CNA FINANCIAL CORP
Form 10-Q
November 03, 2015

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

FORM 10-Q
[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number 1-5823

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

Delaware (State or other jurisdiction of incorporation or organization)	36-6169860 (I.R.S. Employer Identification No.)
333 S. Wabash Chicago, Illinois (Address of principal executive offices)	60604 (Zip Code)

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

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

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

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

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

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

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

Class	Outstanding at October 30, 2015
Common Stock, Par value $2.50	270,260,625

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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 September 30	Three Months		Nine Months	
(In millions, except per share data)	2015	2014	2015	2014
Revenues				
Net earned premiums	$1,751	$1,810	$5,173	$5,427
Net investment income	354	480	1,412	1,556
Net realized investment gains (losses):				
Other-than-temporary impairment losses	(56)	(10)	(99)	(17)
Portion of other-than-temporary impairments recognized in Other comprehensive income	—	—	—	—
Net other-than-temporary impairment losses recognized in earnings	(56)	(10)	(99)	(17)
Other net realized investment gains (losses)	7	47	60	86
Net realized investment gains (losses)	(49)	37	(39)	69
Other revenues	97	84	286	262
Total revenues	2,153	2,411	6,832	7,314
Claims, Benefits and Expenses				
Insurance claims and policyholders' benefits	1,200	1,354	4,008	4,241
Amortization of deferred acquisition costs	319	332	936	996
Other operating expenses	362	384	1,061	984
Interest	39	48	117	138
Total claims, benefits and expenses	1,920	2,118	6,122	6,359
Income from continuing operations before income tax	233	293	710	955
Income tax expense	(55)	(84)	(161)	(265)
Income from continuing operations	178	209	549	690
Income (loss) from discontinued operations, net of income tax (expense) benefit of $-, $(3), $- and $34	—	4	—	(197)
Net income	$178	$213	$549	$493
Basic Earnings Per Share				
Income from continuing operations	$0.66	$0.77	$2.03	$2.56
Income (loss) from discontinued operations	—	0.02	—	(0.73)
Basic earnings per share	$0.66	$0.79	$2.03	$1.83
Diluted Earnings Per Share				
Income from continuing operations	$0.66	$0.77	$2.03	$2.55
Income (loss) from discontinued operations	—	0.02	—	(0.73)
Diluted earnings per share	$0.66	$0.79	$2.03	$1.82
Dividends declared per share	$0.25	$0.25	$2.75	$1.75
Weighted Average Outstanding Common Stock and Common Stock Equivalents				
Basic	270.3	269.9	270.2	269.9
Diluted	270.8	270.6	270.7	270.6

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

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

Periods ended September 30	Three Months		Nine Months	
(In millions)	2015	2014	2015	2014
Other Comprehensive Income (Loss), Net of Tax				
Changes in:				
Net unrealized gains on investments with other-than-temporary impairments	$2	$1	$(3)	$15
Net unrealized gains on other investments	(36)	(83)	(289)	424
Net unrealized gains on investments	(34)	(82)	(292)	439
Net unrealized gains on discontinued operations	—	(37)	—	(22)
Foreign currency translation adjustment	(53)	(73)	(100)	(39)
Pension and postretirement benefits	4	3	52	(47)
Other comprehensive income (loss), net of tax	(83)	(189)	(340)	331
Net income	178	213	549	493
Total comprehensive income	$95	$24	$209	$824

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

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CNA Financial Corporation
Condensed Consolidated Balance Sheets

(In millions, except share data)	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of $37,568 and $37,335)	$40,201	$ 40,768
Equity securities at fair value (cost of $207 and $210)	212	222
Limited partnership investments	2,738	2,937
Other invested assets	45	41
Mortgage loans	640	588
Short term investments	1,482	1,706
Total investments	45,318	46,262
Cash	236	190
Reinsurance receivables (less allowance for uncollectible receivables of $48 and $48)	4,491	4,694
Insurance receivables (less allowance for uncollectible receivables of $54 and $61)	2,057	1,936
Accrued investment income	439	405
Deferred acquisition costs	606	600
Deferred income taxes	279	191
Property and equipment at cost (less accumulated depreciation of $387 and $364)	320	295
Goodwill	151	152
Other assets	915	841
Total assets	$54,812	$ 55,566
Liabilities		
Insurance reserves:		
Claim and claim adjustment expenses	$22,867	$ 23,271
Unearned premiums	3,706	3,592
Future policy benefits	9,520	9,490
Policyholders' funds	—	27
Short term debt	350	—
Long term debt	2,211	2,559
Other liabilities (includes $119 and $153 due to Loews Corporation)	3,893	3,833
Total liabilities	42,547	42,772
Commitments and contingencies (Notes C, F and H)		
Stockholders' Equity		
Common stock ($2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; 270,260,625 and 269,980,202 shares outstanding)	683	683
Additional paid-in capital	2,150	2,151
Retained earnings	9,450	9,645
Accumulated other comprehensive income	60	400
Treasury stock (2,779,618 and 3,060,041 shares), at cost	(78)	(84)
Notes receivable for the issuance of common stock	—	(1)
Total stockholders' equity	12,265	12,794
Total liabilities and stockholders' equity	$54,812	$ 55,566

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)
Nine months ended September 30

(In millions)	2015	2014
Cash Flows from Operating Activities		
Net income	$549	$493
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Loss on sale of subsidiaries	—	251
Deferred income tax expense	27	81
Trading portfolio activity	17	16
Net realized investment (gains) losses	39	(72)
Equity method investees	127	65
Net amortization of investments	(17)	(1)
Depreciation and amortization	62	62
Changes in:		
Receivables, net	70	611
Accrued investment income	(34)	(37)
Deferred acquisition costs	11	14
Insurance reserves	195	(222)
Other assets	(61)	(49)
Other liabilities	(32)	(133)
Other, net	92	(32)
Total adjustments	496	554
Net cash flows provided by operating activities	1,045	1,047
Cash Flows from Investing Activities		
Dispositions:		
Fixed maturity securities - sales	3,590	4,005
Fixed maturity securities - maturities, calls and redemptions	3,101	2,901
Equity securities	43	23
Limited partnerships	156	133
Mortgage loans	22	36
Purchases:		
Fixed maturity securities	(7,055)	(7,457)
Equity securities	(60)	(44)
Limited partnerships	(120)	(218)
Mortgage loans	(81)	(84)
Change in other investments	5	10
Change in short term investments	222	(556)
Purchases of property and equipment	(84)	(42)
Proceeds from sale of subsidiaries	—	198
Other, net	7	8
Net cash flows used by investing activities	$(254)	$(1,087)

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

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Nine months ended September 30 (In millions)	2015	2014
Cash Flows from Financing Activities		
Dividends paid to common stockholders	$(744)	$(473)
Proceeds from the issuance of debt	—	546
Other, net	5	22
Net cash flows provided (used) by financing activities	(739)	95
Effect of foreign exchange rate changes on cash	(6)	(3)
Net change in cash	46	52
Cash, beginning of year	190	195
Cash, end of period	$236	$247

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)
Nine months ended September 30

(In millions)	2015	2014
Common Stock		
Balance, beginning of year	$683	$683
Balance, end of period	683	683
Additional Paid-in Capital		
Balance, beginning of year	2,151	2,145
Stock-based compensation	(1)	4
Balance, end of period	2,150	2,149
Retained Earnings		
Balance, beginning of year	9,645	9,495
Dividends paid to common stockholders	(744)	(473)
Net income	549	493
Balance, end of period	9,450	9,515
Accumulated Other Comprehensive Income		
Balance, beginning of year	400	442
Other comprehensive income (loss)	(340)	331
Balance, end of period	60	773
Treasury Stock		
Balance, beginning of year	(84)	(91)
Stock-based compensation	6	6
Balance, end of period	(78)	(85)
Notes Receivable for the Issuance of Common Stock		
Balance, beginning of year	(1)	(23)
Decrease in notes receivable for common stock	1	22
Balance, end of period	—	(1)
Total stockholders' equity	$12,265	$13,034

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

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

The Condensed Consolidated Financial Statements include the accounts of CNA Financial Corporation (CNAF) and its subsidiaries. Collectively, CNAF and its subsidiaries are referred to as CNA or the Company. Loews Corporation (Loews) owned approximately 90% of the outstanding common stock of CNAF as of September 30, 2015.

The accompanying Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Intercompany amounts have been eliminated. Certain financial information that is normally included in annual financial statements, 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, 2014, 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 as of 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 September 30, 2015 and for the three and nine months ended September 30, 2015 and 2014 is unaudited. However, in the opinion of management, the interim data includes all adjustments, including normal recurring adjustments, necessary for a fair statement of the Company's results for the interim periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

Sale of Continental Assurance Company (CAC)

On August 1, 2014, the Company completed the sale of the common stock of CAC, the Company's former life insurance subsidiary. The Company elected to include CAC cash flow activity in the comparative Condensed Consolidated Statement of Cash Flows. Further information on discontinued operations is provided in Note K to the Condensed Consolidated Financial Statements.

In connection with the sale of CAC, the Company entered into a 100% coinsurance agreement on a separate small block of annuity business outside of CAC. As a result of the coinsurance agreement, the $34 million difference between market value and book value of the funds withheld assets at the coinsurance contract's inception was recognized as a loss in Other operating expenses in the third quarter of 2014.

Recently Issued Accounting Standards Update (ASU) - Disclosures about Short-Duration Contracts

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

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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 effect 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 nine months ended September 30, 2015, approximately 514 thousand and 545 thousand potential shares attributable to exercises under stock-based employee compensation plans were included in the calculation of diluted earnings per share. For those same periods, approximately 106 thousand and 107 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 nine months ended September 30, 2014, approximately 668 thousand and 654 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 167 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.

Periods ended September 30	Three Months		Nine Months	
(In millions)	2015	2014	2015	2014
Fixed maturity securities	$449	$453	$1,344	$1,356
Equity securities	3	2	9	7
Limited partnership investments	(93)	29	69	199
Mortgage loans	8	7	25	22
Short term investments	2	1	4	2
Trading portfolio	1	2	6	8
Other	1	—	1	3
Gross investment income	371	494	1,458	1,597
Investment expense	(17)	(14)	(46)	(41)
Net investment income	$354	$480	$1,412	$1,556

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

Periods ended September 30	Three Months		Nine Months	
(In millions)	2015	2014	2015	2014
Net realized investment gains (losses):				
Fixed maturity securities:				
Gross realized gains	$22	$51	$91	$124
Gross realized losses	(51)	(12)	(120)	(66)
Net realized investment gains (losses) on fixed maturity securities	(29)	39	(29)	58
Equity securities:				
Gross realized gains	1	1	2	6
Gross realized losses	(19)	(4)	(21)	(4)
Net realized investment gains (losses) on equity securities	(18)	(3)	(19)	2
Derivative financial instruments	(1)	—	9	1
Short term investments and other	(1)	1	—	8
Net realized investment gains (losses)	$(49)	$37	$(39)	$69

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

Periods ended September 30	Three Months		Nine Months	
(In millions)	2015	2014	2015	2014
Fixed maturity securities available-for-sale:				
Corporate and other bonds	$36	$6	$52	$9
States, municipalities and political subdivisions	—	—	18	—
Asset-backed:				
Residential mortgage-backed	1	2	7	4
Other asset-backed	—	—	1	1
Total asset-backed	1	2	8	5
Total fixed maturity securities available-for-sale	37	8	78	14
Equity securities available-for-sale -- Common stock	19	2	20	3
Short term investments	—	—	1	—
Net OTTI losses recognized in earnings	$56	$10	$99	$17

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

September 30, 2015 (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	$17,155	$1,237	$207	$18,185	$—
States, municipalities and political subdivisions	11,978	1,336	17	13,297	(5)
Asset-backed:					
Residential mortgage-backed	4,850	204	13	5,041	(46)
Commercial mortgage-backed	2,183	77	9	2,251	—
Other asset-backed	1,009	11	4	1,016	—
Total asset-backed	8,042	292	26	8,308	(46)
U.S. Treasury and obligations of government-sponsored enterprises	24	5	—	29	—
Foreign government	333	12	1	344	—
Redeemable preferred stock	33	2	—	35	—
Total fixed maturity securities available-for-sale	37,565	2,884	251	40,198	$(51)
Total fixed maturity securities trading	3			3	
Equity securities available-for-sale:					
Common stock	62	3	—	65	
Preferred stock	145	4	2	147	
Total equity securities available-for-sale	207	7	2	212	
Total	$37,775	$2,891	$253	$40,413	

December 31, 2014 (In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
Fixed maturity securities available-for-sale:					
Corporate and other bonds	$17,210	$1,721	$61	$18,870	$—
States, municipalities and political subdivisions	11,285	1,463	8	12,740	—
Asset-backed:					
Residential mortgage-backed	5,028	218	13	5,233	(53)
Commercial mortgage-backed	2,056	93	5	2,144	(2)
Other asset-backed	1,234	11	10	1,235	—
Total asset-backed	8,318	322	28	8,612	(55)
U.S. Treasury and obligations of government-sponsored enterprises	26	5	—	31	—
Foreign government	438	16	—	454	—
Redeemable preferred stock	39	3	—	42	—
Total fixed maturity securities available-for-sale	37,316	3,530	97	40,749	$(55)
Total fixed maturity securities trading	19			19	
Equity securities available-for-sale:					
Common stock	38	9	—	47	
Preferred stock	172	5	2	175	
Total equity securities available-for-sale	210	14	2	222	
Total	$37,545	$3,544	$99	$40,990	

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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. As of September 30, 2015 and December 31, 2014, the net unrealized gains on investments included in AOCI were net of after-tax Shadow Adjustments of $1,046 million and $1,288 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 present the estimated fair value and gross unrealized losses of 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.

	Less than 12 Months		12 Months or Longer		Total	
September 30, 2015 (In millions)	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities available-for-sale:						
Corporate and other bonds	$3,744	$177	$188	$30	$3,932	$207
States, municipalities and political subdivisions	655	11	131	6	786	17
Asset-backed:						
Residential mortgage-backed	308	3	211	10	519	13
Commercial mortgage-backed	479	6	81	3	560	9
Other asset-backed	354	4	9	—	363	4
Total asset-backed	1,141	13	301	13	1,442	26
U.S. Treasury and obligations of government-sponsored enterprises	1	—	—	—	1	—
Foreign government	23	—	3	1	26	1
Redeemable preferred stock	3	—	—	—	3	—
Total fixed maturity securities available-for-sale	5,567	201	623	50	6,190	251
Equity securities available-for-sale:						
Preferred stock	3	—	14	2	17	2
Total	$5,570	$201	$637	$52	$6,207	$253

	Less than 12 Months		12 Months or Longer		Total	
December 31, 2014 (In millions)	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities available-for-sale:						
Corporate and other bonds	$1,330	$46	$277	$15	$1,607	$61
States, municipalities and political subdivisions	335	5	127	3	462	8
Asset-backed:						
Residential mortgage-backed	293	5	189	8	482	13
Commercial mortgage-backed	264	2	99	3	363	5
Other asset-backed	607	10	7	—	614	10
Total asset-backed	1,164	17	295	11	1,459	28
U.S. Treasury and obligations of government-sponsored enterprises	3	—	4	—	7	—
Foreign government	3	—	3	—	6	—
Redeemable preferred stock	3	—	—	—	3	—
Total fixed maturity securities available-for-sale	2,838	68	706	29	3,544	97
Equity securities available-for-sale:						
Preferred stock	17	2	1	—	18	2

Total	$2,855	$70	$707	$29	$3,562	$99

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Based on current facts and circumstances, the Company believes the unrealized losses presented in the September 30, 2015 table above are not indicative of the ultimate collectibility of the current amortized cost of the securities, but rather are primarily attributable to changes in interest rates and credit spreads and other factors. The Company has no current intent to sell securities with unrealized losses, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost; accordingly, the Company has determined that there are no additional OTTI losses to be recorded as of September 30, 2015.

The following table presents the activity related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held as of September 30, 2015 and 2014 for which a portion of an OTTI loss was recognized in Other comprehensive income (loss).

Periods ended September 30	Three Months		Nine Months	
(In millions)	2015	2014	2015	2014
Beginning balance of credit losses on fixed maturity securities	$59	$66	$62	$74
Reductions for securities sold during the period	(2)	(2)	(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	$57	$64	$57	$64

Contractual Maturity

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

	September 30, 2015		December 31, 2014	
(In millions)	Cost or Amortized Cost	Estimated Fair Value	Cost or Amortized Cost	Estimated Fair Value
Due in one year or less	$1,406	$1,425	$2,479	$2,511
Due after one year through five years	7,772	8,186	9,054	9,605
Due after five years through ten years	14,149	14,577	12,055	12,584
Due after ten years	14,238	16,010	13,728	16,049
Total	$37,565	$40,198	$37,316	$40,749

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.

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Derivative Financial Instruments

The following tables present the aggregate contractual or notional amounts and estimated fair values related to derivative financial instruments.

September 30, 2015	Contractual/	Estimated Fair Value	
(In millions)	Notional Amount	Asset	Liability
Without hedge designation			
Equity warrants	$5	$—	$—
Embedded derivative on funds withheld liability	182	—	(5)
Total		$—	$(5)

December 31, 2014	Contractual/	Estimated Fair Value	
(In millions)	Notional Amount	Asset	Liability
Without hedge designation			
Currency forwards	$9	$—	$—
Equity warrants	5	—	—
Embedded derivative on funds withheld liability	184	—	3
Total		$—	$3

Derivative financial instruments are presented gross 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 as of September 30, 2015 and December 31, 2014. The embedded derivative on funds withheld liability is accounted for separately and reported with the funds withheld liability in Other liabilities on the Condensed Consolidated Balance Sheets.

Investment Commitments

As of September 30, 2015, the Company had committed approximately $414 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

As of September 30, 2015, the Company had mortgage loan commitments of $29 million representing signed loan applications received and accepted.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases, sales and funding. As of September 30, 2015, the Company had commitments to purchase or fund additional amounts of $81 million and sell $43 million under the terms of such securities.

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Note D. Fair Value

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

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

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

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

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

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

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Assets and Liabilities Measured at Fair Value

Assets and liabilities measured at fair value on a recurring basis are presented in the following tables.

September 30, 2015 (In millions)	Level 1	Level 2	Level 3	Total Assets/Liabilities at Fair Value
Assets				
Fixed maturity securities:				
Corporate and other bonds	$28	$18,007	$153	$18,188
States, municipalities and political subdivisions	—	13,236	61	13,297
Asset-backed:				
Residential mortgage-backed	—	4,837	204	5,041
Commercial mortgage-backed	—	2,180	71	2,251
Other asset-backed	—	545	471	1,016
Total asset-backed	—	7,562	746	8,308
U.S. Treasury and obligations of government-sponsored enterprises	28	1	—	29
Foreign government	28	316	—	344
Redeemable preferred stock	24	11	—	35
Total fixed maturity securities	108	39,133	960	40,201
Equity securities	154	43	15	212
Other invested assets	—	45	—	45
Short term investments	624	773	—	1,397
Life settlement contracts, included in Other assets	—	—	74	74
Total assets	$886	$39,994	$1,049	$41,929
Liabilities				
Other liabilities	$—	$(5)	$—	$(5)
Total liabilities	$—	$(5)	$—	$(5)

December 31, 2014 (In millions)	Level 1	Level 2	Level 3	Total Assets/Liabilities at Fair Value
Assets				
Fixed maturity securities:				
Corporate and other bonds	$32	$18,695	$162	$18,889
States, municipalities and political subdivisions	—	12,646	94	12,740
Asset-backed:				
Residential mortgage-backed	—	5,044	189	5,233
Commercial mortgage-backed	—	2,061	83	2,144
Other asset-backed	—	580	655	1,235
Total asset-backed	—	7,685	927	8,612
U.S. Treasury and obligations of government-sponsored enterprises	28	3	—	31
Foreign government	41	413	—	454
Redeemable preferred stock	30	12	—	42
Total fixed maturity securities	131	39,454	1,183	40,768
Equity securities	145	61	16	222
Other invested assets	—	41	—	41
Short term investments	681	963	—	1,644
Life settlement contracts, included in Other assets	—	—	82	82
Total assets	$957	$40,519	$1,281	$42,757

Liabilities				
Other liabilities	$—	$3	$—	$3
Total liabilities	$—	$3	$—	$3

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

Level 3 (In millions)	Balance as of July 1, 2015	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in Net income (loss)	Net change in unrealized appreciation (depreciation) included in Other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance as of September 30, 2015	Unrealized gains (losses) on Level 3 assets and liabilities held as of September 30, 2015 recognized in Net income (loss)
Fixed maturity securities:										
Corporate and other bonds	$141	$ —	$ —	$27	$(1)	$(11)	$—	$(3)	$ 153	$—
States, municipalities and political subdivisions	85	—	—	—	—	—	—	(24)	61	—
Asset-backed:										
Residential mortgage-backed	207	2	(2)	4	—	(7)	—	—	204	—
Commercial mortgage-backed	87	5	(4)	8	—	(15)	—	(10)	71	—
Other asset-backed	490	—	(6)	43	(20)	(32)	—	(4)	471	—
Total asset-backed	784	7	(12)	55	(20)	(54)	—	(14)	746	—
Total fixed maturity securities	1,010	7	(12)	82	(21)	(65)	—	(41)	960	—
Equity securities	16	—	(1)	—	—	—	—	—	15	—
Life settlement contracts	75	5	—	—	—	(6)	—	—	74	2
Total	$1,101	$ 12	$ (13)	$82	$(21)	$(71)	$—	$(41)	$ 1,049	$ 2

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Level 3 (In millions)	Balance as of July 1, 2014	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in Net income (loss)	Net change in unrealized appreciation (depreciation) included in Other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance as of September 30, 2014	Unrealized gains (losses) on Level 3 assets and liabilities held as of September 30, 2014 recognized in Net income (loss)
Fixed maturity securities:										
Corporate and other bonds	$194	$ —	$ (1)	$4	$—	$ (3)	$—	$(21)	$ 173	$ —
States, municipalities and political subdivisions	79	—	1	—	—	—	—	—	80	—
Asset-backed:										
Residential mortgage-backed	185	1	—	—	—	(17)	11	(20)	160	—
Commercial mortgage-backed	59	2	(2)	28	—	(21)	31	—	97	—
Other asset-backed	626	1	(4)	80	—	(25)	—	(36)	642	—
Total asset-backed	870	4	(6)	108	—	(63)	42	(56)	899	—
Total fixed maturity securities	1,143	4	(6)	112	—	(66)	42	(77)	1,152	—
Equity securities	2	—	(1)	16	—	—	—	—	17	—
Life settlement contracts	86	1	—	—	—	(1)	—	—	86	1
Total	$1,231	$ 5	$ (7)	$128	$—	$ (67)	$42	$(77)	$ 1,255	$ 1

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Level 3 (In millions)	Balance as of January 1, 2015	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in Net income (loss)	Net change in unrealized appreciation (depreciation) included in Other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance as of September 30, 2015	Unrealized gains (losses) on Level 3 assets and liabilities held as of September 30, 2015 recognized in Net income (loss)
Fixed maturity securities:										
Corporate and other bonds	$162	$ (1)	$ (1)	$39	$(13)	$ (32)	$37	$(38)	$ 153	$ —
States, municipalities and political subdivisions	94	1	—	—	—	(10)	—	(24)	61	—
Asset-backed:										
Residential mortgage-backed	189	4	(4)	76	—	(28)	—	(33)	204	—
Commercial mortgage-backed	83	7	(4)	23	—	(17)	17	(38)	71	—
Other asset-backed	655	3	4	125	(254)	(52)	—	(10)	471	(1)
Total asset-backed	927	14	(4)	224	(254)	(97)	17	(81)	746	(1)
Total fixed maturity securities	1,183	14	(5)	263	(267)	(139)	54	(143)	960	(1)
Equity securities	16	—	(1)	—	—	—	—	—	15	—
Life settlement contracts	82	22	—	—	—	(30)	—	—	74	1
Total	$1,281	$ 36	$ (6)	$263	$(267)	$ (169)	$54	$(143)	$ 1,049	$ —

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Level 3 (In millions)	Balance as of January 1, 2014	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in Net income (loss)	Net change in unrealized appreciation (depreciation) included in Other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance as of September 30, 2014	Unrealized gains (losses) on Level 3 assets and liabilities held as of September 30, 2014 recognized in Net income (loss)
Fixed maturity securities:										
Corporate and other bonds	$204	$ 2	$ —	$30	$(10)	$ (13)	$8	$(48)	$ 173	$ —
States, municipalities and political subdivisions	71	1	3	1	(10)	—	14	—	80	—
Asset-backed:										
Residential mortgage-backed	331	(22)	62	47	(174)	(57)	32	(59)	160	—
Commercial mortgage-backed	151	4	(2)	28	(60)	(23)	43	(44)	97	—
Other asset-backed	446	2	—	457	(111)	(115)	—	(37)	642	(1)
Total asset-backed	928	(16)	60	532	(345)	(195)	75	(140)	899	(1)
Total fixed maturity securities	1,203	(13)	63	563	(365)	(208)	97	(188)	1,152	(1)
Equity securities	11	3	(5)	16	(8)	—	—	—	17	—
Life settlement contracts	88	23	—	—	—	(25)	—	—	86	3
Separate account business	1	—	—	—	—	—	—	(1)	—	—
Total	$1,303	$ 13	$ 58	$579	$(373)	$ (233)	$97	$(189)	$ 1,255	$ 2

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Net realized and unrealized gains and losses, including those 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
Other liabilities - Derivative financial instruments	Net realized investment gains (losses)

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 and nine months ended September 30, 2015 there were $10 million of transfers from Level 2 to Level 1 and no transfers from Level 1 to Level 2. During the three months ended September 30, 2014 there were no transfers between Level 1 and Level 2. During the nine months ended September 30, 2014, there were $24 million of transfers from Level 2 to Level 1 and $1 million from Level 1 to Level 2. 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

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. All classes of Level 2 fixed maturity securities are valued using a methodology based on information generated by market transactions involving identical or comparable assets, a discounted cash flow methodology, or a combination of both when necessary. Common inputs for all classes of fixed maturity securities include prices from recently executed transactions of similar securities, marketplace quotes, benchmark yields, spreads off benchmark yields, interest rates and U.S. Treasury or swap curves. Specifically for asset-backed securities, key inputs include prepayment and default projections based on past performance of the underlying collateral and current market data. Fixed maturity securities are 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 and other pricing models utilizing market observable inputs. Level 3 securities are priced using internal models with inputs that are not market observable.

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Derivative Financial Investments

Level 2 securities primarily include the embedded derivative on funds withheld liability and currency forwards. The embedded derivative on funds withheld liability is valued using the change in fair value of the assets supporting the funds withheld liability, which are fixed maturity securities valued with observable inputs. Currency forwards are valued using observable market forward rates.

Overseas Deposits

Overseas deposits, which can be redeemed at net asset value in 90 days or less, are classified as Level 2.

Short Term Investments

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

Life Settlement Contracts

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

Significant Unobservable Inputs

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

September 30, 2015	Estimated Fair Value (In millions)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Fixed maturity securities	$121	Discounted cash flow	Credit spread	2% - 31% (3%)
Life settlement contracts	74	Discounted cash flow	Discount rate risk premium	9%
			Mortality assumption	55% - 1676% (164%)

December 31, 2014	Estimated Fair Value (In millions)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Fixed maturity securities	$101	Discounted cash flow	Credit spread	2% - 13% (3%)
Equity securities	16	Market approach	Private offering price	$12 - $4,391 per share ($600)
Life settlement contracts	82	Discounted cash flow	Discount rate risk premium	9%
			Mortality assumption	55% - 1676% (163%)

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

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Financial Assets and Liabilities Not Measured at Fair Value

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

September 30, 2015	Carrying	Estimated Fair Value			
(In millions)	Amount	Level 1	Level 2	Level 3	Total
Assets					
Mortgage loans	$640	$—	$—	$660	$660
Liabilities					
Short term debt	$350	$—	$366	$—	$366
Long term debt	2,211	—	2,478	—	2,478

December 31, 2014	Carrying	Estimated Fair Value			
(In millions)	Amount	Level 1	Level 2	Level 3	Total
Assets					
Notes receivable for the issuance of common stock	$1	$—	$—	$1	$1
Mortgage loans	588	—	—	608	608
Liabilities					
Long term debt	$2,559	$—	$2,883	$—	$2,883

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

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

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

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

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Note E. Claim and Claim Adjustment Expense Reserves

The Company's property and casualty insurance claim and claim adjustment expense reserves represent the estimated amounts necessary to resolve all outstanding claims, including incurred but not reported (IBNR) claims as of the reporting date. The Company's reserve projections are based primarily on detailed analysis of the facts in each case, the Company's experience with similar cases and various historical development patterns. Consideration is given to 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 can contribute 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 $14 million and $103 million for the three and nine months ended September 30, 2015. Catastrophe losses in 2015 related primarily to U.S. weather-related events. The Company reported catastrophe losses, net of reinsurance, of $17 million and $147 million for the three and nine months ended September 30, 2014.

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Net Prior Year Development

The following tables and discussion present net prior year development recorded for Specialty, Commercial, International and Corporate & Other Non-Core segments.

Three months ended September 30, 2015

(In millions)	Specialty	Commercial	International	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(130)	$(11)	$(34)	$—	$(175)
Pretax (favorable) unfavorable premium development	(2)	(5)	2	—	(5)
Total pretax (favorable) unfavorable net prior year development	$(132)	$(16)	$(32)	$—	$(180)

Three months ended September 30, 2014

(In millions)	Specialty	Commercial	International	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(79)	$71	$(17)	$(1)	$(26)
Pretax (favorable) unfavorable premium development	(4)	—	7	—	3
Total pretax (favorable) unfavorable net prior year development	$(83)	$71	$(10)	$(1)	$(23)

Nine months ended September 30, 2015

(In millions)	Specialty	Commercial	International	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(141)	$—	$(46)	$—	$(187)
Pretax (favorable) unfavorable premium development	(10)	(17)	16	—	(11)
Total pretax (favorable) unfavorable net prior year development	$(151)	$(17)	$(30)	$—	$(198)

Nine months ended September 30, 2014

(In millions)	Specialty	Commercial	International	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(123)	$179	$(32)	$(1)	$23
Pretax (favorable) unfavorable premium development	(12)	(24)	6	—	(30)
	$(135)	$155	$(26)	$(1)	$(7)

Total pretax (favorable) unfavorable net prior year development	

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Specialty

The following table presents further detail of the net prior year claim and allocated claim adjustment expense reserve development (development) recorded for the Specialty segment.

Periods ended September 30	Three Months		Nine Months	
(In millions)	2015	2014	2015	2014
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Medical Professional Liability	$(19)	$16	$(11)	$17
Other Professional Liability and Management Liability	(37)	(9)	(41)	(59)
Surety	(70)	(79)	(69)	(78)
Warranty	—	—	1	—
Other	(4)	(7)	(21)	(3)
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(130)	$(79)	$(141)	$(123)

Three Months

2015

Favorable development in medical professional liability was related to lower than expected severity in accident years 2008 through 2013.

Favorable development in other professional liability and management liability related to better than expected large loss emergence in financial institutions in accident years 2012 and prior. Additional favorable development related to lower than expected severity in accident years 2009 through 2013 for directors and officers liability.

Favorable development for surety coverages was primarily due to lower than expected frequency of large losses in accident years 2013 and prior.

2014

Unfavorable development for medical professional liability was primarily related to increased frequency of large medical products liability class action lawsuits in accident years 2012 and prior.

Favorable development for surety coverages was primarily due to lower than expected frequency of large losses in accident years 2012 and prior.

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Nine Months

2015

Overall, favorable development for medical professional liability was related to lower than expected severity in accident years 2008 through 2013. Unfavorable development was recorded related to increased claim frequency in the aging services business for accident years 2013 and 2014.

Overall, favorable development in other professional liability and management liability related to better than expected large loss emergence in financial institutions in accident years 2012 and prior. Additional favorable development related to lower than expected severity in accident years 2009 through 2013 for directors and officers liability and lower than expected severity in accident years 2010 and prior for professional services. Unfavorable development was related to increased claim frequency on public company management liability in accident years 2012 through 2014.

Favorable development for surety coverages was primarily due to lower than expected frequency of large losses in accident years 2013 and prior.

Favorable development for other coverages was due to better than expected claim frequency in property coverages provided to Specialty customers in accident year 2014.

2014

Unfavorable development for medical professional liability was primarily related to increased frequency of large medical products liability class action lawsuits in accident years 2012 and prior.

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.

Favorable development for surety coverages was primarily due to lower than expected frequency of large losses in accident years 2012 and prior.

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Commercial

The following table presents further detail of the development recorded for the Commercial segment. A significant amount of the unfavorable development for the nine months ended September 30, 2014 relates to business classes which the Company has exited, but also includes Small Business where the Company has taken underwriting actions in an effort to improve profitability.

Periods ended September 30	Three Months		Nine Months	
(In millions)	2015	2014	2015	2014
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Commercial Auto	$—	$13	$7	$52
General Liability	3	44	8	76
Workers' Compensation	(1)	25	22	75
Property and Other	(13)	(11)	(37)	(24)
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(11)	$71	$—	$179

Three Months

2015

Favorable development for property and other was primarily due to better than expected loss emergence on catastrophe events in accident year 2014.

2014

Overall, unfavorable development for general liability coverages was primarily related to higher than expected severity in accident years 2010, 2011 and 2013. Favorable development was recorded primarily related to lower than expected frequency of large losses in accident years 2005 through 2008.

Overall, unfavorable development for workers’ compensation was primarily related to increased medical severity in accident years 2010 and prior and higher than expected severity related to Defense Base Act (DBA) contractors in accident years 2010 through 2013. Favorable development of $26 million was recorded in accident years 1996 and prior related to the commutation of a workers' compensation reinsurance pool.

Favorable development for property and other first-party coverages was recorded in accident years 2010 and prior, primarily related to lower than expected frequency and favorable individual claim settlements.

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Nine Months
2015
Unfavorable development for workers’ compensation was primarily due to higher than expected severity related to Defense Base Act contractors in accident years 2008 through 2013.
Favorable development for property and other was primarily due to better than expected loss emergence from 2012 and 2014 catastrophe events and better than expected frequency of large claims in accident year 2014.
The nine months also included unfavorable loss development related to an extra contractual obligation loss and losses associated with premium development.
2014
Unfavorable development for commercial auto was primarily related to increased claim frequency of large losses in accident years 2010 through 2013.
Overall, 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. Favorable development was recorded primarily related to lower than expected frequency of large losses in accident years 2005 through 2008.
Overall, unfavorable development for workers’ compensation was primarily due to increased medical severity in accident years 2010 and prior, higher than expected severity related to DBA contractors in accident years 2010 through 2013 and the recognition of losses related to favorable premium development in accident year 2013. Favorable development of $26 million was recorded in accident years 1996 and prior related to the commutation of a workers' compensation reinsurance pool.
Overall, favorable development for property and other coverages in accident years 2011 and prior primarily related to lower than expected frequency and favorable individual claim settlements. Additionally, there was favorable development due to better than expected loss emergence in catastrophe losses in accident year 2013. Unfavorable development was recorded in accident year 2012 primarily related to higher than expected loss emergence in catastrophe losses.

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International

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

Periods ended September 30	Three Months		Nine Months	
(In millions)	2015	2014	2015	2014
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Medical Professional Liability	$(8)	$(3)	$(8)	$(2)
Other Professional Liability	(11)	1	(16)	(14)
Liability	(5)	(3)	(12)	(9)
Property & Marine	(5)	(11)	(19)	(10)
Other	(5)	(1)	9	(7)
Commutations	—	—	—	10
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(34)	$(17)	$(46)	$(32)

Three Months

2015

Favorable development in medical professional liability was due to better than expected loss emergence on accident years 2011 to 2013.

Favorable development in other professional liability was due to better than expected large loss emergence in accident years 2011 and prior.

Favorable development in liability was due to better than expected large loss emergence in accident years 2012 and prior.

Favorable development in property and marine was due to better than expected individual large loss emergence and favorable settlements on large claims in accident years 2013 and 2014.

2014

Favorable development for property and marine coverages was primarily related to better than expected severity in accident year 2013.

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Nine Months

2015

Favorable development in medical professional liability was due to better than expected loss emergence on accident years 2011 to 2013.

Favorable development in other professional liability was due to better than expected large loss emergence in accident years 2011 and prior.

Favorable development in liability was due to better than expected large loss emergence in accident years 2012 and prior.

Favorable development in property and marine was due to better than expected individual large loss emergence and favorable settlements on large claims in accident years 2013 and 2014.

Unfavorable development in other is due to higher than expected large losses in financial institutions and political risk, primarily in accident year 2014.

2014

Favorable development for other professional liability was primarily related to lower than expected severity in accident years 2011 and prior.

Favorable development for property and marine coverages was primarily related to better than expected severity in accident year 2013.

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.

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Asbestos and Environmental Pollution (A&EP) Reserves

In 2010, Continental Casualty Company (CCC) together with several of the Company's insurance subsidiaries completed a transaction with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., under which substantially all of the Company's legacy A&EP liabilities were ceded to NICO (Loss Portfolio Transfer or LPT). At the transaction effective date, the Company ceded approximately $1.6 billion of net A&EP claim and allocated claim adjustment expense reserves to NICO under a retroactive reinsurance agreement with an aggregate limit of $4 billion. The $1.6 billion of claim and allocated claim adjustment expense reserves ceded to NICO was net of $1.2 billion of ceded claim and allocated claim adjustment expense reserves under existing third-party reinsurance contracts. The NICO aggregate reinsurance limit also covers credit risk on the existing third-party reinsurance related to these liabilities. The Company paid NICO a reinsurance premium of $2 billion and transferred to NICO billed third-party reinsurance receivables related to A&EP claims with a net book value of $215 million, resulting in total consideration of $2.2 billion.

Through December 31, 2013, the Company recorded $0.9 billion of additional amounts ceded under LPT. As a result, the cumulative amounts ceded under the Loss Portfolio Transfer exceeded the $2.2 billion consideration paid, resulting in a deferred retroactive reinsurance gain. This deferred gain is recognized in earnings in proportion to actual recoveries under the Loss Portfolio Transfer. Over the life of the contract, there is no economic impact as long as any additional losses are within the limit under the contract. In a period in which the estimate of ceded losses is changed, the required change to the deferred gain is cumulatively recognized in earnings as if the revised estimate was available at the inception of the LPT.

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

Periods ended September 30	Three Months		Nine Months	
(In millions)	2015	2014	2015	2014
Net A&EP adverse development before consideration of LPT	$—	$—	$150	$—
Provision for uncollectible third-party reinsurance on A&EP	—	—	—	—
Additional amounts ceded under LPT	—	—	150	—
Retroactive reinsurance benefit recognized	(4)	(4)	(75)	(9)
Pretax impact of deferred retroactive reinsurance benefit	$(4)	$(4)	$75	$(9)

The fourth quarter of 2014 A&EP reserve review was not completed in 2014 because additional information and analysis on inuring third-party reinsurance recoveries were needed to finalize the review. The review was finalized in the second quarter of 2015. Unfavorable development was due to a decrease in anticipated future reinsurance recoveries related to asbestos claims and higher than expected severity on pollution claims. The effect of the deferred retroactive reinsurance benefit is recorded in Insurance claims and policyholders' benefits in the Condensed Consolidated Statement of Operations.

As of September 30, 2015 and December 31, 2014, the cumulative amounts ceded under the LPT were $2.6 billion and $2.5 billion. The unrecognized deferred retroactive reinsurance benefit was $251 million and $176 million as of September 30, 2015 and December 31, 2014.

NICO established a collateral trust account as security for its obligations to the Company. The fair value of the collateral trust account was $2.8 billion and $3.4 billion as of September 30, 2015 and December 31, 2014. In addition, Berkshire Hathaway Inc. guaranteed the payment obligations of NICO up to the full aggregate reinsurance limit as well as certain of NICO's performance obligations under the trust agreement. NICO is responsible for claims handling and billing and collection from third-party reinsurers related to the Company's A&EP claims.

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Note F. 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 G. Benefit Plans

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

Periods ended September 30	Three Months		Nine Months	
(In millions)	2015	2014	2015	2014
Pension cost (benefit)				
Service cost	$—	$3	$4	$7
Interest cost on projected benefit obligation	29	33	85	99
Expected return on plan assets	(44)	(48)	(131)	(144)
Amortization of net actuarial loss	7	6	26	19
Net periodic pension cost (benefit)	$(8)	$(6)	$(16)	$(19)
Postretirement cost (benefit)				
Interest cost on projected benefit obligation	$—	$—	$—	$1
Amortization of prior service credit	(1)	—	(2)	(9)
Amortization of net actuarial loss	—	—	1	—
Curtailment gain	—	—	—	(86)
Net periodic postretirement cost (benefit)	$(1)	$—	$(1)	$(94)

In the second quarter of 2015, the Company eliminated future benefit accruals associated with the CNA Retirement Plan (Plan) effective June 30, 2015. Employees who were continuing to accrue under this Plan up until that date are entitled to an accrued benefit payable based on their eligible compensation and accrued service through June 30, 2015, in accordance with the terms of the Plan. Starting with the first pay period after July 1, 2015, affected employees began receiving enhanced employer contributions in the CNA 401(k) Plus Plan similar to employees who elected to cease accruals effective December 31, 1999. Employees who elected to cease accruals effective December 31, 1999 are not affected by this curtailment. This curtailment resulted in a $55 million decrease in the Plan benefit obligation liability and a reduction of the unrecognized actuarial losses included in AOCI. In connection with the curtailment, the Company remeasured the plan benefit obligation which resulted in an increase in the discount rate used to determine the benefit obligation from 3.85% to 4.00%.

In the second quarter of 2014, the Company eliminated certain postretirement medical benefits associated with the CNA Health and Group Benefits Program. This change was a negative plan amendment that resulted in an $86 million curtailment gain which was 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%.

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Note H. 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, as of September 30, 2015, the maximum potential future lease payments and other related costs that the Company could be required to pay under this guarantee, in excess of amounts already recorded, were approximately $28 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

As of September 30, 2015 and December 31, 2014, the Company had recorded liabilities of $5 million related to guarantee and indemnification agreements. Management believes that it is not likely that any future indemnity claims will be significantly greater than the amounts recorded.

In the course of selling business entities and assets to third parties, the Company agreed to guarantee the performance of certain obligations of a previously owned subsidiary and 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 guarantee and indemnification agreements in effect for sales of business entities, assets and third-party loans may include provisions that survive indefinitely. As of September 30, 2015, the aggregate amount related to quantifiable guarantees was $375 million and the aggregate amount related to indemnification agreements was $260 million. Should the Company be required to make payments under the guarantee, it would have the right to seek reimbursement in certain cases from an affiliate of the previously owned subsidiary.

In addition, the Company has agreed to provide indemnification to third-party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of September 30, 2015, 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.

In the normal course of business, the Company also provided guarantees, if the primary obligor fails to perform, to holders of structured settlement annuities provided by a previously owned subsidiary, which are estimated to mature through 2120. The potential amount of future payments the Company could be required to pay under these guarantees was approximately $2.0 billion as of September 30, 2015. The Company does not believe a payable is likely under these guarantees, as the Company is the beneficiary of a trust that must be maintained at a level that approximates the discounted reserves for these annuities.

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

The following tables present the changes in Accumulated other comprehensive income (loss) by component.

(In millions)	Net unrealized gains (losses) on investments with OTTI losses	Net unrealized gains (losses) on other investments	Pension and postretirement benefits	Cumulative foreign currency translation adjustment	Total
Balance as of July 1, 2015	$31	$689	$(585)	$8	$143
Other comprehensive income (loss) before reclassifications	2	(67)	—	(53)	(118)
Amounts reclassified from Accumulated other comprehensive income (loss) after tax (expense) benefit of $-, $17, $2, $- and $19	—	(31)	(4)	—	(35)
Other comprehensive income (loss) after tax (expense) benefit of $(1), $21, $(2), $- and $18	2	(36)	4	(53)	(83)
Balance as of September 30, 2015	$33	$653	$(581)	$(45)	$60

(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 as of July 1, 2014	$35	$1,182	$37	$(476)	$184	$962
Other comprehensive income (loss) before reclassifications	1	(59)	(3)	(2)	(73)	(136)
Amounts reclassified from Accumulated other comprehensive income (loss) after tax (expense) benefit of $-, $(12), $(23), $2, $- and $(33)	—	24	34	(5)	—	53
Other comprehensive income (loss) after tax (expense) benefit of $(1), $64, $25, $(1), $- and $87	1	(83)	(37)	3	(73)	(189)
Balance as of September 30, 2014	$36	$1,099	$—	$(473)	$111	$773

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(In millions)	Net unrealized gains (losses) on investments with OTTI losses	Net unrealized gains (losses) on other investments	Pension and postretirement benefits	Cumulative foreign currency translation adjustment	Total
Balance as of January 1, 2015	$36	$942	$(633)	$55	$400
Other comprehensive income (loss) before reclassifications	(3)	(318)	36	(100)	(385)
Amounts reclassified from Accumulated other comprehensive income (loss) after tax (expense) benefit of $-, $22, $9, $- and $31	—	(29)	(16)	—	(45)
Other comprehensive income (loss) after tax (expense) benefit of $1, $140, $(28), $- and $113	(3)	(289)	52	(100)	(340)
Balance as of September 30, 2015	$33	$653	$(581)	$(45)	$60

(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 as of January 1, 2014	$26	$692	$—	$(426)	$150	$442
Transfer to net assets held for sale	(5)	(17)	22	—	—	—
Other comprehensive income (loss) before reclassifications	15	462	12	(2)	(39)	448
Amounts reclassified from Accumulated other comprehensive income (loss) after tax (expense) benefit of $-, $(20), $(23), $(25), $- and $(68)	—	38	34	45	—	117
Other comprehensive income (loss) after tax (expense) benefit of $(8), $(209), $15, $26, $- and $(176)	15	424	(22)	(47)	(39)	331
Balance as of September 30, 2014	$36	$1,099	$—	$(473)	$111	$773

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 J. Business Segments

The Company's core property and casualty commercial insurance operations are aggregated and reported in three business segments: Specialty, Commercial and International. The Company's non-core operations are managed and reported 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 to the Consolidated Financial Statements within CNAF's Annual Report on Form 10-K for the year ended December 31, 2014. 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 (loss), 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 (losses) because net realized investment gains (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.

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

Three months ended September 30, 2015 (In millions)	Specialty	Commercial	International	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Operating revenues							
Net earned premiums	$ 706	$ 705	$ 203	$ 137	$ —	$ —	$ 1,751
Net investment income	76	82	13	182	1	—	354
Other revenues	86	9	1	(1)	4	(2)	97
Total operating revenues	868	796	217	318	5	(2)	2,202
Claims, Benefits and Expenses							
Net incurred claims and benefits	307	427	106	361	(3)	—	1,198
Policyholders’ dividends	1	1	—	—	—	—	2
Amortization of deferred acquisition costs	150	118	45	6	—	—	319
Other insurance related expenses	67	128	33	35	—	—	263
Other expenses	73	10	9	1	47	(2)	138
Total claims, benefits and expenses	598	684	193	403	44	(2)	1,920
Operating income (loss) before income tax	270	112	24	(85)	(39)	—	282
Income tax (expense) benefit on operating income (loss)	(91)	(37)	(15)	55	16	—	(72)
Net operating income (loss)	179	75	9	(30)	(23)	—	210
Net realized investment gains (losses)	(22)	(29)	(1)	2	1	—	(49)
Income tax (expense) benefit on net realized investment gains (losses)	8	8	1	—	—	—	17
Net realized investment gains (losses), after tax	(14)	(21)	—	2	1	—	(32)
Net income (loss) from continuing operations	$ 165	$ 54	$ 9	$ (28)	$ (22)	$ —	$ 178

Three months ended September 30, 2014 (In millions)	Specialty	Commercial	International	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Operating revenues							
Net earned premiums	$ 725	$ 721	$ 225	$ 139	$ —	$ —	$ 1,810
Net investment income	126	157	15	177	5	—	480
Other revenues	76	10	—	(3)	3	(2)	84
Total operating revenues	927	888	240	313	8	(2)	2,374
Claims, Benefits and Expenses							
Net incurred claims and benefits	367	549	134	319	(18)	—	1,351
Policyholders’ dividends	2	1	—	—	—	—	3
Amortization of deferred acquisition costs	151	122	52	7	—	—	332
Other insurance related expenses	65	125	37	33	—	—	260
Other expenses	65	10	8	36	55	(2)	172
Total claims, benefits and expenses	650	807	231	395	37	(2)	2,118
Operating income (loss) before income tax	277	81	9	(82)	(29)	—	256
Income tax (expense) benefit on operating income (loss)	(93)	(29)	(4)	40	12	—	(74)
Net operating income (loss)	184	52	5	(42)	(17)	—	182
Net realized investment gains (losses)	3	2	1	30	1	—	37
Income tax (expense) benefit on net realized investment gains (losses)	(1)	3	(2)	(9)	(1)		