

CNA FINANCIAL CORP
Form 10-Q
August 04, 2014

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 June 30, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 1-5823

CNA FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(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

Common Stock, Par value \$2.50

Outstanding at August 1, 2014

269,946,268

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements

CNA Financial Corporation

Condensed Consolidated Statements of Operations (Unaudited)

Periods ended June 30

(In millions, except per share data)

	Three Months		Six Months	
	2014	2013	2014	2013
Revenues				
Net earned premiums	\$1,811	\$1,800	\$3,617	\$3,564
Net investment income	550	534	1,076	1,125
Net realized investment gains (losses):				
Other-than-temporary impairment losses	(5	) (16	) (7	) (34
Portion of other-than-temporary impairments recognized in Other comprehensive income	—	—	—	—
Net other-than-temporary impairment losses recognized in earnings	(5	) (16	) (7	) (34
Other net realized investment gains (losses)	(9	) 2	39	43
Net realized investment gains (losses)	(14	) (14	) 32	9
Other revenues	93	130	178	207
Total revenues	2,440	2,450	4,903	4,905
Claims, Benefits and Expenses				
Insurance claims and policyholders' benefits	1,441	1,485	2,887	2,881
Amortization of deferred acquisition costs	335	335	664	663
Other operating expenses	254	319	600	659
Interest	46	41	90	83
Total claims, benefits and expenses	2,076	2,180	4,241	4,286
Income from continuing operations before income tax	364	270	662	619
Income tax expense	(103	) (80	) (181	) (188
Income from continuing operations	261	190	481	431
Income (loss) from discontinued operations, net of income tax (expense) benefit of \$(1), \$(2), \$37, and \$(7)	6	4	(201	) 13
Net income	\$267	\$194	\$280	\$444
Basic Earnings Per Share				
Income from continuing operations	\$0.97	\$0.71	\$1.78	\$1.60
Income (loss) from discontinued operations	0.02	0.01	(0.74	) 0.05
Basic earnings per share	\$0.99	\$0.72	\$1.04	\$1.65
Diluted Earnings Per Share				
Income from continuing operations	\$0.97	\$0.71	\$1.78	\$1.60
Income (loss) from discontinued operations	0.01	0.01	(0.75	) 0.04
Diluted earnings per share	\$0.98	\$0.72	\$1.03	\$1.64
Dividends per share	\$0.25	\$0.20	\$1.50	\$0.40
Weighted Average Outstanding Common Stock and Common Stock Equivalents				
Basic	269.9	269.7	269.9	269.6
Diluted	270.6	270.1	270.5	270.0

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

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CNA Financial Corporation

Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

Periods ended June 30

(In millions)

Three Months

Six Months

2014

2013

2014

2013

Other Comprehensive Income (Loss), Net of Tax

Changes in:

Net unrealized gains (losses) on investments with other-than-temporary impairments	\$2	\$(8	)	\$14	\$6
Net unrealized gains (losses) on other investments	270	(585	)	507	(647)
Net unrealized gains (losses) on investments	272	(593	)	521	(641)
Net unrealized gains on discontinued operations	7	—		15	—
Foreign currency translation adjustment	42	(13	)	34	(74)
Pension and postretirement benefits	(51	)	5	(50	) 10
Other comprehensive income (loss), net of tax	270	(601	)	520	(705)
Net income	267	194		280	444
Total comprehensive income (loss)	\$537	\$(407	)	\$800	\$(261)

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

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Condensed Consolidated Balance Sheets (Unaudited)

(In millions, except share data)	June 30, 2014	December 31, 2013
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of \$37,212 and \$39,311)	\$40,468	\$41,233
Equity securities at fair value (cost of \$175 and \$179)	194	185
Limited partnership investments	2,831	2,720
Other invested assets	45	54
Mortgage loans	518	508
Short term investments	2,024	1,407
Total investments	46,080	46,107
Cash	204	195
Reinsurance receivables (less allowance for uncollectible receivables of \$65 and \$71)	5,050	6,017
Insurance receivables (less allowance for uncollectible receivables of \$73 and \$84)	2,142	1,979
Accrued investment income	411	443
Deferred acquisition costs	650	624
Deferred income taxes	—	220
Property and equipment at cost (less accumulated depreciation of \$365 and \$365)	289	304
Goodwill	156	155
Assets held for sale	3,593	—
Other assets	862	969
Separate account business	—	181
Total assets	\$59,437	\$57,194
Liabilities		
Insurance reserves:		
Claim and claim adjustment expenses	\$23,996	\$24,089
Unearned premiums	3,851	3,718
Future policy benefits	8,696	10,471
Policyholders' funds	27	116
Short term debt	549	549
Long term debt	2,558	2,011
Deferred income taxes	94	—
Liabilities held for sale	3,343	—
Other liabilities (includes \$68 and \$178 due to Loews Corporation)	3,249	3,408
Separate account business	—	181
Total liabilities	46,363	44,543
Commitments and contingencies (Notes C, G and J)		
Stockholders' Equity		
Common stock (\$2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; 269,946,268 and 269,717,583 shares outstanding)	683	683
Additional paid-in capital	2,146	2,145
Retained earnings	9,369	9,495
Accumulated other comprehensive income	962	442
Treasury stock (3,093,975 and 3,322,660 shares), at cost	(85	) (91
Notes receivable for the issuance of common stock	(1	) (23
Total stockholders' equity	13,074	12,651

Total liabilities and stockholders' equity	\$59,437	\$57,194
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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)

Six months ended June 30

(In millions)	2014	2013	
Cash Flows from Operating Activities			
Net income	\$280	\$444	
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Impairment loss on pending sale of subsidiary	255	—	
Deferred income tax expense	48	122	
Trading portfolio activity	17	(7)
Net realized investment gains	(34	) (14)
Equity method investees	75	(151)
Amortization of investments	—	(14)
Depreciation and amortization	42	58	
Changes in:			
Receivables, net	6	(83)
Accrued investment income	(3	) (12)
Deferred acquisition costs	(10	) (43)
Insurance reserves	234	198	
Other assets	(50	) (69)
Other liabilities	(201	) 134	
Other, net	(72	) 6	
Total adjustments	307	125	
Net cash flows provided by operating activities	587	569	
Cash Flows from Investing Activities			
Dispositions:			
Fixed maturity securities - sales	2,919	3,143	
Fixed maturity securities - maturities, calls and redemptions	1,954	1,820	
Equity securities	14	60	
Limited partnerships	118	77	
Mortgage loans	33	18	
Purchases:			
Fixed maturity securities	(4,921	) (5,656)
Equity securities	(11	) (33)
Limited partnerships	(109	) (103)
Mortgage loans	(43	) (54)
Change in other investments	10	—	
Change in short term investments	(678	) 293	
Purchases of property and equipment	(27	) (42)
Other, net	7	6	
Net cash flows used by investing activities	(734	) (471)

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

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Six months ended June 30

(In millions)

	2014	2013
Cash Flows from Financing Activities		
Dividends paid to common stockholders	(406	) (108
Proceeds from the issuance of debt	546	—
Stock options exercised	4	1
Other, net	19	(20
Net cash flows provided (used) by financing activities	163	(127
Effect of foreign exchange rate changes on cash	2	(6
Transfer of cash to assets held for sale	(9) —
Net change in cash	9	(35
Cash, beginning of year	195	156
Cash, end of period	\$204	\$121

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)

Six months ended June 30

(In millions)	2014	2013	
Common Stock			
Balance, beginning of period	\$683	\$683	
Balance, end of period	683	683	
Additional Paid-in Capital			
Balance, beginning of period	2,145	2,146	
Stock-based compensation	1	(6)
Balance, end of period	2,146	2,140	
Retained Earnings			
Balance, beginning of period	9,495	8,774	
Dividends paid to common stockholders	(406	) (108)
Net income	280	444	
Balance, end of period	9,369	9,110	
Accumulated Other Comprehensive Income			
Balance, beginning of period	442	831	
Other comprehensive income (loss)	520	(705)
Balance, end of period	962	126	
Treasury Stock			
Balance, beginning of period	(91	) (99)
Stock-based compensation	6	8	
Balance, end of period	(85	) (91)
Notes Receivable for the Issuance of Common Stock			
Balance, beginning of period	(23	) (21)
Decrease (increase) in notes receivable for common stock	22	(3)
Balance, end of period	(1	) (24)
Total Stockholders' Equity	\$13,074	\$11,944	

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. Loews Corporation (Loews) owned approximately 90% of the outstanding common stock of CNAF as of June 30, 2014.

The accompanying Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Certain financial information that is normally included in annual financial statements, including certain financial statement notes, prepared in accordance with GAAP, is not required for interim reporting purposes and has been condensed or omitted. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in CNAF's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2013, including the summary of significant accounting policies in Note A. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

The interim financial data as of June 30, 2014 and for the three and six months ended June 30, 2014 and 2013 is unaudited. However, in the opinion of management, the interim data includes all adjustments, consisting of normal recurring accruals, necessary for a fair statement of the Company's results for the interim periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

Intercompany amounts have been eliminated.

Sale of Continental Assurance Company (CAC)

On February 10, 2014, the Company entered into a definitive agreement to sell the majority of its run-off annuity and pension deposit business through the sale of the common stock of CAC. The sale closed on August 1, 2014. The business sold, which was previously reported within the Life & Group Non-Core segment, is reported as discontinued operations and assets and liabilities held for sale. The Company has elected not to present these assets and liabilities as held for sale on the comparative Condensed Consolidated Balance Sheet. Further information on the assets and liabilities held for sale and discontinued operations is provided in Note M to the Condensed Consolidated Financial Statements.

The definitive agreement includes a 100% coinsurance agreement on a separate small block of annuity business outside of CAC. The assets and liabilities related to the coinsurance agreement do not qualify as held for sale presentation, therefore they are not reflected as held for sale on the Condensed Consolidated Balance Sheet.

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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 and six months ended June 30, 2014 , approximately 622 thousand and 644 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 180 thousand and 110 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.

For the three and six months ended June 30, 2013, approximately 407 thousand and 446 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 114 thousand and 478 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

Periods ended June 30	Three Months		Six Months	
(In millions)	2014	2013	2014	2013
Fixed maturity securities	\$451	\$454	\$903	\$911
Short term investments	—	1	1	2
Limited partnership investments	97	79	170	210
Equity securities	3	3	5	6
Mortgage loans	9	6	15	11
Trading portfolio	3	5	6	10
Other	1	—	3	1
Gross investment income	564	548	1,103	1,151
Investment expense	(14	) (14	) (27	) (26
Net investment income	\$550	\$534	\$1,076	\$1,125

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

Net Realized Investment Gains (Losses)

Periods ended June 30	Three Months		Six Months	
(In millions)	2014	2013	2014	2013
Net realized investment gains (losses):				
Fixed maturity securities:				
Gross realized gains	\$20	\$33	\$73	\$72
Gross realized losses	(39	) (40	) (54	) (52
Net realized investment gains (losses) on fixed maturity securities	(19	) (7	) 19	20
Equity securities:				
Gross realized gains	—	5	5	7
Gross realized losses	—	(7	) —	(22
Net realized investment gains (losses) on equity securities	—	(2	) 5	(15
Derivatives	1	(5	) 1	(3
Short term investments and other	4	—	7	7
Net realized investment gains (losses)	\$(14) \$(14) \$32	\$9

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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.

Periods ended June 30 (In millions)	Three Months		Six Months	
	2014	2013	2014	2013
Fixed maturity securities available-for-sale:				
Corporate and other bonds	\$2	\$5	\$3	\$8
Asset-backed:				
Residential mortgage-backed	1	3	2	3
Other asset-backed	1	1	1	1
Total asset-backed	2	4	3	4
Total fixed maturity securities available-for-sale	4	9	6	12
Equity securities available-for-sale:				
Common stock	1	2	1	2
Preferred stock	—	5	—	20
Total equity securities available-for-sale	1	7	1	22
Net OTTI losses recognized in earnings	\$5	\$16	\$7	\$34

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

Summary of Fixed Maturity and Equity Securities

June 30, 2014

(In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
Fixed maturity securities available-for-sale:					
Corporate and other bonds	\$17,276	\$1,852	\$30	\$19,098	\$—
States, municipalities and political subdivisions	11,215	1,178	70	12,323	—
Asset-backed:					
Residential mortgage-backed	4,882	202	14	5,070	(51)
Commercial mortgage-backed	1,999	107	7	2,099	(3)
Other asset-backed	1,172	16	3	1,185	—
Total asset-backed	8,053	325	24	8,354	(54)
U.S. Treasury and obligations of government-sponsored enterprises	61	6	1	66	—
Foreign government	533	18	1	550	—
Redeemable preferred stock	39	3	—	42	—
Total fixed maturity securities available-for-sale	37,177	3,382	126	40,433	\$(54)
Total fixed maturity securities trading	35	—	—	35	
Equity securities available-for-sale:					
Common stock	46	14	—	60	
Preferred stock	129	5	—	134	
Total equity securities available-for-sale	175	19	—	194	
Total	\$37,387	\$3,401	\$126	\$40,662	

December 31, 2013

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

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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 June 30, 2014 and December 31, 2013, the net unrealized gains on investments included in AOCI were net of after-tax Shadow Adjustments of \$937 million and \$532 million. To the extent that unrealized gains on fixed income securities supporting certain products within the Life & Group Non-Core segment would result in a premium deficiency if realized, a related decrease in Deferred acquisition costs and/or increase in Insurance reserves are recorded, net of tax, as a reduction of net unrealized gains through Other comprehensive income (loss) (Shadow Adjustments).

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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

June 30, 2014 (In millions)	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities available-for-sale:						
Corporate and other bonds	\$813	\$12	\$548	\$18	\$1,361	\$30
States, municipalities and political subdivisions	316	2	587	68	903	70
Asset-backed:						
Residential mortgage-backed	125	1	332	13	457	14
Commercial mortgage-backed	205	2	171	5	376	7
Other asset-backed	269	3	12	—	281	3
Total asset-backed	599	6	515	18	1,114	24
U.S. Treasury and obligations of government-sponsored enterprises	2	1	4	—	6	1
Foreign government	39	1	9	—	48	1
Total fixed maturity securities available-for-sale	1,769	22	1,663	104	3,432	126
Equity securities available-for-sale:						
Preferred stock	10	—	2	—	12	—
Total	\$1,779	\$22	\$1,665	\$104	\$3,444	\$126
December 31, 2013 (In millions)	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities available-for-sale:						
Corporate and other bonds	\$3,592	\$129	\$72	\$6	\$3,664	\$135
States, municipalities and political subdivisions	3,251	197	129	75	3,380	272
Asset-backed:						
Residential mortgage-backed	1,293	29	343	63	1,636	92
Commercial mortgage-backed	640	22	—	—	640	22
Other asset-backed	269	3	—	—	269	3
Total asset-backed	2,202	54	343	63	2,545	117
U.S. Treasury and obligations of government-sponsored enterprises	13	1	—	—	13	1
Foreign government	111	3	—	—	111	3
Total fixed maturity securities available-for-sale	9,169	384	544	144	9,713	528
Equity securities available-for-sale:						
Preferred stock	87	4	—	—	87	4
Total	\$9,256	\$388	\$544	\$144	\$9,800	\$532

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Based on current facts and circumstances, the Company believes the unrealized losses presented in the June 30, 2014 Securities in a Gross Unrealized Loss Position table above, are primarily attributable to broader economic conditions, changes in interest rates and credit spreads, market illiquidity and other market factors, but are not indicative of the ultimate collectibility of the current amortized cost of the securities. The Company has no current intent to sell securities with unrealized losses, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at June 30, 2014.

The following table summarizes the activity for the three and six months ended June 30, 2014 and 2013 related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held at June 30, 2014 and 2013 for which a portion of an OTTI loss was recognized in Other comprehensive income (loss).

Periods ended June 30 (In millions)	Three Months		Six Months	
	2014	2013	2014	2013
Beginning balance of credit losses on fixed maturity securities	\$69	\$92	\$74	\$95
Additional credit losses for securities for which an OTTI loss was previously recognized	—	1	—	1
Reductions for securities sold during the period	(3	) (4	) (5	) (7
Reductions for securities the Company intends to sell or more likely than not will be required to sell	—	—	(3) —
Ending balance of credit losses on fixed maturity securities	\$66	\$89	\$66	\$89

Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at June 30, 2014 and December 31, 2013. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

Contractual Maturity

(In millions)	June 30, 2014		December 31, 2013	
	Cost or Amortized Cost	Estimated Fair Value	Cost or Amortized Cost	Estimated Fair Value
Due in one year or less	\$2,832	\$2,883	\$2,420	\$2,455
Due after one year through five years	9,251	9,893	9,496	10,068
Due after five years through ten years	11,206	11,792	11,667	11,954
Due after ten years	13,888	15,865	15,692	16,720
Total	\$37,177	\$40,433	\$39,275	\$41,197

Investment Commitments

As of June 30, 2014, the Company had committed approximately \$348 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

As of June 30, 2014, the Company had mortgage loan commitments of \$40 million representing signed loan applications received and accepted.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases, sales and funding. As of June 30, 2014, the Company had commitments to purchase or fund additional amounts of \$244 million and sell \$158 million under the terms of such securities.

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Note D. Derivative Financial Instruments

Gross estimated fair values of derivative positions are presented in Other invested assets and Other liabilities on the Condensed Consolidated Balance Sheets. There would be no significant difference in the balance included in such accounts if the estimated fair values were presented net at June 30, 2014 and December 31, 2013. The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and may not be representative of the potential for gain or loss on these instruments.

Derivative Financial Instruments

June 30, 2014	Contractual/ Notional Amount	Estimated Fair Value	
(In millions)		Asset	(Liability)
Without hedge designation			
Currency forwards	\$6	\$—	\$—
Equity warrants	5	—	—
Total	\$11	\$—	\$—
December 31, 2013	Contractual/ Notional Amount	Estimated Fair Value	
(In millions)		Asset	(Liability)
Without hedge designation			
Equity warrants	\$5	\$—	\$—

During the three and six months ended June 30, 2014, new derivative transactions entered into totaled \$181 million and \$248 million in notional value while derivative termination activity totaled \$175 million and \$242 million. This activity was primarily attributable to forward commitments for mortgage-backed securities as well as interest rate futures. During the three and six months ended June 30, 2013, new derivative transactions entered into totaled \$1,443 million and \$2,047 million in notional value while derivative termination activity totaled \$1,523 million and \$2,065 million. This activity was attributable to forward commitments for mortgage-backed securities, 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. In general the Company seeks to price securities using third-party pricing services. Securities not priced by pricing services are submitted to independent brokers for valuation and, if those are not available, internally developed pricing models are used to value assets using methodologies and inputs the Company believes market participants would use to value the assets. Prices obtained from third-party pricing services or brokers are not adjusted by the Company.

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

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Assets and Liabilities Measured at Fair Value

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

June 30, 2014

(In millions)	Level 1	Level 2	Level 3	Total Assets/(Liabilities) at Fair Value
Assets				
Fixed maturity securities:				
Corporate and other bonds	\$34	\$18,891	\$194	\$ 19,119
States, municipalities and political subdivisions	—	12,258	79	12,337
Asset-backed:				
Residential mortgage-backed	—	4,885	185	5,070
Commercial mortgage-backed	—	2,040	59	2,099
Other asset-backed	—	559	626	1,185
Total asset-backed	—	7,484	870	8,354
U.S. Treasury and obligations of government-sponsored enterprises	62	4	—	66
Foreign government	60	490	—	550
Redeemable preferred stock	30	12	—	42
Total fixed maturity securities	186	39,139	1,143	40,468
Equity securities	137	55	2	194
Other invested assets	—	45	—	45
Short term investments	1,323	606	—	1,929
Life settlement contracts, included in Other assets	—	—	86	86
Total recurring basis assets	1,646	39,845	1,231	42,722
Assets held for sale - nonrecurring basis	—	3,593	—	3,593
Total assets	\$1,646	\$43,438	\$1,231	\$ 46,315
Liabilities				
Liabilities held for sale - nonrecurring basis	\$—	\$3,343	\$—	\$ 3,343
Total liabilities	\$—	\$3,343	\$—	\$ 3,343

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December 31, 2013

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

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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 June 30, 2014 and 2013.

Level 3 (In millions)	Balance at April 1, 2014	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income (loss)*	Net change in unrealized appreciation (depreciation) other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at June 30, 2014	Unrealized gains (losses) on Level 3 assets and liabilities held at June 30, 2014 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	\$189	\$ 1	\$ —	\$ 21	\$(6)	\$(5)	\$ 5	\$(11)	\$ 194	\$ —
States, municipalities and political subdivisions	86	1	1	1	(10)	—	—	—	79	—
Asset-backed:										
Residential mortgage-backed	359	(24)	47	22	(174)	(19)	—	(26)	185	—
Commercial mortgage-backed	126	1	1	—	(60)	(1)	12	(20)	59	—
Other asset-backed	439	—	4	229	(28)	(18)	—	—	626	(1)
Total asset-backed	924	(23)	52	251	(262)	(38)	12	(46)	870	(1)
Total fixed maturity securities	1,199	(21)	53	273	(278)	(43)	17	(57)	1,143	(1)
Equity securities	2	—	—	—	—	—	—	—	2	—
Life settlement contracts	87	12	—	—	—	(13)	—	—	86	1
Total	\$1,288	\$(9)	\$ 53	\$ 273	\$(278)	\$(56)	\$ 17	\$(57)	\$1,231	\$ —

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Level 3 (In millions)	Balance at April 1, 2013	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income (loss)*	Net change in unrealized appreciation (depreciation) other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at June 30, 2013	Unrealized gains (losses) on Level 3 assets and liabilities held at June 30, 2013 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	\$302	\$ 1	\$ (3)	\$ 13	\$(73)	\$(6)	\$—	\$(32)	\$202	\$(1)
States, municipalities and political subdivisions	129	—	4	37	(32)	(3)	5	—	140	—
Asset-backed:										
Residential mortgage-backed	450	(1)	(1)	50	(10)	(21)	4	(43)	428	(2)
Commercial mortgage-backed	177	—	4	5	—	(2)	21	(40)	165	—
Other asset-backed	396	—	(3)	38	(33)	(11)	—	—	387	(1)
Total asset-backed	1,023	(1)	—	93	(43)	(34)	25	(83)	980	(3)
Redeemable preferred stock	26	—	(1)	—	—	—	—	—	25	—
Total fixed maturity securities	1,480	—	—	143	(148)	(43)	30	(115)	1,347	(4)
Equity securities	19	(5)	(1)	—	—	—	—	—	13	(5)
Other invested assets, including derivatives, net	(1)	—	—	—	—	1	—	—	—	—
Short term investments	5	—	—	—	(5)	—	—	—	—	—
Life settlement contracts	95	4	—	—	—	(8)	—	—	91	(1)
Separate account business	2	—	—	—	—	—	—	—	2	—
Total	\$1,600	\$(1)	\$(1)	\$ 143	\$(153)	\$(50)	\$ 30	\$(115)	\$1,453	\$(10)

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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 six months ended June 30, 2014 and 2013.

Level 3 (In millions)	Balance at January 1, 2014	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income (loss)*	Net change in unrealized appreciation (depreciation) other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at June 30, 2014	Unrealized gains (losses) on Level 3 assets and liabilities held at June 30, 2014 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	\$ 204	\$ 2	\$ 1	\$ 26	\$(10)	\$(10)	\$ 8	\$(27)	\$ 194	\$ —
States, municipalities and political subdivisions	71	1	2	1	(10)	—	14	—	79	—
Asset-backed:										
Residential mortgage-backed	331	(23)	62	47	(174)	(40)	21	(39)	185	—
Commercial mortgage-backed	151	2	—	—	(60)	(2)	12	(44)	59	—
Other asset-backed	446	1	4	377	(111)	(90)	—	(1)	626	(1)
Total asset-backed	928	(20)	66	424	(345)	(132)	33	(84)	870	(1)
Total fixed maturity securities	1,203	(17)	69	451	(365)	(142)	55	(111)	1,143	(1)
Equity securities	11	3	(4)	—	(8)	—	—	—	2	—
Life settlement contracts	88	22	—	—	—	(24)	—	—	86	2
Separate account business	1	—	—	—	—	—	—	(1)	—	—
Total	\$ 1,303	\$ 8	\$ 65	\$ 451	\$(373)	\$(166)	\$ 55	\$(112)	\$ 1,231	\$ 1

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Level 3 (In millions)	Balance at January 1, 2013	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income (loss)*	Net change in unrealized appreciation (depreciation) in other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at June 30, 2013	Unrealized gains (losses) on Level 3 assets and liabilities held at June 30, 2013 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	\$ 219	\$ 1	\$ (1)	\$ 123	\$(90)	\$(26)	\$ 26	\$(50)	\$ 202	\$(2)
States, municipalities and political subdivisions	96	(3)	4	122	(79)	(5)	5	—	140	—
Asset-backed:										
Residential mortgage-backed	413	2	(1)	111	(10)	(32)	4	(59)	428	(2)
Commercial mortgage-backed	129	1	9	78	—	(9)	21	(64)	165	—
Other asset-backed	368	3	(2)	174	(132)	(24)	—	—	387	(1)
Total asset-backed	910	6	6	363	(142)	(65)	25	(123)	980	(3)
Redeemable preferred stock	26	—	(1)	—	—	—	—	—	25	—
Total fixed maturity securities	1,251	4	8	608	(311)	(96)	56	(173)	1,347	(5)
Equity securities	34	(20)	—	—	—	—	—	(1)	13	(20)
Other invested assets, including derivatives, net	—	—	—	—	(1)	1	—	—	—	—
Short term investments	6	—	—	—	(6)	—	—	—	—	—
Life settlement contracts	100	11	—	—	—	(20)	—	—	91	(1)
Separate account business	2	—	—	—	—	—	—	—	2	—
Total	\$ 1,393	\$ (5)	\$ 8	\$ 608	\$(318)	\$(115)	\$ 56	\$(174)	\$ 1,453	\$(26)

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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 on the previous pages may be transferred in or out of levels within the fair value hierarchy based on the availability of observable market information and quoted prices used to determine the fair value of the security. The availability of observable market information and quoted prices varies based on market conditions and trading volume. During the three months ended June 30, 2014 there were \$1 million of transfers from Level 2 to Level 1 and no transfers from Level 1 to Level 2. During the six months ended June 30, 2014 there were \$24 million of transfers from Level 2 to Level 1 and \$1 million from Level 1 to Level 2. There were no transfers between Level 1 and Level 2 during the three or six months ended June 30, 2013. The Company's policy is to recognize transfers between levels at the beginning of quarterly reporting periods.

Valuation Methodologies and Inputs

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

Fixed Maturity Securities

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

Level 1 securities include exchange traded bonds, highly liquid U.S. and foreign government bonds, and redeemable preferred stock, valued using quoted market prices. Level 2 securities include most other fixed maturity securities as the significant inputs are observable in the marketplace. Securities are generally assigned to Level 3 in cases where broker/dealer quotes are significant inputs to the valuation and there is a lack of transparency as to whether these quotes are based on information that is observable in the marketplace. Level 3 securities also include private placement debt securities whose fair value is determined using internal models with inputs that are not market observable.

Equity Securities

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

Other Invested Assets

Level 1 securities include exchange traded derivatives, primarily futures, valued using quoted market prices. Level 2 securities include overseas deposits, which can be redeemed at net asset value in 90 days or less, and derivatives,

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

Life Settlement Contracts

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

Separate Account Business

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

Assets and Liabilities Held for Sale on a Nonrecurring Basis

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

Significant Unobservable Inputs

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

Assets (In millions)	Fair Value at June 30, 2014	Valuation Technique	Unobservable Input(s)	Range (Weighted Average)
Fixed maturity securities	\$115	Discounted cash flow	Credit spread	2% - 15% (4%)
Equity securities	\$2	Market approach	Private offering price	\$4,334 per share
Life settlement contracts	\$86	Discounted cash flow	Discount rate risk premium Mortality assumption	9% 70% - 743% (194%)
Assets (In millions)	Fair Value at December 31, 2013	Valuation Technique	Unobservable Input(s)	Range (Weighted Average)
Fixed maturity securities	\$142	Discounted cash flow	Credit spread	2% - 20% (4%)
Equity securities	\$10	Market approach	Private offering price	\$360 - \$4,268 per share (\$1,148)
Life settlement contracts	\$88	Discounted cash flow	Discount rate risk premium Mortality assumption	9% 70% - 743% (192%)

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

Financial Assets and Liabilities Not Measured at Fair Value

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

June 30, 2014 (In millions)	Carrying Amount	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Notes receivable for the issuance of common stock	\$ 1	\$—	\$—	\$ 1	\$ 1
Mortgage loans	518	—	—	540	540
Financial liabilities					
Short term debt	\$549	\$—	\$563	\$—	\$563
Long term debt	2,558	—	2,947	—	2,947

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

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

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

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

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

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

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

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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 \$56 million and \$130 million for the three and six months ended June 30, 2014.

Catastrophe losses in 2014 related primarily to U.S. weather-related events. The Company reported catastrophe losses, net of reinsurance, of \$65 million and \$104 million for the three and six months ended June 30, 2013.

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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 June 30, 2014

(In millions)	CNA Specialty	CNA Commercial	Hardy	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	\$(55)	\$79	\$—	\$—	\$24
Pretax (favorable) unfavorable premium development	(1)	(5)	4	—	(2)
Total pretax (favorable) unfavorable net prior year development	\$(56)	\$74	\$4	\$—	\$22

Three months ended June 30, 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	\$(41)	\$27	\$12	\$(3)	\$(5)
Pretax (favorable) unfavorable premium development	(5)	(5)	2	—	(8)
Total pretax (favorable) unfavorable net prior year development	\$(46)	\$22	\$14	\$(3)	\$(13)

Six months ended June 30, 2014

(In millions)	CNA Specialty	CNA Commercial	Hardy	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	\$(57)	\$96	\$10	\$—	\$49
Pretax (favorable) unfavorable premium development	(9)	(24)	—	—	(33)
Total pretax (favorable) unfavorable net prior year development	\$(66)	\$72	\$10	\$—	\$16

Six months ended June 30, 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	\$(56)	\$16	\$11	\$(2)	\$(31)
Pretax (favorable) unfavorable premium development	(13)	(15)	6	1	(21)
Total pretax (favorable) unfavorable net prior year development	\$(69)	\$1	\$17	\$(1)	\$(52)

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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 and six months ended June 30, 2014 and 2013.

Periods ended June 30 (In millions)	Three Months		Six Months	
	2014	2013	2014	2013
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Medical Professional Liability	\$ 1	\$(17)	) \$2	\$(20)
Other Professional Liability and Management Liability	(58)	) (23)	) (64)	) (24)
Surety	—	1	1	2
Warranty	—	—	—	—
Other	2	(2)	) 4	(14)
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	\$(55)	) \$(41)	) \$(57)	) \$(56)

Three Months
2014

Favorable development for other professional liability and management liability was primarily related to favorable outcomes on individual large claims in accident years 2009 and prior, which contributed to a lower estimate of ultimate severity. Additionally, there was better than expected severity in accident years 2008 through 2011.

2013

Favorable development for medical professional liability was primarily due to a decrease in incurred loss severity in accident years 2009 and prior.

Overall, favorable development for other professional liability and management liability was related to better than expected loss emergence in accident years 2007 through 2009. Unfavorable development was recorded in accident years 2010 through 2012 related to an increase in severity.

Six Months
2014

Favorable development for other professional liability and management liability was primarily related to favorable outcomes on individual large claims in accident years 2009 and prior, which contributed to a lower estimate of ultimate severity. Additionally, there was better than expected severity in accident years 2008 through 2011.

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.

Overall, favorable development for other professional liability and management liability was related to better than expected loss emergence in accident years 2007 through 2009. Unfavorable development was recorded in accident years 2010 through 2012 related to an increase in severity.

Favorable development for other coverages was primarily due to better than expected loss emergence in property coverages in accident years 2010 and subsequent.

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CNA Commercial

The following table provides further detail of the development recorded for the CNA Commercial segment for the three and six months ended June 30, 2014 and 2013. The majority of the 2014 unfavorable development relates to business classes which the Company has exited, but also includes Small Business where the Company is taking underwriting actions in an effort to improve profitability.

Periods ended June 30 (In millions)	Three Months		Six Months	
	2014	2013	2014	2013
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Commercial Auto	\$20	\$2	\$40	\$(3)
General Liability	30	15	25	(6)
Workers' Compensation	40	45	50	70
Property and Other	(11)	(35)	(19)	(45)
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	\$79	\$27	\$96	\$16

Three Months
2014

Unfavorable development for commercial auto was primarily related to higher than expected frequency of large losses in accident years 2010 through 2013.

Unfavorable development for general liability was primarily related to higher than expected severity in accident years 2009 through 2011. In addition, there was higher than expected severity in accident year 2013 related to Small Business.

Unfavorable development for workers' compensation was primarily due to higher than expected severity related to Defense Base Act contractors in accident years 2012 and 2013.

Favorable development for property and other first-party coverages was recorded in accident years 2012 and prior, primarily related to fewer claims than expected and favorable individual claim settlements.

2013

Unfavorable development for general liability coverages was primarily related to increased incurred loss severity in accident years 2010 through 2012.

Unfavorable development for workers' compensation was primarily in response to legislation enacted during 2013 related to the New York Fund for Reopened Cases. The law change necessitated an increase in reserves as re-opened workers' compensation claims can no longer be turned over to the state for handling and payment after December 31, 2013.

Favorable development for property and other coverages was primarily related to favorable outcomes on litigated catastrophe claims in accident years 2005 and 2010 and favorable loss emergence on non-catastrophe losses in accident year 2012.

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Six Months

2014

Unfavorable development for commercial auto was primarily related to higher than expected frequency of large losses in accident years 2010 through 2013. Additionally, unfavorable development was recorded for higher than expected frequency in accident years 2012 and 2013 and higher than expected severity in accident years 2010 and 2011.

Unfavorable development for general liability was primarily related to higher than expected severity in accident years 2009 through 2011. In addition, there was higher than expected severity in accident year 2013 related to Small Business.

Unfavorable development for workers' compensation was primarily due to higher than expected severity related to Defense Base Act contractors in accident years 2012 and 2013 and the recognition of losses related to favorable premium development in accident year 2013.

Favorable development for property and other first-party coverages was recorded in accident years 2012 and prior, primarily related to fewer claims than expected and favorable individual claim settlements.

2013

Overall, favorable development for general liability coverages was primarily related to better than expected loss emergence in accident years 2002 and prior. Unfavorable development was recorded in accident years 2010 through 2012 primarily related to increased incurred loss severity.

Unfavorable development for workers' compensation was recorded in response to legislation in New York as discussed above. Additional unfavorable development was primarily due to higher than expected large losses and increased severity in the state of California in accident year 2010.

Favorable development for property and other coverages was primarily related to favorable outcomes on litigated catastrophe claims in accident years 2005 and 2010 and favorable loss emergence on non-catastrophe losses in accident year 2012.

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Hardy

The following table provides further detail of the development recorded for the Hardy segment for the three and six months ended June 30, 2014 and 2013.

Periods ended June 30 (In millions)	Three Months		Six Months	
	2014	2013	2014	2013
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Marine and Aviation	\$ 1	\$ 4	\$ 6	\$ 3
Non-Marine Property	3	7	1	7
Property Treaty	(2	) 2	(4	) 2
Specialty	(2	) (1	) (3	) (1
Commutations	—	—	10	—
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	\$—	\$ 12	\$ 10	\$ 11

Three Months

2013

Unfavorable development for non-marine property was primarily due to 2011 catastrophe events, including the Thailand floods and the New Zealand Lyttelton earthquake.

Six Months

2014

Reinsurance commutations in the first quarter of 2014 reduced ceded losses from prior years. Overall the commutations increased net operating income because of the release of the related allowance for uncollectible reinsurance.

2013

Unfavorable development for non-marine property was primarily due to 2011 catastrophe events, including the Thailand floods and the New Zealand Lyttelton earthquake.

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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)

Periods ended June 30 (In millions)	Three Months		Six Months	
	2014	2013	2014	2013
Pension benefit				
Service cost	\$1	\$3	\$4	\$6
Interest cost on projected benefit obligation	33	30	66	60
Expected return on plan assets	(48	) (45	) (96	) (90
Amortization of net actuarial loss	7	12	13	24
Net periodic pension benefit	\$(7	) \$—	\$(13) \$—
Postretirement benefit				
Interest cost on projected benefit obligation	\$1	\$1	\$1	\$1
Amortization of prior service credit	(5	) (5	) (9	) (9
Curtailment gain	(86	) —	(86) —
Net periodic postretirement benefit	\$(90	) \$(4	) \$(94	) \$(8

In the second quarter of 2014, the Company eliminated certain postretirement medical benefits associated with the CNA Health and Group Benefits Program. This change is a negative plan amendment and also resulted in an \$86 million curtailment gain which is included in Other operating expenses within the Corporate & Other Non-Core segment. In connection with the plan amendment, the Company remeasured the plan benefit obligation which resulted in a decrease in the discount rate used to determine the benefit obligation from 3.60% to 3.10%.

Note I. Other Intangible Assets

Other intangible assets are presented in the following table.

		June 30, 2014		December 31, 2013	
(In millions)	Economic Useful Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived intangible assets:					
Value of business acquired	1 - 4 years	\$66	\$66	\$64	\$63
Trade name	8 years	8	2	8	2
Distribution channel	15 years	14	2	13	1
Total finite-lived intangible assets		88	70	85	66
Indefinite-lived intangible assets:					
Syndicate capacity		60		58	
Agency force		16		16	
Total indefinite-lived intangible assets		76		74	
Total other intangible assets		\$164	\$70	\$159	\$66

For the three and six months ended June 30, 2014, amortization expense of \$1 million was included in Amortization of deferred acquisition costs and \$1 million was recorded in Other operating expenses in the Statement of Operations for the Hardy segment. For the three and six months ended June 30, 2013, amortization expense of \$4 million and \$13 million was included in Amortization of deferred acquisition costs and \$2 million and \$5 million was included in Other operating expenses in the Statement of Operations for the Hardy segment. 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 \$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 June 30, 2014 that the Company could be required to pay under this guarantee, in excess of amounts already recorded, were approximately \$72 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 agreements may include provisions that survive indefinitely. As of June 30, 2014, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third-party loans was \$699 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 June 30, 2014, the Company had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser's ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. Certain provisions of the indemnification agreements survive indefinitely while others survive until the applicable statutes of limitation expire or until the agreed-upon contract terms expire.

As of June 30, 2014 and December 31, 2013, 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, 2013. 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, 2) income or loss from discontinued operations and 3) any cumulative effects of changes in accounting guidance. The calculation of net operating income excludes net realized investment gains or losses because net realized investment gains or losses are largely discretionary, except for some losses related to OTTI, and are generally driven by economic factors that are not necessarily consistent with key drivers of underwriting performance, and are therefore not considered an indication of trends in insurance operations.

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

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Three months ended June 30, 2014

(In millions)

	CNA Specialty	CNA Commercial	Hardy	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Operating revenues							
Net earned premiums	\$ 763	\$ 817	\$92	\$ 139	\$—	\$ —	\$1,811
Net investment income	161	208	1	173	7	—	550
Other revenues	74	9	(1)	8	5	(2)	93
Total operating revenues	998	1,034	92	320	12	(2)	2,454
Claims, Benefits and Expenses							
Net incurred claims and benefits	426	654	52	304	1	—	1,437
Policyholders' dividends	1	3	—	—	—	—	4
Amortization of deferred acquisition costs	158	144	26	7	—	—	335
Other insurance related expenses	74	138	16	31	—	—	259
Other expenses	65	8	4	(3)	(31)	(2)	41
Total claims, benefits and expenses	724	947	98	339	(30)	(2)	2,076
Operating income (loss) before income tax	274	87	(6)	(19)	42	—	378
Income tax (expense) benefit on operating income (loss)	(92)	(28)	1	28	(15)	—	(106)
Net operating income (loss)	182	59	(5)	9	27	—	272
Net realized investment gains (losses), pretax	(5)	(7)	(1)	(4)	3	—	(14)
Income tax (expense) benefit on net realized investment gains (losses)	2	1	—	1	(1)	—	3
Net realized investment gains (losses)	(3)	(6)	(1)	(3)	2	—	(11)
Net income (loss) from continuing operations	\$ 179	\$ 53	\$(6)	\$ 6	\$29	\$ —	\$261

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Three months ended June 30, 2013

(In millions)

	CNA Specialty	CNA Commercial	Hardy	Life & Group Non-Core	Corporate & Other Non-Core	Elimination	Total
Operating revenues							
Net earned premiums	\$ 746	\$ 840	\$ 76	\$ 138	\$ —	\$ —	\$ 1,800
Net investment income	151	211	1	163	8	—	534
Other revenues	63	65	(1)	2	2	(1)	130
Total operating revenues	960	1,116	76	303	10	(1)	2,464
Claims, Benefits and Expenses							
Net incurred claims and benefits	452	644	41	347	(2)	—	1,482
Policyholders' dividends	1	2	—	—	—	—	3
Amortization of deferred acquisition costs	156	153	20	6	—	—	335
Other insurance related expenses	65	142	13	32	—	—	252
Other expenses	60	2	6	2	39	(1)	108
Total claims, benefits and expenses	734	943	80	387	37	(1)	2,180
Operating income (loss) before income tax	226	173	(4)	(84)	(27)	—	284
Income tax (expense) benefit on operating income (loss)	(78)	(61)	2	43	9	—	(85)
Net operating income (loss)	148	112	(2)	(41)	(18)	—	199
Net realized investment gains (losses), pretax	(6)	(12)	1	—	3	—	(14)
Income tax (expense) benefit on net realized investment gains (losses)	2	4	(1)	1	(1)	—	5
Net realized investment gains (losses)	(4)	(8)	—	1	2	—	(9)
Net income (loss) from continuing operations	\$ 144	\$ 104	\$(2)	\$(40)	\$(16)	\$ —	\$ 190

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Six months ended June 30, 2014

(In millions)	CNA Specialty	CNA Commercial	Hardy	Life & Group Non-Core	Corporate & Other Non-Core	Elimination	Total
Operating revenues							
Net earned premiums	\$ 1,511	\$ 1,639	\$ 190	\$ 278	\$ —	\$ (1)	\$ 3,617
Net investment income	312	406	2	344	12	—	1,076
Other revenues	142	18	—	13	7	(2)	178
Total operating revenues	1,965	2,063	192	635	19	(3)	4,871
Claims, Benefits and Expenses							
Net incurred claims and benefits	906	1,276	90	610	(2)	—	2,880
Policyholders' dividends	2	5	—	—	—	—	7
Amortization of deferred acquisition costs	311	284	54	15	—	—	664
Other insurance related expenses	146	277	36	63	—	(1)	521
Other expenses	126	19	8	(2)	20	(2)	169
Total claims, benefits and expenses	1,491	1,861	188	686	18	(3)	4,241
Operating income (loss) before income tax	474	202	4	(51)	1	—	630
Income tax (expense) benefit on operating income (loss)	(158)	(65)	(2)	58	(1)	—	(168)
Net operating income	316	137	2	7	—	—	462
Net realized investment gains (losses), pretax	7	5	(1)	12	9	—	32
Income tax (expense) benefit on net realized investment gains (losses)	(2)	(3)	—	(5)	(3)	—	(13)
Net realized investment gains (losses)	5	2	(1)	7	6	—	19
Net income from continuing operations	\$ 321	\$ 139	\$ 1	\$ 14	\$ 6	\$ —	\$ 481

June 30, 2014

(In millions)

Reinsurance receivables	\$666	\$1,032	\$146	\$367	\$2,904	\$—	\$5,115
Insurance receivables	\$853	\$1,137	\$214	\$7	\$4	\$—	\$2,215
Deferred acquisition costs	\$323	\$267	\$60	\$—	\$—	\$—	\$650
Goodwill	\$117	\$—	\$39	\$—	\$—	\$—	\$156
Insurance reserves							
Claim and claim adjustment expenses	\$6,939	\$10,537	\$386	\$3,092	\$3,042	\$—	\$23,996
Unearned premiums	1,857	1,576	283	136	—	(1)	3,851
Future policy benefits	—	—	—	8,696	—	—	8,696
Policyholders' funds	9	18	—	—	—	—	27

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Six months ended June 30, 2013

(In millions)

	CNA Specialty	CNA Commercial	Hardy	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Operating revenues							
Net earned premiums	\$ 1,469	\$ 1,677	\$ 140	\$ 279	\$ —	\$ (1)	\$ 3,564
Net investment income	321	461	2	325	16	—	1,125
Other revenues	123	75	—	5	5	(1)	207
Total operating revenues	1,913	2,213	142	609	21	(2)	4,896
Claims, Benefits and Expenses							
Net incurred claims and benefits	917	1,244	72	640	2	—	2,875
Policyholders' dividends	2	4	—	—	—	—	6
Amortization of deferred acquisition costs	306	302	41	14	—	—	663
Other insurance related expenses	136	285	29	64	—	(1)	513
Other expenses	114	11	13	7	85	(1)	229
Total claims, benefits and expenses	1,475	1,846	155	725	87	(2)	4,286
Operating income (loss) before income tax	438	367	(13)	(116)	(66)	—	610
Income tax (expense) benefit on operating income (loss)	(150)	(130)	3	69	22	—	(186)
Net operating income (loss)	288	237	(10)	(47)	(44)	—	424
Net realized investment gains (losses), pretax	(3)	(8)	2	9	9	—	9
Income tax (expense) benefit on net realized investment gains (losses)	1	3	(1)	(2)	(3)	—	(2)
Net realized investment gains (losses)	(2)	(5)	1	7	6	—	7
Net income (loss) from continuing operations	\$ 286	\$ 232	\$(9)	\$(40)	\$(38)	\$ —	\$ 431

December 31, 2013

(In millions)

Reinsurance receivables	\$546	\$1,075	\$197	\$1,203	\$3,067	\$—	\$6,088
Insurance receivables	\$775	\$1,099	\$176	\$11	\$2	\$—	\$2,063
Deferred acquisition costs	\$318	\$257	\$49	\$—	\$—	\$—	\$624
Goodwill	\$117	\$—	\$38	\$—	\$—	\$—	\$155
Insurance reserves							
Claim and claim adjustment expenses	\$6,689	\$10,649	\$386	\$3,058	\$3,307	\$—	\$24,089
Unearned premiums	1,805	1,536	249	128	—	—	3,718
Future policy benefits	—	—	—	10,471	—	—	10,471
Policyholders' funds	9	15	—	92	—	—	116

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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

Periods ended June 30 (In millions)	Three Months		Six Months	
	2014	2013	2014	2013
CNA Specialty				
International	\$62	\$59	\$126	\$118
Management & Professional Liability	710	687	1,414	1,387
Surety	125	123	247	239
Warranty & Alternative Risks	96	85	185	166
CNA Specialty revenues	993	954	1,972	1,910
CNA Commercial				
Commercial Insurance	755	827	1,517	1,653
International	91	90	186	183
Small Business	181	187	365	369
CNA Commercial revenues	1,027	1,104	2,068	2,205
Hardy revenues	91	77	191	144
Life & Group Non-Core revenues	316	303	647	618
Corporate & Other Non-Core revenues	15	13	28	30
Eliminations	(2) (1) (3) (2
Total revenues	\$2,440	\$2,450	\$4,903	\$4,905

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

The tables below display the changes in Accumulated other comprehensive income (loss) by component for the three months ended June 30, 2014 and 2013.

(In millions)	Net unrealized gains (losses) on investments with OTTI losses	Net unrealized gains (losses) on other investments	Net unrealized gains (losses) on discontinued operations	Pension and postretirement benefits	Cumulative foreign currency translation adjustment	Total
Balance at April 1, 2014	\$33	\$912	\$30	\$ (425)	\$142	\$692
Other comprehensive income (loss) before reclassifications	2	257	7	—	42	308
Amounts reclassified from accumulated other comprehensive income (loss) after tax (expense) benefit of \$0, \$6, \$0, \$(28), \$0, and \$(22)	—	(13)	—	51	—	38
Other comprehensive income (loss) after tax (expense) benefit of \$(1), \$(146), \$(5), \$28, \$0 and \$(124)	2	270	7	(51)	42	270
Balance at June 30, 2014	\$35	\$1,182	\$37	\$ (476)	\$184	\$962

(In millions)	Net unrealized gains (losses) on investments with OTTI losses	Net unrealized gains (losses) on other investments	Pension and postretirement benefits	Cumulative foreign currency translation adjustment	Total
Balance at April 1, 2013	\$34	\$1,309	\$ (716)	\$100	\$727
Other comprehensive income (loss) before reclassifications	(8)	(589)	—	(13)	(610)
Amounts reclassified from accumulated other comprehensive income (loss) after tax (expense) benefit of \$0, \$3, \$2, \$0, and \$5	—	(4)	(5)	—	(9)
Other comprehensive income (loss) after tax (expense) benefit of \$4, \$314, \$(2), \$0, and \$316	(8)	(585)	5	(13)	(601)
Balance at June 30, 2013	\$26	\$724	\$ (711)	\$87	\$126

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The tables below display the changes in Accumulated other comprehensive income (loss) by component for the six months ended June 30, 2014 and 2013.

(In millions)	Net unrealized gains (losses) on investments with OTTI losses	Net unrealized gains (losses) on other investments	Net unrealized gains (losses) on discontinued operations	Pension and postretirement benefits	Cumulative foreign currency translation adjustment	Total
Balance at January 1, 2014	\$26	\$692	\$—	\$ (426)	\$150	\$442
Transfer to net assets held for sale	(5)	(17)	22	—	—	—
Other comprehensive income (loss) before reclassifications	14	521	15	—	34	584
Amounts reclassified from accumulated other comprehensive income (loss) after tax (expense) benefit of \$0, \$(8), \$0, \$(27), \$0, and \$(35)	—	14	—	50	—	64
Other comprehensive income (loss) after tax (expense) benefit of \$(7), \$(273), \$(10), \$27, \$0 and \$(263)	14	507	15	(50)	34	520
Balance at June 30, 2014	\$35	\$1,182	\$37	\$ (476)	\$184	\$962
(In millions)	Net unrealized gains (losses) on investments with OTTI losses	Net unrealized gains (losses) on other investments	Net unrealized gains (losses) on discontinued operations	Pension and postretirement benefits	Cumulative foreign currency translation adjustment	Total
Balance at January 1, 2013	\$20	\$1,371	\$ (721)	\$161	\$831	
Other comprehensive income (loss) before reclassifications	6	(638)	—	(74)	(706)	
Amounts reclassified from accumulated other comprehensive income (loss) after tax (expense) benefit of \$0, \$(3), \$5, \$0, and \$2	—	9	(10)	—	(1)	
Other comprehensive income (loss) after tax (expense) benefit of \$(3), \$349, \$(5), \$0, and \$341	6	(647)	10	(74)	(705)	
Balance at June 30, 2013	\$26	\$724	\$ (711)	\$87	\$126	
Amounts reclassified from Accumulated other comprehensive income (loss) shown above are reported in Net income (loss) as follows:						
Component of AOCI						

Condensed Consolidated Statements of Operations Line
Item Affected by Reclassifications

Net unrealized gains (losses) on investments with OTTI
losses

Net realized investment gains (losses)

Net unrealized gains (losses) on other investments

Net realized investment gains (losses)

Net unrealized gains (losses) on discontinued operations

Income (loss) from discontinued operations

Pension and postretirement benefits

Other operating expenses

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Note M. Assets and Liabilities Held for Sale and Discontinued Operations

The results of discontinued operations reflected in the Condensed Consolidated Statements of Operations were as follows:

Periods ended June 30 (In millions)	Three Months		Six Months		
	2014	2013	2014	2013	
Revenues					
Net investment income	\$39	\$44	\$80	\$86	
Net realized investment gains	1	—	2	5	
Other revenues	—	(1) —	—	
Total revenues	40	43	82	91	
Claims, Benefits and Expenses					
Insurance claims and policyholders' benefits	32	36	63	69	
Other operating expenses	1	1	2	2	
Total claims, benefits and expenses	33	37	65	71	
Income before income tax	7	6	17	20	
Income tax expense	(1) (2) (4) (7)
Income from operations of discontinued operations, net of income tax	6	4	13	13	
Impairment loss related to sale, net of income tax benefit of -, -, \$41 and -	—	—	(214) —	
Income (loss) from discontinued operations	\$6	\$4	\$(201	) \$13

The following table presents the detailed assets and liabilities held for sale as of June 30, 2014:

(In millions)	2014
Assets	
Investments:	
Fixed maturity securities at fair value	\$2,752
Equity securities at fair value	17
Short term investments	67
Total investments	2,836
Cash	9
Reinsurance receivables	811
Other assets	46
Separate account business	146
Assets held for sale	3,848
Less: Impairment related to sale	(255)
Total assets held for sale	\$3,593
Liabilities	
Insurance reserves	\$3,109
Other liabilities	88
Separate account business	146
Total liabilities held for sale	\$3,343

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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 2012 statutory net written premiums, we are the eighth largest commercial insurance writer and the 13th largest property and casualty insurance organization in the United States of America. The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements included under Part I, Item 1 of this Form 10-Q and Item 1A Risk Factors and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2013.

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

Sale of CAC

On August 1, 2014, the Company closed the previously announced sale of the majority of its run-off annuity and pension deposit business, through the sale of the common stock of CAC. The business sold, which was previously reported within the Life & Group Non-Core segment, is reported as discontinued operations and assets and liabilities held for sale. In connection with the then pending sale, the Company recorded an estimated after-tax impairment loss of \$214 million in the first quarter of 2014, which is reflected in Income (loss) from discontinued operations. Further information on the sale is provided in Notes A and M to the Condensed Consolidated Financial Statements.

In connection with the sale of CAC, on August 1, 2014 the Company entered into a coinsurance agreement on a separate small block of annuity business outside of CAC. As a result of the funds withheld basis used in this reinsurance transaction, the Company estimates it will recognize an after-tax loss of approximately \$35 million in the third quarter due to the difference between market value and book value of the funds withheld assets at the reinsurance contract's inception. In subsequent periods, the Company will recognize realized gains to the extent the funds withheld assets are sold or the market value of those assets reduces to the maturity value of the securities. A realized loss will be recognized if the market value of those assets increases.

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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.

Periods ended June 30 (In millions)	Three Months		Six Months	
	2014	2013	2014	2013
Operating Revenues				
Net earned premiums	\$1,811	\$1,800	\$3,617	\$3,564
Net investment income	550	534	1,076	1,125
Other revenues	93	130	178	207
Total operating revenues	2,454	2,464	4,871	4,896
Claims, Benefits and Expenses				
Net incurred claims and benefits	1,437	1,482	2,880	2,875
Policyholders' dividends	4	3	7	6
Amortization of deferred acquisition costs	335	335	664	663
Other insurance related expenses	259	252	521	513
Other expenses	41	108	169	229
Total claims, benefits and expenses	2,076	2,180	4,241	4,286
Operating income before income tax	378	284	630	610
Income tax expense on operating income	(106)	) (85	) (168	) (186
Net operating income	272	199	462	424
Net realized investment gains (losses), pretax	(14	) (14	) 32	9
Income tax (expense) benefit on net realized investment gains (losses)	3	5	(13	) (2
Net realized investment gains (losses)	(11	) (9	) 19	7
Income from continuing operations	261	190	481	431
Income (loss) from discontinued operations, net of tax	6	\$4	(201	) \$13
Net income	\$267	\$194	\$280	\$444

Three Month Comparison

Income from continuing operations increased \$71 million for the three months ended June 30, 2014 as compared with the same period in 2013. This increase was driven by higher net operating income.

Net operating income increased \$73 million for the three months ended June 30, 2014 as compared with the same period in 2013. Net operating income decreased \$22 million for our core segments, CNA Specialty, CNA Commercial and Hardy. Improved current accident year underwriting results were substantially offset by unfavorable net prior year development. In addition, 2013 results included a legal settlement benefit of \$30 million after-tax. Catastrophe losses were \$37 million after-tax for the three months ended June 30, 2014 as compared with \$43 million after-tax for the same period in 2013. Net operating results increased \$95 million for our non-core segments, primarily related to a \$56 million after-tax postretirement plan curtailment benefit as well as improved results in our Life & Group segment driven by our long term care business. See the Life & Group Non-Core and Corporate & Other Non-Core sections of this MD&A for further discussion of our non-core results.

Unfavorable net prior year development of \$22 million and favorable net prior year development of \$13 million was recorded for the three months ended June 30, 2014 and 2013 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 June 30, 2014 and 2013 is included in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Net earned premiums were consistent as compared with the same period in 2013. See the Segment Results section of this MD&A for further discussion.

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Six Month Comparison

Income from continuing operations increased \$50 million for the six months ended June 30, 2014 as compared with the same period in 2013. This increase was due to higher net operating income and increased net realized investment results.

Net realized investment gains increased \$12 million for the six months ended June 30, 2014 as compared with the same period in 2013. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income increased \$38 million for the six months ended June 30, 2014 as compared with the same period in 2013. Net operating income decreased \$60 million for our core segments primarily due to lower net investment income, the unfavorable effect of net prior year development, and higher catastrophe losses partially offset by improved non-catastrophe current accident year underwriting results. In addition, 2013 results included a legal settlement benefit of \$30 million after-tax. Catastrophe losses were \$85 million after-tax for the six months ended June 30, 2014 as compared with \$68 million after-tax for the same period in 2013. Net operating results improved \$98 million for our non-core segments, due to the same reasons discussed above in the three month comparison.

Unfavorable net prior year development of \$16 million and favorable net prior year development of \$52 million was recorded for the six months ended June 30, 2014 and 2013 related to our CNA Specialty, CNA Commercial, Hardy and Corporate & Other Non-Core segments. Further information on net prior year development for the six months ended June 30, 2014 and 2013 is included in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Net earned premiums increased \$53 million for the six months ended June 30, 2014 as compared with the same period in 2013, driven by increases in Hardy and 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, 2013 for further information.

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SEGMENT

RESULTS

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

CNA Specialty

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

Results of Operations

Periods ended June 30	Three Months		Six Months	
(In millions, except ratios)	2014	2013	2014	2013
Net written premiums	\$742	\$756	\$1,538	\$1,559
Net earned premiums	763	746	1,511	1,469
Net investment income	161	151	312	321
Net operating income	182	148	316	288
Net realized investment gains (losses)	(3)	(4)	5	(2)
Net income	179	144	321	286
Ratios				
Loss and loss adjustment expense	55.8	% 60.6	% 60.0	% 62.4
Expense	30.5	29.7	30.2	30.1
Dividend	0.1	0.1	0.1	0.2
Combined	86.4	% 90.4	% 90.3	% 92.7

Three Month Comparison

Net written premiums for CNA Specialty for the three months ended June 30, 2014 were largely consistent with the same period in 2013, although the level of new business has declined. Net earned premiums increased \$17 million as compared with the same period in 2013, consistent with increased net written premiums over recent quarters.

CNA Specialty's average rate increased 4% for the three months ended June 30, 2014, as compared with an increase of 6% for the three months ended June 30, 2013 for the policies that renewed in each period. Retention of 82% and 85% was achieved in each period.

Net income increased \$35 million for the three months ended June 30, 2014 as compared with the same period in 2013. This increase was primarily due to higher net operating income.

Net operating income increased \$34 million for the three months ended June 30, 2014 as compared with the same period in 2013. This increase was primarily due to improved underwriting results.

The combined ratio decreased 4.0 points for the three months ended June 30, 2014 as compared with the same period in 2013. The loss ratio decreased 4.8 points, due primarily to an improved current accident year loss ratio as well as increased favorable net prior year development. Catastrophe losses were \$5 million, or 0.6 points of the loss ratio, for the three months ended June 30, 2014, as compared with \$6 million, or 0.7 points of the loss ratio, for the three months ended June 30, 2013.

Favorable net prior year development of \$56 million and \$46 million was recorded for the three months ended June 30, 2014 and 2013. Further information on net prior year development is included in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

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Six Month Comparison

Net written premiums for CNA Specialty for the six months ended June 30, 2014 were largely consistent with the same period in 2013, although the level of new business has declined. Net earned premiums increased \$42 million as compared with the same period in 2013, consistent with increased net written premiums over recent quarters.

CNA Specialty's average rate increased 4% for the six months ended June 30, 2014, as compared with an increase of 7% for the six months ended June 30, 2013 for the policies that renewed in each period. Retention of 83% and 85% was achieved in each respective period.

Net income increased \$35 million for the six months ended June 30, 2014 as compared with the same period in 2013. This increase was primarily due to higher net operating income.

Net operating income increased \$28 million for the six months ended June 30, 2014 as compared with the same period in 2013. This increase was primarily due to improved underwriting results.

The combined ratio decreased 2.4 points for the six months ended June 30, 2014 as compared with the same period in 2013. The loss ratio decreased 2.4 points, due to an improved non-catastrophe current accident year loss ratio, partially offset by higher catastrophe losses. Catastrophe losses were \$16 million, or 1.0 points of the loss ratio, for the six months ended June 30, 2014, as compared with \$7 million, or 0.5 points of the loss ratio, for the six months ended June 30, 2013.

Favorable net prior year development of \$66 million and \$69 million was recorded for the six months ended June 30, 2014 and 2013. Further information on net prior year development is included in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

The following table summarizes the gross and net carried reserves as of June 30, 2014 and December 31, 2013 for CNA Specialty.

Gross and Net Carried Claim and Claim Adjustment Expense Reserves

(In millions)	June 30, 2014	December 31, 2013
Gross Case Reserves	\$2,448	\$2,270
Gross IBNR Reserves	4,491	4,419
Total Gross Carried Claim and Claim Adjustment Expense Reserves	\$6,939	\$6,689
Net Case Reserves	\$2,204	\$2,024
Net IBNR Reserves	4,079	4,142
Total Net Carried Claim and Claim Adjustment Expense Reserves	\$6,283	\$6,166

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CNA Commercial

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

Results of Operations

Periods ended June 30	Three Months		Six Months	
(In millions, except ratios)	2014	2013	2014	2013
Net written premiums	\$779	\$826	\$1,678	\$1,744
Net earned premiums	817	840	1,639	1,677
Net investment income	208	211	406	461
Net operating income	59	112	137	237
Net realized investment gains (losses)	(6)	(8)	2	(5)
Net income	53	104	139	232
Ratios				
Loss and loss adjustment expense	80.3	% 76.5	% 77.9	% 74.1
Expense	34.4	34.9	34.2	35.0
Dividend	0.3	0.3	0.3	0.2
Combined	115.0	% 111.7	% 112.4	% 109.3

Three Month Comparison

Net written premiums for CNA Commercial decreased \$47 million for the three months ended June 30, 2014 as compared with the same period in 2013, primarily driven by underwriting actions taken in certain business classes and a decreased level of new business, partially offset by continued rate increases. Net earned premiums decreased \$23 million for the three months ended June 30, 2014 as compared with the same period in 2013, consistent with the decrease in net written premiums over recent quarters.

CNA Commercial's average rate increased 4% for the three months ended June 30, 2014, as compared with an increase of 9% for the three months ended June 30, 2013 for the policies that renewed in each period. Retention of 70% and 75% was achieved in each respective period.

Net income decreased \$51 million for the three months ended June 30, 2014 as compared with the same period in 2013. This decrease was primarily due to lower net operating income.

Net operating income decreased \$53 million for the three months ended June 30, 2014 as compared with the same period in 2013. This decrease was due to higher unfavorable net prior year development, partially offset by improved current accident year underwriting results. In addition, 2013 results included a legal settlement benefit of \$30 million after-tax.

The combined ratio increased 3.3 points for the three months ended June 30, 2014 as compared with the same period in 2013. The loss ratio increased 3.8 points, primarily due to higher unfavorable net prior year development, partially offset by lower catastrophe losses and an improved non-catastrophe current accident year loss ratio. Catastrophe losses were \$47 million, or 5.7 points of the loss ratio, for the three months ended June 30, 2014, as compared with \$59 million, or 7.1 points of the loss ratio, for the three months ended June 30, 2013.

Unfavorable net prior year development of \$74 million and \$22 million was recorded for the three months ended June 30, 2014 and 2013. The majority of the 2014 unfavorable development relates to business classes which we have exited, but also includes Small Business where we are taking underwriting actions in an effort to improve profitability. Further information on net prior year development is included in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

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Six Month Comparison

Net written premiums for CNA Commercial decreased \$66 million for the six months ended June 30, 2014 as compared with the same period in 2013, primarily driven by underwriting actions taken in certain business classes and a decreased level of new business, partially offset by continued rate increases. Net earned premiums decreased \$38 million for the six months ended June 30, 2014 as compared with the same period in 2013, consistent with decreased net written premiums over recent quarters.

CNA Commercial's average rate increased 5% for the six months ended June 30, 2014, as compared with an increase of 9% for the six months ended June 30, 2013 for the policies that renewed in each period. Retention of 73% and 76% was achieved in each period.

Net income decreased \$93 million for the six months ended June 30, 2014 as compared with the same period in 2013, due to lower net operating income.

Net operating income decreased \$100 million for the six months ended June 30, 2014 as compared with the same period in 2013. This decrease was primarily due to the same reasons discussed above in the three month comparison, as well as lower net investment income.

The combined ratio increased 3.1 points for the six months ended June 30, 2014 as compared with the same period in 2013. The loss ratio increased 3.8 points, primarily due to higher unfavorable net prior year development and higher catastrophe losses, partially offset by an improved non-catastrophe current accident year loss ratio. Catastrophe losses were \$107 million, or 6.6 points of the loss ratio, for the six months ended June 30, 2014, as compared with \$97 million, or 5.8 points of the loss ratio, for the six months ended June 30, 2013.

Unfavorable net prior year development of \$72 million and \$1 million was recorded for the six months ended June 30, 2014 and 2013. Further information on net prior year development is included in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

The following table summarizes the gross and net carried reserves as of June 30, 2014 and December 31, 2013 for CNA Commercial.

Gross and Net Carried Claim and Claim Adjustment Expense Reserves

(In millions)	June 30, 2014	December 31, 2013
Gross Case Reserves	\$5,999	\$5,829
Gross IBNR Reserves	4,538	4,820
Total Gross Carried Claim and Claim Adjustment Expense Reserves	\$10,537	\$10,649
Net Case Reserves	\$5,534	\$5,358
Net IBNR Reserves	4,015	4,269
Total Net Carried Claim and Claim Adjustment Expense Reserves	\$9,549	\$9,627

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Hardy

The following table details the results of operations for Hardy.

Results of Operations

Periods ended June 30	Three Months		Six Months		
(In millions, except ratios)	2014	2013	2014	2013	
Net written premiums	\$133	\$138	\$205	\$193	
Net earned premiums	92	76	190	140	
Net investment income	1	1	2	2	
Net operating income (loss)	(5)	(2)	2	(10)	
Net realized investment gains (losses)	(1)	—	(1)	1	
Net income (loss)	(6)	(2)	1	(9)	
Ratios					
Loss and loss adjustment expense	56.2	% 53.9	% 47.2	% 51.5	%
Expense	46.7	44.5	47.5	50.1	
Dividend	—	—	—	—	
Combined	102.9	% 98.4	% 94.7	% 101.6	%

Three Month Comparison

Net written premiums for Hardy for the three months ended June 30, 2014 were largely consistent with the same period in 2013. Net earned premiums increased \$16 million as compared with the same period in 2013. For the three months ended June 30, 2013, a third-party capital provider had a 15% share of the 2012 year of account, which was commuted later in 2013.

Hardy's average rate decreased 8% for the three months ended June 30, 2014, as compared with a decrease of 1% for the three months ended June 30, 2013 for the policies that renewed in the period. Retention of 67% and 69% was achieved in each respective period.

Net operating loss increased \$3 million for the three months ended June 30, 2014 as compared with the same period in 2013, primarily due to underwriting results.

The combined ratio increased 4.5 points for the three months ended June 30, 2014 as compared with the same period in 2013. The loss ratio increased 2.3 points, due to deterioration in the current accident year loss ratio, including higher catastrophe losses, partially offset by lower unfavorable net prior year development. Catastrophe losses were \$4 million, or 4.6 points of the loss ratio, for the three months ended June 30, 2014. There were no catastrophe losses for the three months ended June 30, 2013. The expense ratio increased 2.2 points driven by integration costs and the effect of foreign currency exchange rates.

Unfavorable net prior year development of \$4 million and \$14 million was recorded for the three months ended June 30, 2014 and 2013. Further information on net prior year development is included in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

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Six Month Comparison

Net written premiums for Hardy increased \$12 million for the six months ended June 30, 2014 as compared with the same period in 2013, helped by reduced reinsurance cost. Net earned premiums increased \$50 million as compared with the same period in 2013. For the six months ended June 30, 2013, a third-party capital provider had a 15% share of the 2012 year of account, which was commuted later in 2013.

Hardy's average rate decreased 5% for the six months ended June 30, 2014, as compared with a flat rate for the six months ended June 30, 2013 for the policies that renewed in the period. Retention of 72% and 70% was achieved in each respective period.

Net results improved \$10 million for the six months ended June 30, 2014 as compared with the same period in 2013. This improvement was primarily due to higher net operating income.

Net operating results improved \$12 million for the six months ended June 30, 2014 as compared with the same period in 2013, primarily due to underwriting results.

The combined ratio improved 6.9 points for the six months ended June 30, 2014 as compared with the same period in 2013. The loss ratio improved 4.3 points, due to lower unfavorable net prior year development, partially offset by deterioration in the current accident year loss ratio. Catastrophe losses were \$7 million, or 3.9 points of the loss ratio, for the six months ended June 30, 2014. There were no catastrophe losses for the six months ended June 30, 2013. The expense ratio improved 2.6 points, primarily due to a higher net earned premium base.

Unfavorable net prior year development of \$10 million and \$17 million was recorded for the six months ended June 30, 2014 and 2013. Further information on net prior year development is included in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

The following table summarizes the gross and net carried reserves as of June 30, 2014 and December 31, 2013 for Hardy.

Gross and Net Carried Claim and Claim Adjustment Expense Reserves

(In millions)	June 30, 2014	December 31, 2013
Gross Case Reserves	\$298	\$275
Gross IBNR Reserves	88	111
Total Gross Carried Claim and Claim Adjustment Expense Reserves	\$386	\$386
Net Case Reserves	\$178	\$159
Net IBNR Reserves	79	75
Total Net Carried Claim and Claim Adjustment Expense Reserves	\$257	\$234

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Life & Group Non-Core

The Life and Group Non-Core segment primarily includes the results of our individual and group long term care business, as well as closed blocks of structured settlement liabilities, group accident and health reinsurance and life settlement contracts. These businesses are being managed as a run-off operation. Our group long term care business, while considered non-core, continues to accept new employees in existing groups.

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

Results of Operations

Periods ended June 30	Three Months		Six Months		
(In millions)	2014	2013	2014	2013	
Net earned premiums	\$139	\$138	\$278	\$279	
Net investment income	173	163	344	325	
Net operating income (loss)	9	(41) 7	(47)
Net realized investment gains (losses)	(3) 1	7	7	
Net income (loss)	6	(40) 14	(40)

Three Month Comparison

Net earned premiums for Life & Group Non-Core increased \$1 million for the three months ended June 30, 2014 as compared with the same period in 2013. Net earned premiums relate primarily to the individual and group long term care businesses.

Net results improved \$46 million for the three months ended June 30, 2014 as compared with the same period in 2013, primarily driven by our long term care business which benefited from favorable morbidity and persistency as well as rate increase actions. Results were also affected by higher net investment income, driven by a higher invested asset base, and a gain on a life settlement contract in 2014.

Six Month Comparison

Net earned premiums for Life & Group Non-Core decreased \$1 million for the six months ended June 30, 2014 as compared with the same period in 2013.

Net results improved \$54 million for the six months ended June 30, 2014 as compared with the same period in 2013. The increase was primarily due to the same reasons discussed above in the three month comparison. Our long term care business benefited from favorable persistency, rate increase actions and favorable morbidity.

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Corporate & 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

Periods ended June 30	Three Months		Six Months		
(In millions)	2014	2013	2014	2013	
Net investment income	\$7	\$8	\$12	\$16	
Net operating income (loss)	27	(18) —	(44)
Net realized investment gains	2	2	6	6	
Net income (loss)	29	(16) 6	(38)

Three Month Comparison

Net results improved \$45 million for the three months ended June 30, 2014 as compared with the same period in 2013. Results in 2014 included a \$56 million after-tax benefit related to a postretirement plan curtailment as further discussed in Note H. This favorable item was partially offset by higher interest expense from a new debt issuance in February 2014, in advance of the December 2014 maturity of our existing debt. In addition, 2013 results included a release of an allowance established for officer notes receivable.

No net prior year development was recorded for the three months ended June 30, 2014, as compared with favorable net prior year development of \$3 million for the three months ended June 30, 2013.

Six Month Comparison

Net results improved \$44 million for the six months ended June 30, 2014 as compared with the same period in 2013, primarily due to the same reasons discussed above in the three month comparison.

No net prior year development was recorded for the six months ended June 30, 2014, as compared with favorable net prior year development of \$1 million for the six months ended June 30, 2013.

The following table summarizes the gross and net carried reserves as of June 30, 2014 and December 31, 2013 for Corporate & Other Non-Core.

Gross and Net Carried Claim and Claim Adjustment Expense Reserves

(In millions)	June 30, 2014	December 31, 2013
Gross Case Reserves	\$1,046	\$1,140
Gross IBNR Reserves	1,996	2,167
Total Gross Carried Claim and Claim Adjustment Expense Reserves	\$3,042	\$3,307
Net Case Reserves	\$160	\$283
Net IBNR Reserves	174	184
Total Net Carried Claim and Claim Adjustment Expense Reserves	\$334	\$467

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INVESTMENTS

Net Investment Income

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

Net Investment Income

Periods ended June 30 (In millions)	Three Months		Six Months	
	2014	2013	2014	2013
Fixed maturity securities:				
Taxable	\$350	\$383	\$702	\$771
Tax-exempt	101	71	201	140
Total fixed maturity securities	451	454	903	911
Limited partnership investments	97	79	170	210
Other, net of investment expense	2	1	3	4
Pretax net investment income	\$550	\$534	\$1,076	\$1,125
After-tax net investment income	\$391	\$368	\$762	\$773

Effective income yield for the fixed maturity securities portfolio, pretax	4.9	% 5.0	% 4.9	% 5.0	%
Effective income yield for the fixed maturity securities portfolio, after-tax	3.5	% 3.5	% 3.5	% 3.5	%

After-tax net investment income for the three months ended June 30, 2014 increased \$23 million as compared with the same period in 2013. The increase was driven by limited partnership investment income, additional investments in tax-exempt securities and a higher invested asset base.

After-tax net investment income for the six months ended June 30, 2014 decreased \$11 million as compared with the same period in 2013. The decrease was driven by limited partnership investment income, partially offset by additional investments in tax-exempt securities and a higher invested asset base.

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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)

Periods ended June 30 (In millions)	Three Months		Six Months		
	2014	2013	2014	2013	
Fixed maturity securities:					
Corporate and other bonds	\$8	\$13	\$22	\$39	
States, municipalities and political subdivisions	(5	) —	18	(2)
Asset-backed	(24	) (21	) (23	) (18)
Foreign government	2	1	2	1	
Total fixed maturity securities	(19	) (7	) 19	20	
Equity securities	—	(2	) 5	(15)
Derivative securities	1	(5	) 1	(3)
Short term investments and other	4	—	7	7	
Net realized investment gains (losses), pretax	(14	) (14	) 32	9	
Income tax (expense) benefit on net realized investment gains (losses)	3	5	(13	) (2)
Net realized investment gains (losses)	\$(11	) \$(9	) \$19	\$7	

Net realized investment gains increased \$12 million for the six months ended June 30, 2014 as compared with the same period in 2013, driven by lower OTTI losses recognized in earnings. Further information on our realized gains and losses, including our OTTI losses, is set forth in Note C to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Portfolio Quality

Our fixed maturity portfolio consists primarily of high quality bonds, 93% and 92% of which were rated as investment grade (rated BBB- or higher) at June 30, 2014 and December 31, 2013. 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 agencies, we formulate an internal rating. At June 30, 2014 and December 31, 2013, approximately 98% and 99% 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.

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

Fixed Maturity Ratings

(In millions)	June 30, 2014	%		December 31, 2013	%	
U.S. Government, Government agencies and Government-sponsored enterprises	\$3,693	9	%	\$3,683	9	%
AAA rated	2,825	7		2,776	7	
AA and A rated	20,279	50		20,353	49	
BBB rated	10,802	27		11,171	27	
Non-investment grade	2,869	7		3,250	8	
Total	\$40,468	100	%	\$41,233	100	%

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 securities was \$2,686 million and \$3,097 million at June 30, 2014 and December 31, 2013. The following table summarizes the ratings of these securities at fair value.

Non-investment Grade

(In millions)	June 30, 2014	%		December 31, 2013	%	
BB	\$1,145	40	%	\$1,393	43	%
B	819	29		967	30	
CCC - C	666	23		649	20	
D	239	8		241	7	
Total	\$2,869	100	%	\$3,250	100	%

The following table summarizes available-for-sale fixed maturity securities in a gross unrealized loss position by ratings distribution as of June 30, 2014.

Gross Unrealized Losses by Ratings Distribution

June 30, 2014

(In millions)	Estimated Fair Value	%		Gross Unrealized Losses	%	
U.S. Government, Government agencies and Government-sponsored enterprises	\$193	6	%	\$6	5	%
AAA	399	12		11	8	
AA	873	24		73	58	
A	742	22		12	10	
BBB	889	26		14	11	
Non-investment grade	336	10		10	8	
Total	\$3,432	100	%	\$126	100	%

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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

June 30, 2014	Estimated Fair Value	%	Gross Unrealized Losses	%	%
Due in one year or less	\$255	7	% \$6	5	%
Due after one year through five years	824	24	25	20	
Due after five years through ten years	1,368	40	19	15	
Due after ten years	985	29	76	60	
Total	\$3,432	100	% \$126	100	%

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 long term care products and structured settlements.

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

	June 30, 2014		December 31, 2013	
(In millions)	Fair Value	Effective Duration (In years)	Fair Value	Effective Duration (In years)
Investments supporting Life & Group Non-Core	\$13,826	11.4	\$15,009	11.3
Other interest sensitive investments	28,521	4.2	27,766	4.4
Total	\$42,347	6.6	\$42,775	6.9

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, 2013.

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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)	June 30, 2014	December 31, 2013
Short term investments:		
Commercial paper	\$589	\$549
U.S. Treasury securities	1,126	636
Money market funds	166	94
Other	143	128
Total short term investments	\$2,024	\$1,407

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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 six months ended June 30, 2014, net cash provided by operating activities was \$587 million as compared with \$569 million for the same period in 2013. Cash provided by operating activities reflected increased receipts relating to returns on limited partnerships, substantially offset by increased tax payments.

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 six months ended June 30, 2014, net cash used by investing activities was \$734 million as compared with \$471 million for the same period in 2013. The cash flow from investing activities is affected by various factors such as the anticipated payment of claims, financing activity, asset/liability management and individual security buy and sell decisions made in the normal course of portfolio management.

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

For the six months ended June 30, 2014, net cash provided by financing activities was \$163 million as compared with net cash used of \$127 million for the same period in 2013. In the first quarter of 2014 we issued \$550 million of 3.95% senior notes due May 15, 2024 and invested the proceeds in short-term interest bearing securities. We intend to use the proceeds to repurchase, redeem, repay or otherwise retire the \$549 million outstanding aggregate principal balance of the 5.85% senior notes due December 15, 2014. Additionally, cash provided by financing activities in 2014 included \$23 million relating to repayments of officer loans.

Common Stock Dividends

Dividends of \$1.50 per share of our common stock, including a special dividend of \$1.00 per share, were declared and paid in the first half of 2014. On August 1, 2014, our Board of Directors declared a quarterly dividend of \$0.25 per share, payable September 3, 2014 to stockholders of record on August 18, 2014. 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 and no borrowings outstanding through our membership in the Federal Home Loan Bank of Chicago.

During the first half of 2014, Continental Casualty Company (CCC) paid dividends of \$450 million to CNAF. As of June 30, 2014, CCC is able to pay approximately \$464 million of dividends during the remainder of 2014 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; 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; and

regulatory limitations and restrictions, including limitations upon our ability to receive dividends from our insurance subsidiaries, imposed by regulatory authorities, including regulatory capital adequacy standards.

Impact of Catastrophic Events and Related Developments

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

man-made disasters, including the possible occurrence of terrorist attacks 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 six months ended June 30, 2014. 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, 2013 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 June 30, 2014, 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 June 30, 2014.

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 June 30, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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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 1.

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: August 4, 2014

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