | 1                             | 182                        | —                                       |
| Foreign government   | 588                          | 25                           | —                             | 613                        | —                                       |
| Redeemable preferred stock   | 113                          | 13                           | 1                             | 125                        | —                                       |
| Total fixed maturity securities available-for-sale                   | 38,141                       | 4,618                        | 155                           | 42,604                     | \$(31 )                                 |
| Total fixed maturity securities trading                              | 29                           | —                            | —                             | 29                         |   |
| Equity securities available-for-sale:                                |                              |                              |                               |                            |   |
| Common stock   | 38                           | 14                           | —                             | 52                         |   |
| Preferred stock  | 190                          | 7                            | —                             | 197                        |   |
| Total equity securities available-for-sale                           | 228                          | 21                           | —                             | 249                        |   |
| Total  | \$38,398                     | \$4,639                      | \$155                         | \$42,882                   |   |

The net unrealized gains on investments included in the tables above are recorded as a component of Accumulated other comprehensive income (AOCI). When presented in AOCI, these amounts are net of tax and any required Shadow Adjustments. At March 31, 2013 and December 31, 2012, the net unrealized gains on investments included in AOCI were net of after-tax Shadow Adjustments of \$1,438 million and \$1,511 million. To the extent that unrealized gains on fixed income securities supporting certain products within the Life & Group Non-Core segment would result in a premium deficiency if realized, a related decrease in Deferred acquisition costs and/or increase in Insurance reserves are recorded, net of tax, as a reduction of net unrealized gains through Other comprehensive income (loss) (Shadow Adjustments).

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

## Securities in a Gross Unrealized Loss Position

| March 31, 2013<br>(In millions)                      | Less than 12 Months     |                               | 12 Months or Longer     |                               | Total                   |                               |
|--|-------------------------|-------------------------------|-------------------------|-------------------------------|-------------------------|-------------------------------|
|  | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses |
| Fixed maturity securities<br>available-for-sale:     |                         |                               |                         |                               |                         |                               |
| Corporate and other bonds                            | \$951                   | \$13                          | \$50                    | \$5                           | \$1,001                 | \$18                          |
| States, municipalities and political<br>subdivisions | 683                     | 16                            | 121                     | 43                            | 804                     | 59                            |
| Asset-backed:  |                         |                               |                         |                               |                         |                               |
| Residential mortgage-backed                          | 920                     | 19                            | 347                     | 51                            | 1,267                   | 70                            |
| Commercial mortgage-backed                           | 155                     | 2                             | 141                     | 8                             | 296                     | 10                            |
| Total asset-backed                                   | 1,075                   | 21                            | 488                     | 59                            | 1,563                   | 80                            |
| Redeemable preferred stock                           | 34                      | 1                             | —                       | —                             | 34                      | 1                             |

|       |         |      |       |       |         |       |
|-------|---------|------|-------|-------|---------|-------|
| Total | \$2,743 | \$51 | \$659 | \$107 | \$3,402 | \$158 |
|-------|---------|------|-------|-------|---------|-------|

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| December 31, 2012<br>(In millions)                                   | Less than 12 Months     |                               | 12 Months or Longer     |                               | Total                   |                               |
|--|-------------------------|-------------------------------|-------------------------|-------------------------------|-------------------------|-------------------------------|
|  | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses |
| Fixed maturity securities<br>available-for-sale:                     |                         |                               |                         |                               |                         |                               |
| Corporate and other bonds  | \$846                   | \$13                          | \$108                   | \$8                           | \$954                   | \$21                          |
| States, municipalities and political<br>subdivisions                 | 254                     | 5                             | 165                     | 39                            | 419                     | 44                            |
| Asset-backed:  |                         |                               |                         |                               |                         |                               |
| Residential mortgage-backed  | 583                     | 5                             | 452                     | 66                            | 1,035                   | 71                            |
| Commercial mortgage-backed   | 85                      | 2                             | 141                     | 15                            | 226                     | 17                            |
| Total asset-backed   | 668                     | 7                             | 593                     | 81                            | 1,261                   | 88                            |
| U.S. Treasury and obligations of<br>government-sponsored enterprises | 23                      | 1                             | —                       | —                             | 23                      | 1                             |
| Redeemable preferred stock   | 28                      | 1                             | —                       | —                             | 28                      | 1                             |
| Total  | \$1,819                 | \$27                          | \$866                   | \$128                         | \$2,685                 | \$155                         |

The amount of pretax net realized gains on available-for-sale securities reclassified out of AOCI into earnings was \$19 million and \$32 million for the three months ended March 31, 2013 and 2012.

Based on current facts and circumstances, the Company believes the unrealized losses presented in the March 31, 2013 Securities in a Gross Unrealized Loss Position table above, are primarily attributable to broader economic conditions, changes in interest rates and credit spreads, market illiquidity and other market factors, but are not indicative of the ultimate collectibility of the current amortized cost of the securities. The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at March 31, 2013.

The following table summarizes the activity for the three months ended March 31, 2013 and 2012 related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held at March 31, 2013 and 2012 for which a portion of an OTTI loss was recognized in Other comprehensive income (loss).

| Three months ended March 31<br>(In millions)  | 2013 | 2012  |
|---|------|-------|
| Beginning balance of credit losses on fixed maturity securities                             | \$95 | \$92  |
| Additional credit losses for securities for which an OTTI loss was previously<br>recognized | —    | 11    |
| Credit losses for securities for which an OTTI loss was not previously recognized           | —    | 1     |
| Reductions for securities sold during the period  | (3   | ) (4  |
| Ending balance of credit losses on fixed maturity securities                                | \$92 | \$100 |

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## Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at March 31, 2013 and December 31, 2012. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

## Contractual Maturity

| (In millions)                          | March 31, 2013         |                      | December 31, 2012      |                      |
|--|------------------------|----------------------|------------------------|----------------------|
|  | Cost or Amortized Cost | Estimated Fair Value | Cost or Amortized Cost | Estimated Fair Value |
| Due in one year or less                | \$1,783                | \$1,819              | \$1,648                | \$1,665              |
| Due after one year through five years  | 12,916                 | 13,731               | 13,603                 | 14,442               |
| Due after five years through ten years | 9,430                  | 10,267               | 8,726                  | 9,555                |
| Due after ten years                    | 14,341                 | 16,919               | 14,164                 | 16,942               |
| Total                                  | \$38,470               | \$42,736             | \$38,141               | \$42,604             |

## Investment Commitments

As of March 31, 2013, the Company had committed approximately \$247 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

As of March 31, 2013, the Company had mortgage loan commitments of \$29 million representing signed loan applications received and accepted.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases, sales and funding. As of March 31, 2013, the Company had commitments to purchase or fund additional amounts of \$167 million and sell \$210 million under the terms of such securities.

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## Note D. Derivative Financial Instruments

A summary of the recognized gains (losses) related to derivative financial instruments follows.

## Recognized Gains (Losses)

Three months ended March 31

| (In millions)                   | 2013 | 2012   |
|---------------------------------|------|--------|
| Without hedge designation       |      |        |
| Currency forwards               | \$2  | \$(1 ) |
| Total without hedge designation | 2    | (1 )   |
| Trading activities              |      |        |
| Futures sold, not yet purchased | —    | 1      |
| Total                           | \$2  | \$—    |

Gross estimated fair values of derivative positions are presented in Other invested assets and Other liabilities on the Condensed Consolidated Balance Sheets. There would be no significant difference in the balance included in such accounts if the estimated fair values were presented net for the periods ended March 31, 2013 and December 31, 2012. The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and may not be representative of the potential for gain or loss on these instruments.

## Derivative Financial Instruments

| March 31, 2013                                     | Contractual/<br>Notional<br>Amount | Estimated Fair Value<br>Asset | (Liability) |
|--|------------------------------------|-------------------------------|-------------|
| (In millions)                                      |                                    |                               |             |
| Without hedge designation                          |                                    |                               |             |
| Credit default swaps - purchased protection        | \$20                               | \$—                           | \$(1 )      |
| Currency forwards                                  | 43                                 | 1                             | —           |
| Forward commitments for mortgage-backed securities | 78                                 | —                             | —           |
| Equity warrants                                    | 5                                  | —                             | —           |
| Total  | \$146                              | \$1                           | \$(1 )      |

| December 31, 2012                           | Contractual/<br>Notional<br>Amount | Estimated Fair Value<br>Asset | (Liability) |
|---|------------------------------------|-------------------------------|-------------|
| (In millions)                               |                                    |                               |             |
| Without hedge designation                   |                                    |                               |             |
| Credit default swaps - purchased protection | \$20                               | \$—                           | \$(1 )      |
| Currency forwards                           | 59                                 | —                             | (2 )        |
| Equity warrants                             | 5                                  | —                             | —           |
| Total                                       | \$84                               | \$—                           | \$(3 )      |

During the three months ended March 31, 2013, new derivative transactions entered into totaled \$604 million in notional value while derivative termination activity totaled \$542 million. This activity was primarily attributable to forward commitments for mortgage-backed securities, interest rate futures and foreign currency forwards. During the three months ended March 31, 2012, new derivative transactions entered into totaled \$332 million in notional value while derivative termination activity totaled \$321 million. This activity was primarily attributable to interest rate futures and foreign currency forwards.

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Note E. Fair Value

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

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

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

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are not observable. Prices may fall within Level 1, 2 or 3 depending upon the methodologies and inputs used to estimate fair value for each specific security. Prices are determined by a dedicated group who ultimately report to the Company's CFO. This group is responsible for valuation policies and procedures. In general the Company seeks to price securities using third-party pricing services. Securities not priced by pricing services are submitted to independent brokers for valuation and, if those are not available, internally developed pricing models are used to value assets using methodologies and inputs the Company believes market participants would use to value the assets.

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

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## Assets and Liabilities Measured at Fair Value

Assets and liabilities measured at fair value on a recurring basis are summarized below.

March 31, 2013

| (In millions)  | Level 1 | Level 2  | Level 3 | Total<br>Assets/(Liabilities)<br>at Fair Value |
|--|---------|----------|---------|--|
| Assets   |         |          |         |  |
| Fixed maturity securities:   |         |          |         |  |
| Corporate and other bonds  | \$32    | \$22,020 | \$302   | \$ 22,354                                      |
| States, municipalities and political subdivisions                    | —       | 10,819   | 129     | 10,948   |
| Asset-backed:  |         |          |         |  |
| Residential mortgage-backed  | —       | 5,233    | 450     | 5,683  |
| Commercial mortgage-backed   | —       | 1,813    | 177     | 1,990  |
| Other asset-backed   | —       | 559      | 396     | 955  |
| Total asset-backed   | —       | 7,605    | 1,023   | 8,628  |
| U.S. Treasury and obligations of<br>government-sponsored enterprises | 155     | 26       | —       | 181  |
| Foreign government   | 104     | 448      | —       | 552  |
| Redeemable preferred stock   | 51      | 59       | 26      | 136  |
| Total fixed maturity securities                                      | 342     | 40,977   | 1,480   | 42,799   |
| Equity securities  | 120     | 62       | 19      | 201  |
| Other invested assets  | —       | 49       | —       | 49   |
| Short term investments   | 1,102   | 397      | 5       | 1,504  |
| Life settlement contracts, included in Other assets                  | —       | —        | 95      | 95   |
| Separate account business  | 11      | 266      | 2       | 279  |
| Total assets   | \$1,575 | \$41,751 | \$1,601 | \$ 44,927                                      |
| Liabilities  |         |          |         |  |
| Derivative financial instruments, included in Other<br>liabilities   | \$—     | \$—      | \$(1    | ) \$ (1  |
| Total liabilities  | \$—     | \$—      | \$(1    | ) \$ (1  |

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December 31, 2012

| (In millions)   | Level 1 | Level 2  | Level 3 | Total<br>Assets/(Liabilities)<br>at Fair Value |
|---|---------|----------|---------|--|
| <b>Assets</b>   |         |          |         |  |
| <b>Fixed maturity securities:</b>                                 |         |          |         |  |
| Corporate and other bonds   | \$6     | \$22,011 | \$219   | \$ 22,236                                      |
| States, municipalities and political subdivisions                 | —       | 10,687   | 96      | 10,783   |
| <b>Asset-backed:</b>  |         |          |         |  |
| Residential mortgage-backed                                       | —       | 5,507    | 413     | 5,920  |
| Commercial mortgage-backed  | —       | 1,693    | 129     | 1,822  |
| Other asset-backed  | —       | 584      | 368     | 952  |
| Total asset-backed  | —       | 7,784    | 910     | 8,694  |
| U.S. Treasury and obligations of government-sponsored enterprises | 158     | 24       | —       | 182  |
| Foreign government  | 140     | 473      | —       | 613  |
| Redeemable preferred stock  | 40      | 59       | 26      | 125  |
| Total fixed maturity securities                                   | 344     | 41,038   | 1,251   | 42,633   |
| Equity securities   | 117     | 98       | 34      | 249  |
| Other invested assets   | —       | 58       | 1       | 59   |
| Short term investments  | 987     | 799      | 6       | 1,792  |
| Life settlement contracts, included in Other assets               | —       | —        | 100     | 100  |
| Separate account business   | 4       | 306      | 2       | 312  |
| Total assets  | \$1,452 | \$42,299 | \$1,394 | \$ 45,145                                      |
| <b>Liabilities</b>  |         |          |         |  |
| Derivative financial instruments, included in Other liabilities   | \$—     | \$(2     | ) \$(1  | ) \$ (3  |
| Total liabilities   | \$—     | \$(2     | ) \$(1  | ) \$ (3  |

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The tables below present a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2013 and 2012.

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

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| Level 3<br>(In millions)                          | Balance<br>at<br>January 1,<br>2012 | Net<br>realized<br>investment<br>gains<br>(losses)<br>and net<br>change in<br>unrealized<br>appreciation<br>(depreciation)<br>included<br>in net<br>income<br>(loss)* | Net<br>change in<br>unrealized<br>appreciation<br>(depreciation)<br>in other<br>comprehensive<br>income<br>(loss) | Purchases | Sales    | Settlements | Transfers<br>into<br>Level<br>3 | Transfers<br>out<br>of<br>Level 3 | Balance<br>at<br>March 31,<br>2012 | Unrealized<br>gains<br>(losses)<br>on Level<br>3 assets<br>and<br>liabilities<br>held at<br>March 31,<br>2012<br>recognized<br>in net<br>income<br>(loss)* |
|---|-------------------------------------|---|---|-----------|----------|-------------|---------------------------------|-----------------------------------|------------------------------------|--|
| Fixed maturity securities:                        |                                     |   |   |           |          |             |                                 |                                   |                                    |  |
| Corporate and other bonds                         | \$ 482                              | \$ 3  | \$ 4  | \$ 79     | \$(86 )  | \$(19 )     | \$ 33                           | \$(10 )                           | \$ 486                             | \$ —   |
| States, municipalities and political subdivisions | 171                                 | —   | 2   | —         | —        | —           | —                               | —                                 | 173                                | —  |
| Asset-backed:                                     |                                     |   |   |           |          |             |                                 |                                   |                                    |  |
| Residential mortgage-backed                       | 452                                 | 1   | (4 )  | 38        | —        | (7 )        | —                               | (33 )                             | 447                                | —  |
| Commercial mortgage-backed                        | 59                                  | —   | 4   | 42        | —        | —           | —                               | —                                 | 105                                | —  |
| Other asset-backed                                | 343                                 | 4   | 4   | 176       | (77 )    | (25 )       | —                               | (41 )                             | 384                                | —  |
| Total asset-backed                                | 854                                 | 5   | 4   | 256       | (77 )    | (32 )       | —                               | (74 )                             | 936                                | —  |
| Redeemable preferred stock                        | —                                   | —   | —   | 53        | —        | —           | —                               | —                                 | 53                                 | —  |
| Total fixed maturity securities                   | 1,507                               | 8   | 10  | 388       | (163 )   | (51 )       | 33                              | (84 )                             | 1,648                              | —  |
| Equity securities                                 | 67                                  | —   | (3 )  | 11        | (1 )     | —           | —                               | —                                 | 74                                 | (2 )   |
| Other invested assets, including derivatives, net | 10                                  | —   | —   | —         | —        | —           | —                               | —                                 | 10                                 | —  |
| Short term investments                            | 27                                  | —   | —   | 12        | —        | (39 )       | —                               | —                                 | —                                  | —  |
| Life settlement contracts                         | 117                                 | 3   | —   | —         | —        | (5 )        | —                               | —                                 | 115                                | (1 )   |
| Separate account business                         | 23                                  | —   | —   | —         | (19 )    | —           | —                               | —                                 | 4                                  | —  |
| Total   | \$ 1,751                            | \$ 11   | \$ 7  | \$ 411    | \$(183 ) | \$(95 )     | \$ 33                           | \$(84 )                           | \$ 1,851                           | \$(3 )   |



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

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

Securities shown in the Level 3 tables on the previous pages may be transferred in or out of Level 3 based on the availability of observable market information used to determine the fair value of the security. The availability of observable market information varies based on market conditions and trading volume and may cause securities to move in and out of Level 3 from reporting period to reporting period. There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2013 or 2012. The Company's policy is to recognize transfers between levels at the beginning of quarterly reporting periods.

Valuation Methodologies and Inputs

The following section describes the valuation methodologies and relevant inputs used to measure different financial instruments at fair value, including an indication of the level in the fair value hierarchy in which the instruments are generally classified.

Fixed Maturity Securities

Fixed maturity securities are valued using methodologies that model information generated by market transactions involving identical or comparable assets, as well as discounted cash flow methodologies. Common inputs include: prices from recently executed transactions of similar securities, broker/dealer quotes, benchmark yields, spreads off benchmark yields, interest rates, and U.S. Treasury or swap curves. Specifically for asset-backed securities, key inputs include prepayment and default projections based on past performance of the underlying collateral and current market data.

Level 1 securities include exchange traded bonds, highly liquid U.S. and foreign government bonds, and redeemable preferred stock, valued using quoted market prices. Level 2 securities include most other fixed maturity securities as the significant inputs are observable in the marketplace. Securities are generally assigned to Level 3 in cases where broker/dealer quotes are significant inputs to the valuation and there is a lack of transparency as to whether these quotes are based on information that is observable in the marketplace. Level 3 securities also include tax-exempt auction rate certificates and private placement debt securities. Fair value of auction rate securities is determined utilizing a pricing model with three primary inputs. The interest rate and spread inputs are observable from like instruments while the expected call date assumption is unobservable due to the uncertain nature of principal prepayments prior to maturity and the credit spread adjustment that is security specific. Fair value of certain private placement debt securities is determined using internal models with inputs that are not market observable.

Equity Securities

Level 1 equity securities include publicly traded securities valued using quoted market prices. Level 2 securities are primarily non-redeemable preferred stocks and common stocks valued using pricing for similar securities, recently executed transactions, broker/dealer quotes and other pricing models utilizing market observable inputs. Level 3 securities are priced using internal models with inputs that are not market observable.

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## Other Invested Assets

Level 1 securities include exchange traded derivatives, primarily futures, valued using quoted market prices. Level 2 securities include overseas deposits, which can be redeemed at net asset value in 90 days or less, and derivatives, primarily currency forwards valued using observable market forward rates. Over-the-counter derivatives, principally interest rate swaps, total return swaps, credit default swaps, equity warrants and options, are valued using inputs including broker/dealer quotes and are classified within Level 3 of the valuation hierarchy due to a lack of transparency as to whether these quotes are based on information that is observable in the marketplace.

## Short Term Investments

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

## Life Settlement Contracts

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

## Separate Account Business

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

## Significant Unobservable Inputs

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

| Assets<br>(In millions)   | Fair Value at<br>March 31,<br>2013 | Valuation<br>Technique(s) | Unobservable Input(s)      | Range<br>(Weighted Average)                              |
|---------------------------|------------------------------------|---------------------------|----------------------------|--|
| Fixed maturity securities | \$78                               | Discounted cash flow      | Expected call date         | 3.0 - 4.6 years (4.0 years)                              |
|                           |                                    |                           | Credit spread adjustment   | 0.02% - 0.48% (0.17%)                                    |
|                           | \$97                               | Market approach           | Private offering price     | \$34.70 - \$122.09<br>(\$102.97)                         |
| Equity securities         | \$19                               | Market approach           | Private offering price     | \$33.73 - \$3,970.99 per share<br>(\$1,114.32 per share) |
| Life settlement contracts | \$95                               | Discounted cash flow      | Discount rate risk premium | 9%   |
|                           |                                    |                           | Mortality assumption       | 69% - 883% (209.2%)                                      |

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| Assets<br>(In millions)   | Fair Value at<br>December 31,<br>2012 | Valuation<br>Technique(s) | Unobservable Input(s)                                 | Range<br>(Weighted Average)                              |
|---------------------------|---------------------------------------|---------------------------|---|--|
| Fixed maturity securities | \$121                                 | Discounted cash flow      | Expected call date<br>Credit spread<br>adjustment     | 3.3 - 5.3 years (4.3 years)<br>0.02% - 0.48% (0.17%)     |
|                           | \$72                                  | Market approach           | Private offering price                                | \$42.39 - \$102.32<br>(\$100.11)                         |
| Equity securities         | \$34                                  | Market approach           | Private offering price                                | \$4.54 - \$3,842.00 per<br>share<br>(\$571.17 per share) |
| Life settlement contracts | \$100                                 | Discounted cash flow      | Discount rate risk<br>premium<br>Mortality assumption | 9%<br>69% - 883% (208.9%)                                |

For fixed maturity securities, an increase to the expected call date assumption and credit spread adjustment or decrease in the private offering price would result in a lower fair value measurement. For equity securities, an increase in the private offering price would result in a higher fair value measurement. For life settlement contracts, an increase in the discount rate risk premium or decrease in the mortality assumption would result in a lower fair value measurement.

**Financial Assets and Liabilities Not Measured at Fair Value**

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

| March 31, 2013<br>(In millions)                   | Carrying<br>Amount | Estimated Fair Value |         |         | Total |
|---|--------------------|----------------------|---------|---------|-------|
|   |                    | Level 1              | Level 2 | Level 3 |       |
| Financial assets                                  |                    |                      |         |         |       |
| Notes receivable for the issuance of common stock | \$20               | \$—                  | \$—     | \$20    | \$20  |
| Mortgage loans                                    | 425                | —                    | —       | 449     | 449   |
| Financial liabilities                             |                    |                      |         |         |       |
| Premium deposits and annuity contracts            | \$96               | \$—                  | \$—     | \$100   | \$100 |
| Short term debt                                   | 13                 | —                    | 13      | —       | 13    |
| Long term debt                                    | 2,558              | —                    | 3,016   | —       | 3,016 |
|   |                    |                      |         |         |       |
| December 31, 2012<br>(In millions)                | Carrying<br>Amount | Estimated Fair Value |         |         | Total |
|   |                    | Level 1              | Level 2 | Level 3 |       |
| Financial assets                                  |                    |                      |         |         |       |
| Notes receivable for the issuance of common stock | \$21               | \$—                  | \$—     | \$21    | \$21  |
| Mortgage loans                                    | 401                | —                    | —       | 418     | 418   |
| Financial liabilities                             |                    |                      |         |         |       |
| Premium deposits and annuity contracts            | \$100              | \$—                  | \$—     | \$104   | \$104 |
| Short term debt                                   | 13                 | —                    | 13      | —       | 13    |
| Long term debt                                    | 2,557              | —                    | 3,016   | —       | 3,016 |

The following methods and assumptions were used to estimate the fair value of these financial assets and liabilities. The fair values of Notes receivable for the issuance of common stock were estimated using discounted cash flows utilizing interest rates currently offered for obligations securitized with similar collateral, adjusted for specific note receivable risk.

The fair values of Mortgage loans were based on the present value of the expected future cash flows discounted at the current interest rate for origination of similar quality loans, adjusted for specific loan risk.

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

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

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

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## Note F. Claim and Claim Adjustment Expense Reserves

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

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

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company's results of operations and/or equity. The Company reported catastrophe losses, net of reinsurance, of \$39 million and \$28 million for the three months ended March 31, 2013 and 2012.

Catastrophe losses in the first quarter of 2013 related primarily to U.S. storms.

## Net Prior Year Development

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

## Net Prior Year Development

## Three months ended March 31, 2013

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

## Three months ended March 31, 2012

| (In millions)  | CNA Specialty | CNA Commercial | Corporate & Other Non-Core | Total   |
|--|---------------|----------------|----------------------------|---------|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$(6 )        | \$(14 )        | \$2                        | \$(18 ) |
| Pretax (favorable) unfavorable premium development   | (9 )          | (17 )          | 1                          | (25 )   |
| Total pretax (favorable) unfavorable net prior year development  | \$(15 )       | \$(31 )        | \$3                        | \$(43 ) |

For the three months ended March 31, 2013 and 2012, favorable premium development was recorded for CNA Commercial primarily due to premium adjustments on auditable policies arising from increased exposures.



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## CNA Specialty

The following table provides further detail of the net prior year claim and allocated claim adjustment expense reserve development (development) recorded for the CNA Specialty segment for the three months ended March 31, 2013 and 2012.

Three months ended March 31

| (In millions)  | 2013  | 2012   |
|--|-------|--------|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:      |       |        |
| Medical Professional Liability   | \$(3  | ) \$(6 |
| Other Professional Liability   | (1    | ) 4    |
| Surety   | 1     | 1      |
| Warranty   | —     | (1     |
| Other  | (12   | ) (4   |
| Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$(15 | ) \$(6 |

2013

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

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

2012

Favorable development for medical professional liability was primarily due to reductions in the estimated frequency of large losses in accident years 2008 and prior.



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## CNA Commercial

The following table provides further detail of the development recorded for the CNA Commercial segment for the three months ended March 31, 2013 and 2012.

Three months ended March 31

| (In millions)  | 2013  | 2012      |
|--|-------|-----------|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:      |       |           |
| Commercial Auto  | \$(5  | ) \$—     |
| General Liability  | (21   | ) 8       |
| Workers' Compensation  | 25    | (19 )     |
| Property and Other   | (10   | ) (3 )    |
| Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$(11 | ) \$(14 ) |

2013

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

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

2012

Overall, favorable development for workers' compensation reflects favorable experience in accident years 2001 and prior. Unfavorable development was recorded in accident year 2010 related to increased medical severity.

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## Note G. Legal Proceedings and Contingent Liabilities

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

## Note H. Benefit Plans

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

## Net Periodic Cost (Benefit)

Three months ended March 31

| (In millions)                                 | 2013 | 2012   |
|---|------|--------|
| Pension cost (benefit)                        |      |        |
| Service cost                                  | \$3  | \$3    |
| Interest cost on projected benefit obligation | 30   | 34     |
| Expected return on plan assets                | (45  | ) (43  |
| Amortization of net actuarial (gain) loss     | 12   | 10     |
| Net periodic pension cost (benefit)           | \$—  | \$4    |
| Postretirement cost (benefit)                 |      |        |
| Amortization of prior service credit          | \$(4 | ) \$(4 |
| Net periodic postretirement cost (benefit)    | \$(4 | ) \$(4 |

## Note I. Other Intangible Assets

Other intangible assets are presented in the following table.

| (In millions)                        | March 31, 2013        |                          | December 31, 2012     |                          |
|--------------------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|                                      | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Finite-lived intangible assets:      |                       |                          |                       |                          |
| Value of business acquired           | \$59                  | \$52                     | \$62                  | \$43                     |
| Trade name                           | 8                     | 1                        | 8                     | —                        |
| Distribution channel                 | 12                    | 1                        | 13                    | —                        |
| Total finite-lived intangible assets | 79                    | 54                       | 83                    | 43                       |
| Indefinite-lived intangible assets   | 69                    |                          | 73                    |                          |
| Total other intangible assets        | \$148                 | \$54                     | \$156                 | \$43                     |

For the three months ended March 31, 2013, amortization expense of \$9 million was included in Amortization of deferred acquisition costs and \$3 million was included in Other operating expenses in the Statement of Operations for the Hardy segment. For the three months ended March 31, 2012, no amortization expense was recognized. The gross carrying amounts and accumulated amortization in the table above may change from period to period as a result of foreign currency translation. Estimated future amortization expense for intangible assets is \$7 million for the remainder of 2013, \$3 million in 2014, \$1 million in 2015 and \$2 million in years 2016, 2017 and 2018.

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Note J. Commitments, Contingencies, and Guarantees

Commitments and Contingencies

The Company holds an investment in a real estate joint venture. In the normal course of business, the Company, on a joint and several basis with other unrelated insurance company shareholders, has committed to continue funding the operating deficits of this joint venture. Additionally, the Company and the other unrelated shareholders, on a joint and several basis, have guaranteed an operating lease for an office building, which expires in 2016. The guarantee of the operating lease is a parallel guarantee to the commitment to fund operating deficits; consequently, the separate guarantee to the lessor is not expected to be triggered as long as the joint venture continues to be funded by its shareholders which provide liquidity to make its annual lease payments.

In the event that the other parties to the joint venture are unable to meet their commitments in funding the operations of this joint venture, the Company would be required to assume the obligation for the entire office building operating lease. The Company does not believe it is likely that it will be required to do so. However, the maximum potential future lease payments and other related costs at March 31, 2013 that the Company could be required to pay under this guarantee, in excess of amounts already recorded, were approximately \$98 million. If the Company were required to assume the entire lease obligation, the Company would have the right to pursue reimbursement from the other shareholders and the right to all sublease revenues.

Guarantees

In the course of selling business entities and assets to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging from nine months following the applicable closing date to the expiration of the relevant statutes of limitation. As of March 31, 2013, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was \$724 million.

In addition, the Company has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of March 31, 2013, the Company had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser's ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire, or until the agreed upon contract terms expire.

As of March 31, 2013 and December 31, 2012, the Company had recorded liabilities of approximately \$7 million related to indemnification agreements and management believes that it is not likely that any future indemnity claims will be significantly greater than the amounts recorded.

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Note K. Business Segments

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

The accounting policies of the segments are the same as those described in Note A of the Consolidated Financial Statements within CNAF's Annual Report on Form 10-K for the year ended December 31, 2012. The Company manages most of its assets on a legal entity basis, while segment operations are generally conducted across legal entities. As such, only insurance and reinsurance receivables, insurance reserves, deferred acquisition costs and goodwill are readily identifiable for all individual segments. Distinct investment portfolios are not maintained for every individual segment; accordingly, allocation of assets to each segment is not performed. Therefore, a significant portion of net investment income and realized investment gains or losses are allocated primarily based on each segment's net carried insurance reserves, as adjusted. All significant intersegment income and expense has been eliminated. Income taxes have been allocated on the basis of the taxable income of the segments.

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

Net operating income (loss) is calculated by excluding from net income (loss) the after-tax effects of 1) net realized investment gains or losses and 2) any cumulative effects of changes in accounting guidance. The calculation of net operating income excludes net realized investment gains or losses because net realized investment gains or losses are largely discretionary, except for some losses related to OTTI, and are generally driven by economic factors that are not necessarily consistent with key drivers of underwriting performance, and are therefore not considered an indication of trends in insurance operations.

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

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| Three months ended March 31, 2013<br>(In millions)                     | CNA<br>Specialty | CNA<br>Commercial | Hardy  | Life &<br>Group<br>Non-Core | Corporate<br>& Other<br>Non-Core | Eliminations | Total    |
|--|------------------|-------------------|--------|-----------------------------|----------------------------------|--------------|----------|
| <b>Operating revenues</b>  |                  |                   |        |                             |                                  |              |          |
| Net earned premiums  | \$ 723           | \$ 837            | \$64   | \$ 141                      | \$ —                             | \$ (1 )      | \$ 1,764 |
| Net investment income  | 170              | 250               | 1      | 204                         | 8                                | —            | 633      |
| Other revenues   | 60               | 10                | 1      | 4                           | 3                                | —            | 78       |
| Total operating revenues   | 953              | 1,097             | 66     | 349                         | 11                               | (1 )         | 2,475    |
| <b>Claims, Benefits and Expenses</b>                                   |                  |                   |        |                             |                                  |              |          |
| Net incurred claims and benefits                                       | 465              | 600               | 31     | 325                         | 4                                | —            | 1,425    |
| Policyholders' dividends   | 1                | 2                 | —      | 1                           | —                                | —            | 4        |
| Amortization of deferred acquisition costs                             | 150              | 149               | 21     | 8                           | —                                | —            | 328      |
| Other insurance related expenses                                       | 71               | 143               | 16     | 33                          | —                                | (1 )         | 262      |
| Other expenses   | 54               | 9                 | 7      | 5                           | 46                               | —            | 121      |
| Total claims, benefits and expenses                                    | 741              | 903               | 75     | 372                         | 50                               | (1 )         | 2,140    |
| Operating income (loss) before income tax                              | 212              | 194               | (9 )   | (23 )                       | (39 )                            | —            | 335      |
| Income tax (expense) benefit on operating income (loss)                | (72 )            | (69 )             | 1      | 23                          | 13                               | —            | (104 )   |
| Net operating income (loss)  | 140              | 125               | (8 )   | —                           | (26 )                            | —            | 231      |
| Net realized investment gains (losses)                                 | 3                | 4                 | 1      | 14                          | 6                                | —            | 28       |
| Income tax (expense) benefit on net realized investment gains (losses) | (1 )             | (1 )              | —      | (5 )                        | (2 )                             | —            | (9 )     |
| Net realized investment gains (losses), after-tax                      | 2                | 3                 | 1      | 9                           | 4                                | —            | 19       |
| Net income (loss)  | \$ 142           | \$ 128            | \$(7 ) | \$ 9                        | \$(22 )                          | \$ —         | \$ 250   |
| <b>March 31, 2013</b>  |                  |                   |        |                             |                                  |              |          |
| <b>(In millions)</b>   |                  |                   |        |                             |                                  |              |          |
| Reinsurance receivables  | \$662            | \$1,170           | \$251  | \$1,273                     | \$2,781                          | \$—          | \$6,137  |
| Insurance receivables  | \$707            | \$1,168           | \$181  | \$13                        | \$3                              | \$—          | \$2,072  |
| Deferred acquisition costs   | \$313            | \$287             | \$41   | \$—                         | \$—                              | \$—          | \$641    |
| Goodwill   | \$117            | \$—               | \$34   | \$—                         | \$—                              | \$—          | \$151    |
| <b>Insurance reserves</b>  |                  |                   |        |                             |                                  |              |          |
| Claim and claim adjustment expenses                                    | \$6,807          | \$11,105          | \$470  | \$3,031                     | \$3,098                          | \$—          | \$24,511 |
| Unearned premiums  | 1,770            | 1,629             | 218    | 143                         | —                                | (1 )         | 3,759    |
| Future policy benefits   | —                | —                 | —      | 11,469                      | —                                | —            | 11,469   |
| Policyholders' funds   | 9                | 14                | —      | 131                         | —                                | —            | 154      |

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| Three months ended March 31, 2012<br>(In millions)                     | CNA<br>Specialty | CNA<br>Commercial | Hardy | Life &<br>Group<br>Non-Core | Corporate<br>& Other<br>Non-Core | Elimination | Total    |
|--|------------------|-------------------|-------|-----------------------------|----------------------------------|-------------|----------|
| Operating revenues   |                  |                   |       |                             |                                  |             |          |
| Net earned premiums  | \$ 706           | \$ 803            |       | \$ 141                      | \$ (1 )                          | \$ —        | \$ 1,649 |
| Net investment income  | 175              | 265               |       | 198                         | 10                               | —           | 648      |
| Other revenues   | 56               | 9                 |       | (2 )                        | 5                                | —           | 68       |
| Total operating revenues   | 937              | 1,077             |       | 337                         | 14                               | —           | 2,365    |
| Claims, Benefits and Expenses  |                  |                   |       |                             |                                  |             |          |
| Net incurred claims and benefits                                       | 468              | 567               |       | 336                         | 7                                | —           | 1,378    |
| Policyholders' dividends   | (2 )             | 3                 |       | 2                           | —                                | —           | 3        |
| Amortization of deferred acquisition costs                             | 148              | 139               |       | 8                           | —                                | —           | 295      |
| Other insurance related expenses                                       | 72               | 144               |       | 35                          | (1 )                             | —           | 250      |
| Other expenses   | 50               | 7                 |       | 6                           | 48                               | —           | 111      |
| Total claims, benefits and expenses                                    | 736              | 860               |       | 387                         | 54                               | —           | 2,037    |
| Operating income (loss) before income tax                              | 201              | 217               |       | (50 )                       | (40 )                            | —           | 328      |
| Income tax (expense) benefit on operating income (loss)                | (69 )            | (78 )             |       | 31                          | 14                               | —           | (102 )   |
| Net operating income (loss)  | 132              | 139               |       | (19 )                       | (26 )                            | —           | 226      |
| Net realized investment gains (losses)                                 | 8                | 11                |       | 13                          | 4                                | —           | 36       |
| Income tax (expense) benefit on net realized investment gains (losses) | (2 )             | (4 )              |       | (5 )                        | (1 )                             | —           | (12 )    |
| Net realized investment gains (losses), after-tax                      | 6                | 7                 |       | 8                           | 3                                | —           | 24       |
| Net income (loss)  | \$ 138           | \$ 146            |       | \$ (11 )                    | \$ (23 )                         | \$ —        | \$ 250   |
| December 31, 2012<br>(In millions)                                     |                  |                   |       |                             |                                  |             |          |
| Reinsurance receivables  | \$665            | \$1,155           | \$294 | \$1,273                     | \$2,844                          | \$—         | \$6,231  |
| Insurance receivables  | \$673            | \$1,116           | \$181 | \$9                         | \$4                              | \$—         | \$1,983  |
| Deferred acquisition costs   | \$300            | \$269             | \$29  | \$—                         | \$—                              | \$—         | \$598    |
| Goodwill   | \$117            | \$—               | \$37  | \$—                         | \$—                              | \$—         | \$154    |
| Insurance reserves   |                  |                   |       |                             |                                  |             |          |
| Claim and claim adjustment expenses                                    | \$6,748          | \$11,326          | \$521 | \$3,006                     | \$3,162                          | \$—         | \$24,763 |
| Unearned premiums  | 1,685            | 1,569             | 222   | 134                         | —                                | —           | 3,610    |
| Future policy benefits   | —                | —                 | —     | 11,475                      | —                                | —           | 11,475   |
| Policyholders' funds   | 8                | 15                | —     | 134                         | —                                | —           | 157      |

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The following table provides revenue by line of business for each reportable segment. Revenues are comprised of operating revenues and net realized investment gains and losses.

## Revenues by Line of Business

Three months ended March 31

| (In millions)                       | 2013    | 2012    |   |
|-------------------------------------|---------|---------|---|
| CNA Specialty                       |         |         |   |
| International                       | \$59    | \$57    |   |
| Professional & Management Liability | 700     | 694     |   |
| Surety                              | 116     | 119     |   |
| Warranty & Alternative Risks        | 81      | 75      |   |
| CNA Specialty revenues              | 956     | 945     |   |
| CNA Commercial                      |         |         |   |
| Commercial Insurance                | 826     | 835     |   |
| International                       | 93      | 91      |   |
| Small Business                      | 182     | 162     |   |
| CNA Commercial revenues             | 1,101   | 1,088   |   |
| Hardy revenues                      | 67      |         |   |
| Life & Group Non-Core               |         |         |   |
| Health                              | 298     | 291     |   |
| Life & Annuity                      | 61      | 60      |   |
| Other                               | 4       | (1      | ) |
| Life & Group Non-Core revenues      | 363     | 350     |   |
| Corporate & Other Non-Core revenues | 17      | 18      |   |
| Eliminations                        | (1      | ) —     |   |
| Total revenues                      | \$2,503 | \$2,401 |   |

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## Note L. Changes in Accumulated Other Comprehensive Income (Loss) by Component

The table below presents the change in Accumulated other comprehensive income (loss) by component for the three months ended March 31, 2013.

## Changes in Accumulated Other Comprehensive Income (Loss)

| (In millions)   | Net unrealized<br>gains (losses)<br>on investments<br>with OTTI<br>losses | Net unrealized<br>gains (losses)<br>on other<br>investments | Pension and<br>postretirement<br>benefits | Cumulative<br>foreign<br>currency<br>translation<br>adjustment | Total  |
|---|---|---|---|--|--------|
| Balance at January 1, 2013  | \$20  | \$1,371   | \$(721                                    | ) \$161  | \$831  |
| Other comprehensive income (loss)<br>before reclassifications   | 14  | (49   | ) —                                       | (61  | ) (96  |
| Amounts reclassified from<br>accumulated other comprehensive<br>income (loss) after tax (expense)<br>benefit of \$0, \$(6), \$3, \$0, and \$(3) | —   | 13  | (5  | ) —  | 8      |
| Other comprehensive income (loss)<br>after tax (expense) benefit of \$(7),<br>\$35, \$(3), \$0, and \$25  | 14  | (62   | ) 5                                       | (61  | ) (104 |
| Balance at March 31, 2013   | \$34  | \$1,309   | \$(716                                    | ) \$100  | \$727  |

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

| Component of AOCI  | Condensed Consolidated Statements of Operations Line<br>Item Affected by Reclassifications |
|--|--|
| Net unrealized gains (losses) on investments with OTTI<br>losses | Net realized investment gains (losses)   |
| Net unrealized gains (losses) on other investments               | Net realized investment gains (losses)   |
| Pension and postretirement benefits                              | Other operating expenses   |



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Item 2. Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations

Overview

The following discussion highlights significant factors affecting the Company. References to “we,” “our,” “us” or like terms refer to the business of CNA. Based on 2011 statutory net written premiums, we are the seventh largest commercial insurance writer and the 13<sup>th</sup> largest property and casualty insurance organization in the United States of America. The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements included under Part I, Item 1 of this Form 10-Q and Item 1A Risk Factors and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2012.

We utilize the net operating income financial measure to monitor our operations. Net operating income is calculated by excluding from net income (loss) the after-tax effects of 1) net realized investment gains or losses and 2) any cumulative effects of changes in accounting guidance. See further discussion regarding how we manage our business in Note K to the Condensed Consolidated Financial Statements included under Part I, Item 1. In the evaluation of the results of our CNA Specialty, CNA Commercial and Hardy 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.

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 F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

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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.

Three months ended March 31

| (In millions)  | 2013    | 2012    |
|--|---------|---------|
| Operating Revenues   |         |         |
| Net earned premiums  | \$1,764 | \$1,649 |
| Net investment income  | 633     | 648     |
| Other revenues   | 78      | 68      |
| Total operating revenues   | 2,475   | 2,365   |
| Claims, Benefits and Expenses  |         |         |
| Net incurred claims and benefits                                       | 1,425   | 1,378   |
| Policyholders' dividends   | 4       | 3       |
| Amortization of deferred acquisition costs                             | 328     | 295     |
| Other insurance related expenses                                       | 262     | 250     |
| Other expenses   | 121     | 111     |
| Total claims, benefits and expenses                                    | 2,140   | 2,037   |
| Operating income (loss) before income tax                              | 335     | 328     |
| Income tax (expense) benefit on operating income (loss)                | (104)   | (102)   |
| Net operating income (loss)  | 231     | 226     |
| Net realized investment gains (losses)                                 | 28      | 36      |
| Income tax (expense) benefit on net realized investment gains (losses) | (9)     | (12)    |
| Net realized investment gains (losses), after-tax                      | 19      | 24      |
| Net income (loss)  | \$250   | \$250   |

Net income for the three months ended March 31, 2013 was comparable with the same period in 2012. Increased net operating income was offset by lower net realized investment gains.

Net realized investment gains, after-tax, decreased \$5 million for the three months ended March 31, 2013 as compared with the same period in 2012. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income increased \$5 million for the three months ended March 31, 2013 as compared with the same period in 2012. Net operating income decreased \$14 million for our core segments, CNA Specialty, CNA Commercial and Hardy. This decrease was primarily due to lower net investment income, higher catastrophe losses and decreased favorable net prior year development. These unfavorable impacts were partially offset by improved non-catastrophe current accident year underwriting results. Catastrophe losses were \$25 million after-tax for the three months ended March 31, 2013 as compared with \$18 million after-tax for the same period in 2012. Net operating results improved \$19 million for our non-core segments, primarily related to results in our Life & Group Non-Core segment. See the Life & Group Non-Core and Corporate & Other Non-Core sections of this MD&A for further discussion of our non-core results.

Favorable net prior year development of \$39 million and \$43 million was recorded for the three months ended March 31, 2013 and 2012 related to our CNA Specialty, CNA Commercial, Hardy and Corporate & Other Non-Core segments. Further information on net prior year development for the three months ended March 31, 2013 and 2012 is included in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Net earned premiums increased \$115 million for the three months ended March 31, 2013 as compared with the same period in 2012, driven by the acquisition of Hardy in July of 2012, a \$34 million increase in CNA Commercial and a \$17 million increase in CNA Specialty. See the Segment Results section of this MD&A for further discussion.

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**CRITICAL ACCOUNTING ESTIMATES**

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

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

The accounting estimates below are considered by us to be critical to an understanding of our Condensed Consolidated Financial Statements as their application places the most significant demands on our judgment.

Insurance Reserves

Reinsurance and Insurance Receivables

Valuation of Investments and Impairment of Securities

Long Term Care Products and Payout Annuity Contracts

Pension and Postretirement Benefit Obligations

Income Taxes

Due to the inherent uncertainties involved with these types of judgments, actual results could differ significantly from estimates and may have a material adverse impact on our results of operations or equity. See the Critical Accounting Estimates section of our Management's Discussion and Analysis of Financial Condition and Results of Operations included under Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2012 for further information.

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## SEGMENT RESULTS

The following discusses the results of operations for our operating segments.

## CNA Specialty

The following table details the results of operations for CNA Specialty.

## Results of Operations

Three months ended March 31

(In millions, except ratios)

|   | 2013  | 2012   |   |   |
|---|-------|--------|---|---|
| Net written premiums                              | \$803 | \$765  |   |   |
| Net earned premiums                               | 723   | 706    |   |   |
| Net investment income                             | 170   | 175    |   |   |
| Net operating income (loss)                       | 140   | 132    |   |   |
| Net realized investment gains (losses), after-tax | 2     | 6      |   |   |
| Net income (loss)                                 | 142   | 138    |   |   |
| Ratios  |       |        |   |   |
| Loss and loss adjustment expense                  | 64.3  | % 66.3 |   | % |
| Expense   | 30.5  | 31.3   |   |   |
| Dividend  | 0.2   | (0.3   | ) |   |
| Combined  | 95.0  | % 97.3 |   | % |

Net written premiums for CNA Specialty increased \$38 million for the three months ended March 31, 2013 as compared with the same period in 2012, primarily driven by increased rate. Net earned premiums increased \$17 million as compared with the same period in 2012, consistent with increased net written premiums over recent quarters.

CNA Specialty's average rate increased 7% for the three months ended March 31, 2013, as compared with an increase of 3% for the three months ended March 31, 2012, for the policies that renewed in each period. Retention of 86% was achieved in each period.

Net income increased \$4 million for the three months ended March 31, 2013 as compared with the same period in 2012. This increase was due to higher net operating income, partially offset by decreased net realized investment gains.

Net operating income increased \$8 million for the three months ended March 31, 2013 as compared with the same period in 2012. This increase was primarily due to improved underwriting results, partially offset by lower net investment income.

The combined ratio improved 2.3 points for the three months ended March 31, 2013 as compared with the same period in 2012. The loss ratio decreased 2.0 points, due to both higher favorable net prior year development and an improved current accident year loss ratio. The expense ratio improved 0.8 point for the three months ended March 31, 2013 as compared with the same period in 2012, primarily due to the impact of a higher net earned premium base. Favorable net prior year development of \$23 million and \$15 million was recorded for the three months ended March 31, 2013 and 2012. Further information on CNA Specialty's net prior year development for the three months ended March 31, 2013 and 2012 is included in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

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The following table summarizes the gross and net carried reserves as of March 31, 2013 and December 31, 2012 for CNA Specialty.

| Gross and Net Carried Claim and Claim Adjustment Expense Reserves | March 31,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| (In millions)   |                   |                      |
| Gross Case Reserves   | \$2,298           | \$2,292              |
| Gross IBNR Reserves   | 4,509             | 4,456                |
| Total Gross Carried Claim and Claim Adjustment Expense Reserves   | \$6,807           | \$6,748              |
| Net Case Reserves   | \$2,017           | \$2,008              |
| Net IBNR Reserves   | 4,136             | 4,104                |
| Total Net Carried Claim and Claim Adjustment Expense Reserves     | \$6,153           | \$6,112              |

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## CNA Commercial

The following table details the results of operations for CNA Commercial.

## Results of Operations

Three months ended March 31

(In millions, except ratios)

|   | 2013  | 2012    |  |   |
|---|-------|---------|--|---|
| Net written premiums                              | \$918 | \$843   |  |   |
| Net earned premiums                               | 837   | 803     |  |   |
| Net investment income                             | 250   | 265     |  |   |
| Net operating income (loss)                       | 125   | 139     |  |   |
| Net realized investment gains (losses), after-tax | 3     | 7       |  |   |
| Net income (loss)                                 | 128   | 146     |  |   |
| Ratios  |       |         |  |   |
| Loss and loss adjustment expense                  | 71.7  | % 70.7  |  | % |
| Expense   | 35.0  | 35.1    |  |   |
| Dividend  | 0.1   | 0.4     |  |   |
| Combined  | 106.8 | % 106.2 |  | % |

Net written premiums for CNA Commercial increased \$75 million for the three months ended March 31, 2013 as compared with the same period in 2012, primarily driven by increased rate. Net earned premiums increased \$34 million for the three months ended March 31, 2013 as compared with the same period in 2012. This increase was primarily driven by the increase in net written premiums over recent quarters.

CNA Commercial's average rate increased 9% for the three months ended March 31, 2013, as compared with an increase of 5% for the three months ended March 31, 2012 for the policies that renewed in each period. Retention of 78% and 77% was achieved in each period.

Net income decreased \$18 million for the three months ended March 31, 2013 as compared with the same period in 2012. This decrease was due to lower net operating income and decreased net realized investment gains.

Net operating income decreased \$14 million for the three months ended March 31, 2013 as compared with the same period in 2012. This decrease was primarily due to lower net investment income, higher catastrophe losses and decreased favorable net prior year development. These unfavorable impacts were partially offset by improved non-catastrophe current accident year underwriting results.

The combined ratio increased 0.6 point for the three months ended March 31, 2013 as compared with the same period in 2012. The loss ratio increased 1.0 point, primarily due to the impacts of higher catastrophe losses and decreased favorable net prior year development, partially offset by an improved current accident year non-catastrophe loss ratio. Catastrophe losses were \$38 million, or 4.6 points of the loss ratio, for the three months ended March 31, 2013, as compared with \$26 million, or 3.3 points of the loss ratio, for the three months ended March 31, 2012.

Favorable net prior year development of \$21 million and \$31 million was recorded for the three months ended March 31, 2013 and 2012. Further information on CNA Commercial net prior year development for the three months ended March 31, 2013 and 2012 is included in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

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The following table summarizes the gross and net carried reserves as of March 31, 2013 and December 31, 2012 for CNA Commercial.

## Gross and Net Carried Claim and Claim Adjustment Expense Reserves

| (In millions)   | March 31,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| Gross Case Reserves   | \$6,083           | \$6,146              |
| Gross IBNR Reserves   | 5,022             | 5,180                |
| Total Gross Carried Claim and Claim Adjustment Expense Reserves | \$11,105          | \$11,326             |
| Net Case Reserves   | \$5,553           | \$5,611              |
| Net IBNR Reserves   | 4,432             | 4,600                |
| Total Net Carried Claim and Claim Adjustment Expense Reserves   | \$9,985           | \$10,211             |

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## Hardy

The following table details the results of operations for Hardy.

## Results of Operations

Three months ended March 31

(In millions, except ratios)

|   |       |   |
|---|-------|---|
|   | 2013  |   |
| Net written premiums                              | \$55  |   |
| Net earned premiums                               | 64    |   |
| Net investment income                             | 1     |   |
| Net operating income (loss)                       | (8    | ) |
| Net realized investment gains (losses), after-tax | 1     |   |
| Net income (loss)                                 | (7    | ) |
| Ratios  |       |   |
| Loss and loss adjustment expense                  | 48.7  | % |
| Expense   | 56.8  |   |
| Dividend  | —     |   |
| Combined  | 105.5 | % |

The composition of net earned premiums for Hardy was \$32 million for marine and aviation, \$19 million for non-marine property, \$7 million for specialty lines and \$6 million for property treaty reinsurance.

Hardy's average rate increased 1% for the three months ended March 31, 2013 for the policies that renewed in the period. Retention of 70% was achieved in the period.

Results included non-run rate purchase accounting expenses of \$3 million and foreign currency transaction losses of \$2 million. Further information on Hardy's amortization expense is included in Note I to the Condensed Consolidated Financial Statements included under Part I, Item 1.

No catastrophe losses were incurred for the three months ended March 31, 2013. The expense ratio was adversely affected by the level of premiums, including unfavorable premium development of \$4 million.

Unfavorable net prior year development of \$3 million was recorded for the three months ended March 31, 2013.

The following table summarizes the gross and net carried reserves as of March 31, 2013 and December 31, 2012 for Hardy.

## Gross and Net Carried Claim and Claim Adjustment Expense Reserves

| (In millions)   | March 31,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| Gross Case Reserves   | \$320             | \$333                |
| Gross IBNR Reserves   | 150               | 188                  |
| Total Gross Carried Claim and Claim Adjustment Expense Reserves | \$470             | \$521                |
| Net Case Reserves   | \$180             | \$192                |
| Net IBNR Reserves   | 78                | 82                   |
| Total Net Carried Claim and Claim Adjustment Expense Reserves   | \$258             | \$274                |



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## Life &amp; Group Non-Core

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

## Results of Operations

Three months ended March 31

| (In millions)                                     | 2013  | 2012  |
|---|-------|-------|
| Net earned premiums                               | \$141 | \$141 |
| Net investment income                             | 204   | 198   |
| Net operating income (loss)                       | —     | (19 ) |
| Net realized investment gains (losses), after-tax | 9     | 8     |
| Net income (loss)                                 | 9     | (11 ) |

Net earned premiums for Life & Group Non-Core were comparable for the three months ended March 31, 2013 and the same period in 2012. Net earned premiums relate primarily to the individual and group long term care businesses. Premiums in the current period were affected by the lapsing of policies and rate increase actions in our run-off individual long term care business.

Net results improved \$20 million for the three months ended March 31, 2013 as compared with the same period in 2012. While the improved results reflect favorable mortality outcomes across all of our life businesses, they were primarily attributable to favorable morbidity and persistency in our long term care business.

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## Corporate &amp; Other Non-Core

The following table summarizes the results of operations for the Corporate & Other Non-Core segment, including asbestos and environmental pollution (A&EP) and intersegment eliminations.

## Results of Operations

Three months ended March 31

| (In millions)                                     | 2013 | 2012  |
|---|------|-------|
| Net investment income                             | \$8  | \$10  |
| Net operating income (loss)                       | (26  | ) (26 |
| Net realized investment gains (losses), after-tax | 4    | 3     |
| Net income (loss)                                 | (22  | ) (23 |

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. Results in 2013 were comparable to the prior year period.

Unfavorable net prior year development of \$2 million and \$3 million was recorded for the three months ended March 31, 2013 and 2012.

The following table summarizes the gross and net carried reserves as of March 31, 2013 and December 31, 2012 for Corporate & Other Non-Core.

## Gross and Net Carried Claim and Claim Adjustment Expense Reserves

| (In millions)   | March 31,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| Gross Case Reserves   | \$1,177           | \$1,207              |
| Gross IBNR Reserves   | 1,921             | 1,955                |
| Total Gross Carried Claim and Claim Adjustment Expense Reserves | \$3,098           | \$3,162              |
| Net Case Reserves   | \$290             | \$292                |
| Net IBNR Reserves   | 211               | 220                  |
| Total Net Carried Claim and Claim Adjustment Expense Reserves   | \$501             | \$512                |

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## INVESTMENTS

## Net Investment Income

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

## Net Investment Income

Three months ended March 31

(In millions)

|                                 | 2013  | 2012  |
|---------------------------------|-------|-------|
| Fixed maturity securities       | \$499 | \$516 |
| Short term investments          | 1     | 1     |
| Limited partnership investments | 131   | 130   |
| Equity securities               | 3     | 4     |
| Mortgage loans                  | 5     | 3     |
| Trading portfolio               | 5     | 7     |
| Other                           | 1     | 1     |
| Gross investment income         | 645   | 662   |
| Investment expense              | (12   | ) (14 |
| Net investment income           | \$633 | \$648 |

Net investment income for the three months ended March 31, 2013 decreased \$15 million as compared with the same period in 2012. The decrease was primarily driven by lower fixed maturity securities income due to the effect of purchasing investments at lower interest rates, partially offset by a higher invested asset base.

The fixed maturity investment portfolio provided a pretax effective income yield of 5.2% and 5.5% for the three months ended March 31, 2013 and 2012. Tax-exempt municipal bonds generated \$69 million of net investment income for the three months ended March 31, 2013 compared with \$66 million of net investment income for the same period in 2012.

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## Net Realized Investment Gains (Losses)

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

## Net Realized Investment Gains (Losses)

Three months ended March 31

| (In millions)  | 2013 | 2012  |   |
|--|------|-------|---|
| Fixed maturity securities:   |      |       |   |
| Corporate and other bonds  | \$31 | \$23  |   |
| States, municipalities and political subdivisions                      | (2   | ) 15  |   |
| Asset-backed   | 3    | (12   | ) |
| U.S. Treasury and obligations of government-sponsored enterprises      | —    | 1     |   |
| Foreign government   | —    | 3     |   |
| Total fixed maturity securities  | 32   | 30    |   |
| Equity securities  | (13  | ) 1   |   |
| Derivative securities  | 2    | (1    | ) |
| Short term investments and other                                       | 7    | 6     |   |
| Net realized investment gains (losses)                                 | 28   | 36    |   |
| Income tax (expense) benefit on net realized investment gains (losses) | (9   | ) (12 | ) |
| Net realized investment gains (losses), after-tax                      | \$19 | \$24  |   |

Net realized investment gains, after-tax, decreased \$5 million for the three months ended March 31, 2013 as compared with the same period in 2012, driven by lower realized gains on sales of securities, partially offset by lower OTTI losses recognized in earnings. Further information on our realized gains and losses, including our OTTI losses and impairment decision process, is set forth in Note C to the Condensed Consolidated Financial Statements included under Part I, Item 1.

## Portfolio Quality

Our fixed maturity portfolio consists primarily of high quality bonds, 91% and 92% of which were rated as investment grade (rated BBB- or higher) at March 31, 2013 and December 31, 2012. The classification between investment grade and non-investment grade is based on a ratings methodology that takes into account ratings from Standard & Poor's (S&P) and Moody's Investors Service, Inc. (Moody's), in that order of preference. If a security is not rated by these rating agencies, we formulate an internal rating. At March 31, 2013 and December 31, 2012, approximately 98% of the fixed maturity portfolio was rated by S&P or Moody's, or was issued or guaranteed by the U.S. Government, Government agencies or Government-sponsored enterprises.

The following table summarizes the ratings of our fixed maturity portfolio at fair value.

## Fixed Maturity Ratings

| (In millions)   | March 31,<br>2013 | %   | December 31,<br>2012 | %   |   |
|---|-------------------|-----|----------------------|-----|---|
| U.S. Government, Government agencies and Government-sponsored enterprises | \$4,230           | 10  | % \$4,540            | 11  | % |
| AAA rated   | 3,128             | 7   | 3,224                | 8   |   |
| AA and A rated  | 19,875            | 46  | 19,305               | 45  |   |
| BBB rated   | 11,911            | 28  | 11,997               | 28  |   |
| Non-investment grade  | 3,655             | 9   | 3,567                | 8   |   |
| Total   | \$42,799          | 100 | % \$42,633           | 100 | % |

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Non-investment grade fixed maturity securities, as presented in the table below, include high-yield securities rated below BBB- by bond rating agencies and other unrated securities that, according to our analysis, are below investment grade. Non-investment grade securities generally involve a greater degree of risk than investment grade securities. The amortized cost of our non-investment grade fixed maturity bond portfolio was \$3,416 million and \$3,355 million at March 31, 2013 and December 31, 2012. The following table summarizes the ratings of this portfolio at fair value.

## Non-investment Grade

| (In millions) | March 31,<br>2013 | %   | December 31,<br>2012 | %   |   |
|---------------|-------------------|-----|----------------------|-----|---|
| BB            | \$1,593           | 43  | % \$1,529            | 43  | % |
| B             | 1,087             | 30  | 1,075                | 30  |   |
| CCC - C       | 757               | 21  | 724                  | 20  |   |
| D             | 218               | 6   | 239                  | 7   |   |
| Total         | \$3,655           | 100 | % \$3,567            | 100 | % |

The following table summarizes available-for-sale fixed maturity securities in a gross unrealized loss position by ratings distribution as of March 31, 2013.

## Gross Unrealized Losses by Ratings Distribution

March 31, 2013

| (In millions)  | Estimated<br>Fair Value | %   | Gross<br>Unrealized<br>Losses | %   |   |
|--|-------------------------|-----|-------------------------------|-----|---|
| U.S. Government, Government agencies and<br>Government-sponsored enterprises | \$864                   | 25  | % \$50                        | 32  | % |
| AAA  | 185                     | 5   | 9                             | 5   |   |
| AA   | 600                     | 18  | 50                            | 32  |   |
| A  | 412                     | 12  | 6                             | 4   |   |
| BBB  | 774                     | 23  | 25                            | 16  |   |
| Non-Investment Grade   | 567                     | 17  | 18                            | 11  |   |
| Total  | \$3,402                 | 100 | % \$158                       | 100 | % |

The following table provides 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.

## Gross Unrealized Losses by Maturity Profile

| March 31, 2013                         | Estimated<br>Fair Value | %   | Gross<br>Unrealized<br>Losses | %   |   |
|--|-------------------------|-----|-------------------------------|-----|---|
| Due in one year or less                | \$206                   | 6   | % \$4                         | 2   | % |
| Due after one year through five years  | 914                     | 27  | 25                            | 16  |   |
| Due after five years through ten years | 1,182                   | 35  | 61                            | 39  |   |
| Due after ten years                    | 1,100                   | 32  | 68                            | 43  |   |
| Total                                  | \$3,402                 | 100 | % \$158                       | 100 | % |

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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 liabilities in the Life & Group Non-Core segment including annuities, structured settlements and long term care products.

The effective durations of fixed maturity securities, short term investments and interest rate derivatives are presented in the table below. Short term investments are net of payable and receivable amounts for securities purchased and sold, but not yet settled.

## Effective Durations

| (In millions)                                | March 31, 2013 |                                  | December 31, 2012 |                                  |
|--|----------------|----------------------------------|-------------------|----------------------------------|
|  | Fair Value     | Effective Duration<br>(In years) | Fair Value        | Effective Duration<br>(In years) |
| Investments supporting Life & Group Non-Core | \$15,723       | 11.1                             | \$15,590          | 11.3                             |
| Other interest sensitive investments         | 28,651         | 4.1                              | 28,855            | 3.9                              |
| Total  | \$44,374       | 6.6                              | \$44,445          | 6.5                              |

The investment portfolio is periodically analyzed for changes in duration and related price risk. Additionally, we periodically review the sensitivity of the portfolio to the level of foreign exchange rates and other factors that contribute to market price changes. A summary of these risks and specific analysis on changes is included in the Quantitative and Qualitative Disclosures About Market Risk in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2012.

## Short Term Investments

The carrying value of the components of the short term investment portfolio is presented in the following table.

## Short Term Investments

| (In millions)                | March 31,<br>2013 | December 31,<br>2012 |
|------------------------------|-------------------|----------------------|
| Short term investments:      |                   |                      |
| Commercial paper             | \$345             | \$751                |
| U.S. Treasury securities     | 771               | 617                  |
| Money market funds           | 249               | 301                  |
| Other                        | 190               | 163                  |
| Total short term investments | \$1,555           | \$1,832              |

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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 the three months ended March 31, 2013, net cash provided by operating activities was \$191 million as compared with \$312 million for the same period in 2012. Cash provided by operating activities in 2012 was favorably affected by a \$75 million tax refund. Additionally, because cash receipts and cash payments resulting from purchases and sales of trading securities are reported as cash flows related to operating activities, during 2013 operating cash flows were decreased by \$48 million as compared to a decrease of \$6 million during 2012 related to trading activity.

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

For the three months ended March 31, 2013, net cash used by investing activities was \$161 million as compared with net cash used of \$287 million for the same period in 2012. 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.

For the three months ended March 31, 2013, net cash used by financing activities was \$56 million as compared with \$42 million for the same period in 2012. Net cash used by financing activities in both periods was primarily related to the payment of dividends to common stockholders.

Common Stock Dividends

Dividends of \$0.20 per share of our common stock were declared and paid in the first quarter of 2013. On April 26, 2013, our Board of Directors declared a quarterly dividend of \$0.20 per share, payable May 29, 2013 to stockholders of record on May 13, 2013. 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.

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.

During the first quarter of 2013, Continental Casualty Company (CCC), our primary operating subsidiary, paid a dividend of \$100 million to CNAF. As of March 31, 2013, CCC is able to pay approximately \$600 million of dividends during the remainder of 2013 that would not be subject to the prior approval of the Illinois Department of Insurance.

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

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

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

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

the consummation of contemplated transactions and the successful integration of acquired operations.

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 under priced 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, as well as restrictions on the ability or willingness of Loews to provide additional capital support to us; 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 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 as well as the new federal financial regulatory reform of the insurance industry established by the Dodd-Frank Wall Street Reform and Consumer Protection Act;

increased operating costs and underwriting losses arising from the Patient Protection and Affordable Care Act and the related amendments in the Health Care and Education Reconciliation Act, as well as health care reform proposals at the state level; 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 weather patterns, greenhouse gases, sea, land and air temperatures, sea levels, rain 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 and the effect of the absence or insufficiency of applicable terrorism legislation on coverages;

the unpredictability of the nature, targets, severity or frequency of potential terrorist events, as well as the uncertainty as to our ability to contain our terrorism exposure effectively; 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 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in our market risk components for the three months ended March 31, 2013. See the Quantitative and Qualitative Disclosures About Market Risk included in Item 7A on our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2012 for further information. Additional information related to portfolio duration is discussed in the Investments section of our Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part I, Item 2.

Item 4. Controls and Procedures

The Company maintains a system of disclosure controls and procedures which are designed to ensure that information required to be disclosed by the Company in reports that it files or submits to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including this report, is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to the Company's management on a timely basis to allow decisions regarding required disclosure. As of March 31, 2013, the Company's management, including the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective as of March 31, 2013.

There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15 (f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

On July 2, 2012, the Company completed the acquisition of Hardy. Hardy's existing disclosure controls and procedures supported their financial reporting as a separate publicly-traded company. In conducting its evaluation of the effectiveness of the Company's internal control over financial reporting, CNAF management elected to exclude Hardy from this evaluation as permitted under SEC rules. The Company is currently in the process of evaluating and integrating Hardy's controls over financial reporting. CNAF management expects to complete this integration by June 30, 2013.

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PART II. Other Information

Item 1. Legal Proceedings

Information on our legal proceedings is set forth in Note G to the Condensed Consolidated Financial Statements included under Part I, Item I.

Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

See Exhibit Index.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CNA Financial Corporation

Dated: April 30, 2013

By /s/ D. Craig Mense  
D. Craig Mense  
Executive Vice President and  
Chief Financial Officer

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| EXHIBIT INDEX  |                |
|--|----------------|
| Description of Exhibit   | Exhibit Number |
| Certification of Chief Executive Officer   | 31.1           |
| Certification of Chief Financial Officer   | 31.2           |
| Written Statement of the Chief Executive Officer of CNA Financial Corporation Pursuant to 18 U.S.C. Section 1350 (As adopted by Section 906 of the Sarbanes-Oxley Act of 2002) | 32.1           |
| Written Statement of the Chief Financial Officer of CNA Financial Corporation Pursuant to 18 U.S.C. Section 1350 (As adopted by Section 906 of the Sarbanes-Oxley Act of 2002) | 32.2           |
| XBRL Instance Document   | 101.INS        |
| XBRL Taxonomy Extension Schema   | 101.SCH        |
| XBRL Taxonomy Extension Calculation Linkbase   | 101.CAL        |
| XBRL Taxonomy Extension Definition Linkbase  | 101.DEF        |
| XBRL Taxonomy Label Linkbase   | 101.LAB        |
| XBRL Taxonomy Extension Presentation Linkbase  | 101.PRE        |