CNA FINANCIAL CORP
Form 10-Q
July 30, 2013

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 June 30, 2013
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number 1-5823

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

Delaware (State or other jurisdiction of incorporation or organization)	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 July 26, 2013
Common Stock, Par value $2.50	269,698,289

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

Periods ended June 30	Three Months		Six Months	
(In millions, except per share data)	2013	2012	2013	2012
Revenues				
Net earned premiums	$1,800	$1,668	$3,564	$3,317
Net investment income	578	470	1,211	1,118
Net realized investment gains (losses):				
Other-than-temporary impairment losses	(16)	(12)	(34)	(27)
Portion of other-than-temporary impairments recognized in Other comprehensive income (loss)	—	(11)	—	(23)
Net other-than-temporary impairment losses recognized in earnings	(16)	(23)	(34)	(50)
Other net realized investment gains	2	45	48	108
Net realized investment gains (losses)	(14)	22	14	58
Other revenues	129	86	207	154
Total revenues	2,493	2,246	4,996	4,647
Claims, Benefits and Expenses				
Insurance claims and policyholders’ benefits	1,521	1,348	2,950	2,729
Amortization of deferred acquisition costs	335	309	663	604
Other operating expenses	320	316	661	635
Interest	41	43	83	85
Total claims, benefits and expenses	2,217	2,016	4,357	4,053
Income before income tax	276	230	639	594
Income tax expense	(82)	(64)	(195)	(178)
Net income	$194	$166	$444	$416
Basic earnings per share	$0.72	$0.62	$1.65	$1.55
Diluted earnings per share	$0.72	$0.62	$1.64	$1.54
Dividends per share	$0.20	$0.15	$0.40	$0.30
Weighted Average Outstanding Common Stock and Common Stock Equivalents				
Basic	269.7	269.4	269.6	269.4
Diluted	270.1	269.8	270.0	269.7

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

CNA Financial Corporation

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

Periods ended June 30	Three Months		Six Months	
(In millions)	2013	2012	2013	2012
Other Comprehensive Income (Loss), Net of Tax				
Changes in:				
Net unrealized gains (losses) on investments with other-than-temporary impairments	$(8)	$(3)	$6	$37
Net unrealized gains (losses) on other investments	(585)	120	(647)	337
Net unrealized gains (losses) on investments	(593)	117	(641)	374
Foreign currency translation adjustment	(13)	(17)	(74)	4
Pension and postretirement benefits	5	3	10	9
Other comprehensive income (loss), net of tax	(601)	103	(705)	387
Net income	194	166	444	416
Total comprehensive income (loss)	$(407)	$269	$(261)	$803

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

CNA Financial Corporation
Condensed Consolidated Balance Sheets (Unaudited)

(In millions, except share data)	June 30, 2013	December 31, 2012
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of $38,928 and $38,170)	$41,431	$42,633
Equity securities at fair value (cost of $185 and $228)	199	249
Limited partnership investments	2,665	2,462
Other invested assets	36	59
Mortgage loans	437	401
Short term investments	1,531	1,832
Total investments	46,299	47,636
Cash	121	156
Reinsurance receivables (less allowance for uncollectible receivables of $71 and $73)	5,970	6,158
Insurance receivables (less allowance for uncollectible receivables of $94 and $101)	2,133	1,882
Accrued investment income	446	434
Deferred acquisition costs	650	598
Deferred income taxes	315	93
Property and equipment at cost (less accumulated depreciation of $379 and $404)	327	326
Goodwill	152	154
Other assets (includes $0 and $4 due from Loews Corporation)	907	773
Separate account business	247	312
Total assets	$57,567	$58,522
Liabilities		
Insurance reserves:		
Claim and claim adjustment expenses	$24,339	$24,763
Unearned premiums	3,869	3,610
Future policy benefits	10,787	11,475
Policyholders’ funds	133	157
Short term debt	13	13
Long term debt	2,558	2,557
Other liabilities (includes $65 and $0 due to Loews Corporation)	3,677	3,321
Separate account business	247	312
Total liabilities	45,623	46,208
Commitments and contingencies (Notes C, G and J)		
Stockholders' Equity		
Common stock ($2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; 269,697,889 and 269,399,390 shares outstanding)	683	683
Additional paid-in capital	2,140	2,146
Retained earnings	9,110	8,774
Accumulated other comprehensive income	126	831
Treasury stock (3,342,354 and 3,640,853 shares), at cost	(91)	(99)
Notes receivable for the issuance of common stock	(24)	(21)
Total stockholders’ equity	11,944	12,314
Total liabilities and stockholders' equity	$57,567	$58,522

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

CNA Financial Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)
Six months ended June 30

(In millions)	2013	2012
Cash Flows from Operating Activities		
Net income	$444	$416
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Loss on disposal of property and equipment	—	1
Deferred income tax expense	122	81
Trading portfolio activity	(7)	(44)
Net realized investment gains	(14)	(58)
Equity method investees	(151)	(8)
Amortization of investments	(14)	(33)
Depreciation and amortization	58	39
Changes in:		
Receivables, net	(83)	70
Accrued investment income	(12)	(10)
Deferred acquisition costs	(43)	(17)
Insurance reserves	198	121
Other assets	(69)	43
Other liabilities	134	12
Other, net	6	5
Total adjustments	125	202
Net cash flows provided by operating activities	$569	$618
Cash Flows from Investing Activities		
Dispositions:		
Fixed maturity securities - sales	$3,143	$3,303
Fixed maturity securities - maturities, calls and redemptions	1,820	1,566
Equity securities	60	61
Limited partnerships	77	64
Mortgage loans	18	5
Purchases:		
Fixed maturity securities	(5,656)	(5,169)
Equity securities	(33)	(27)
Limited partnerships	(103)	(53)
Mortgage loans	(54)	(109)
Change in other investments	—	2
Change in short term investments	293	(123)
Purchases of property and equipment	(42)	(42)
Other, net	6	12
Net cash flows used by investing activities	$(471)	$(510)

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

Six months ended June 30		
(In millions)	2013	2012
Cash Flows from Financing Activities		
Dividends paid to common stockholders	$(108)	$(81)
Stock options exercised	1	1
Other, net	(20)	(3)
Net cash flows used by financing activities	$(127)	$(83)
Effect of foreign exchange rate changes on cash	$(6)	$—
Net change in cash	$(35)	$25
Cash, beginning of year	156	75
Cash, end of period	$121	$100

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)	2013	2012
Common Stock		
Balance, beginning of period	$683	$683
Balance, end of period	683	683
Additional Paid-in Capital		
Balance, beginning of period	2,146	2,141
Stock-based compensation	(6)	—
Balance, end of period	2,140	2,141
Retained Earnings		
Balance, beginning of period	8,774	8,308
Dividends paid to common stockholders	(108)	(81)
Net income	444	416
Balance, end of period	9,110	8,643
Accumulated Other Comprehensive Income		
Balance, beginning of period	831	480
Other comprehensive income (loss)	(705)	387
Balance, end of period	126	867
Treasury Stock		
Balance, beginning of period	(99)	(102)
Stock-based compensation	8	3
Balance, end of period	(91)	(99)
Notes Receivable for the Issuance of Common Stock		
Balance, beginning of period	(21)	(22)
(Increase) decrease in notes receivable for the issuance of common stock	(3)	1
Balance, end of period	(24)	(21)
Total Stockholders' Equity	$11,944	$12,214

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

CNA Financial Corporation
Notes to Condensed Consolidated Financial Statements
Note A. General
Basis of Presentation
The Condensed Consolidated Financial Statements (Unaudited) include the accounts of CNA Financial Corporation (CNAF) and its subsidiaries. Collectively, CNAF and its subsidiaries are referred to as CNA or the Company. The Company acquired Hardy Underwriting Bermuda Limited and its subsidiaries on July 2, 2012. Loews Corporation (Loews) owned approximately 90% of the outstanding common stock of CNAF as of June 30, 2013.
The accompanying Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Certain financial information that is normally included in annual financial statements, including certain financial statement notes, prepared in accordance with GAAP, is not required for interim reporting purposes and has been condensed or omitted. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in CNAF's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2012, including the summary of significant accounting policies in Note A. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.
The interim financial data as of June 30, 2013 and for the three and six months ended June 30, 2013 and 2012 is unaudited. However, in the opinion of management, the interim data includes all adjustments, consisting of normal recurring accruals, necessary for a fair statement of the Company's results for the interim periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. Intercompany amounts have been eliminated.
Note B. Earnings Per Share
Earnings per share is based on the weighted average number of outstanding common shares. Basic earnings (loss) per share excludes the impact of dilutive securities and is computed by dividing Net income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.
For the three 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.
For the three and six months ended June 30, 2012, approximately 410 thousand and 368 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 622 thousand and 735 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.

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)	2013	2012	2013	2012
Fixed maturity securities	$498	$505	$997	$1,021
Short term investments	1	2	2	3
Limited partnership investments	79	(35)	210	95
Equity securities	3	2	6	6
Mortgage loans	6	5	11	8
Trading portfolio (a)	5	4	10	11
Other	—	2	1	3
Gross investment income	592	485	1,237	1,147
Investment expense	(14)	(15)	(26)	(29)
Net investment income	$578	$470	$1,211	$1,118

(a) There were no net unrealized gains (losses) related to changes in fair value of trading securities still held included in net investment income for the three or six months ended June 30, 2013 or 2012.

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)	2013	2012	2013	2012
Net realized investment gains (losses):				
Fixed maturity securities:				
Gross realized gains	$37	$49	$81	$118
Gross realized losses	(42)	(32)	(54)	(71)
Net realized investment gains (losses) on fixed maturity securities	(5)	17	27	47
Equity securities:				
Gross realized gains	5	2	7	5
Gross realized losses	(7)	(2)	(22)	(4)
Net realized investment gains (losses) on equity securities	(2)	—	(15)	1
Derivatives	(5)	1	(3)	—
Short term investments and other	(2)	4	5	10
Net realized investment gains (losses)	$(14)	$22	$14	$58

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	Three Months		Six Months	
(In millions)	2013	2012	2013	2012
Fixed maturity securities available-for-sale:				
Corporate and other bonds	$5	$6	$8	$16
Asset-backed:				
Residential mortgage-backed	3	15	3	29
Other asset-backed	1	—	1	—
Total asset-backed	4	15	4	29
U.S. Treasury and obligations of government-sponsored enterprises	—	—	—	1
Total fixed maturity securities available-for-sale	9	21	12	46
Equity securities available-for-sale:				
Common stock	2	2	2	4
Preferred stock	5	—	20	—
Total equity securities available-for-sale	7	2	22	4
Net OTTI losses recognized in earnings	$16	$23	$34	$50

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

Summary of Fixed Maturity and Equity Securities

June 30, 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	$20,079	$1,826	$147	$21,758	$—
States, municipalities and political subdivisions	10,098	814	173	10,739	—
Asset-backed:					
Residential mortgage-backed	5,031	153	88	5,096	(37)
Commercial mortgage-backed	1,941	95	27	2,009	(3)
Other asset-backed	933	16	2	947	—
Total asset-backed	7,905	264	117	8,052	(40)
U.S. Treasury and obligations of government-sponsored enterprises	167	9	—	176	—
Foreign government	528	17	1	544	—
Redeemable preferred stock	121	13	2	132	—
Total fixed maturity securities available-for-sale	38,898	2,943	440	41,401	$(40)
Total fixed maturity securities trading	30	—	—	30	
Equity securities available-for-sale:					
Common stock	47	10	—	57	
Preferred stock	138	4	—	142	
Total equity securities available-for-sale	185	14	—	199	
Total	$39,113	$2,957	$440	$41,630	

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

The net unrealized gains on investments included in the tables above are recorded as a component of Accumulated other comprehensive income (AOCI). When presented in AOCI, these amounts are net of tax and any required Shadow Adjustments. At June 30, 2013 and December 31, 2012, the net unrealized gains on investments included in AOCI were net of after-tax Shadow Adjustments of $883 million and $1,511 million. To the extent that unrealized gains on fixed income securities supporting certain products within the Life & Group Non-Core segment would result in a premium deficiency if realized, a related decrease in Deferred acquisition costs and/or increase in Insurance reserves are recorded, net of tax, as a reduction of net unrealized gains through Other comprehensive income (loss) (Shadow Adjustments).

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

Securities in a Gross Unrealized Loss Position

June 30, 2013 (In millions)	Less than 12 Months Estimated Fair Value	Less than 12 Months Gross Unrealized Losses	12 Months or Longer Estimated Fair Value	12 Months or Longer Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
Fixed maturity securities available-for-sale:						
Corporate and other bonds	$3,478	$143	$33	$4	$3,511	$147
States, municipalities and political subdivisions	2,075	130	119	43	2,194	173
Asset-backed:						
Residential mortgage-backed	1,462	33	321	55	1,783	88
Commercial mortgage-backed	593	23	79	4	672	27
Other asset-backed	235	2	—	—	235	2
Total asset-backed	2,290	58	400	59	2,690	117
Foreign government	65	1	—	—	65	1
Redeemable preferred stock	39	2	—	—	39	2
Total	$7,947	$334	$552	$106	$8,499	$440

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

The amount of pretax net realized losses on available-for-sale securities reclassified out of AOCI into earnings was $7 million for the three months ended June 30, 2013, and the amount of pretax net realized gains on available-for-sale securities reclassified out of AOCI into earnings was $12 million for the six months ended June 30, 2013. The amount of pretax net realized gains on available-for-sale securities reclassified out of AOCI into earnings was $15 million and $47 million for the three and six months ended June 30, 2012.

Based on current facts and circumstances, the Company believes the unrealized losses presented in the June 30, 2013 Securities in a Gross Unrealized Loss Position table above, are primarily attributable to broader economic conditions, changes in interest rates and credit spreads, market illiquidity and other market factors, but are not indicative of the ultimate collectibility of the current amortized cost of the securities. The investments with longer duration, primarily included within the states, municipalities and political subdivision asset category, were more significantly impacted by changes in market interest rates. The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at June 30, 2013.

The following table summarizes the activity for the three and six months ended June 30, 2013 and 2012 related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held at June 30, 2013 and 2012 for which a portion of an OTTI loss was recognized in Other comprehensive income (loss).

Periods ended June 30	Three Months		Six Months	
(In millions)	2013	2012	2013	2012
Beginning balance of credit losses on fixed maturity securities	$92	$100	$95	$92
Additional credit losses for securities for which an OTTI loss was previously recognized	1	10	1	21
Credit losses for securities for which an OTTI loss was not previously recognized	—	1	—	2
Reductions for securities sold during the period	(4)	(4)	(7)	(8)
Reductions for securities the Company intends to sell or more likely than not will be required to sell	—	(8)	—	(8)
Ending balance of credit losses on fixed maturity securities	$89	$99	$89	$99

Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at June 30, 2013 and December 31, 2012. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

Contractual Maturity

	June 30, 2013		December 31, 2012	
(In millions)	Cost or Amortized Cost	Estimated Fair Value	Cost or Amortized Cost	Estimated Fair Value
Due in one year or less	$2,105	$2,153	$1,648	$1,665
Due after one year through five years	11,450	12,078	13,603	14,442
Due after five years through ten years	10,613	10,981	8,726	9,555
Due after ten years	14,730	16,189	14,164	16,942
Total	$38,898	$41,401	$38,141	$42,604

Investment Commitments

As of June 30, 2013, the Company had committed approximately $372 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

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, 2013, the Company had commitments to purchase or fund additional amounts of $160 million and sell $150 million under the terms of such securities.

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 for the periods ended June 30, 2013 and December 31, 2012. The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and may not be representative of the potential for gain or loss on these instruments.

Derivative Financial Instruments

June 30, 2013	Contractual/	Estimated Fair Value	
(In millions)	Notional Amount	Asset	(Liability)
Without hedge designation			
Credit default swaps - purchased protection	$20	$—	$—
Currency forwards	41	—	—
Equity warrants	5	—	—
Total	$66	$—	$—

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

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. During the three and six months ended June 30, 2012, new derivative transactions entered into totaled $447 million and $779 million in notional value while derivative termination activity totaled $391 million and $712 million. This activity was primarily attributable to interest rate futures and forward commitments for mortgage-backed securities.

Note E. Fair Value

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

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

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

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

Prices may fall within Level 1, 2 or 3 depending upon the methodologies and inputs used to estimate fair value for each specific security. Prices are determined by a dedicated group who ultimately report to the Company's CFO. This group is responsible for valuation policies and procedures. In general the Company seeks to price securities using third-party pricing services. Securities not priced by pricing services are submitted to independent brokers for valuation and, if those are not available, internally developed pricing models are used to value assets using methodologies and inputs the Company believes market participants would use to value the assets. 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 independently validates detailed information regarding inputs and assumptions for individual securities and v) pricing validation, where prices received are compared to prices independently estimated by the Company.

Assets and Liabilities Measured at Fair Value

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

June 30, 2013 (In millions)	Level 1	Level 2	Level 3	Total Assets/(Liabilities) at Fair Value
Assets				
Fixed maturity securities:				
Corporate and other bonds	$30	$21,556	$202	$ 21,788
States, municipalities and political subdivisions	—	10,599	140	10,739
Asset-backed:				
Residential mortgage-backed	—	4,668	428	5,096
Commercial mortgage-backed	—	1,844	165	2,009
Other asset-backed	—	560	387	947
Total asset-backed	—	7,072	980	8,052
U.S. Treasury and obligations of government-sponsored enterprises	147	29	—	176
Foreign government	98	446	—	544
Redeemable preferred stock	49	58	25	132
Total fixed maturity securities	324	39,760	1,347	41,431
Equity securities	134	52	13	199
Other invested assets	—	36	—	36
Short term investments	1,057	423	—	1,480
Life settlement contracts, included in Other assets	—	—	91	91
Separate account business	6	239	2	247
Total assets	$1,521	$40,510	$1,453	$ 43,484
Liabilities				
Derivative financial instruments, included in Other liabilities	$—	$—	$—	$ —
Total liabilities	$—	$—	$—	$ —

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December 31, 2012 (In millions)	Level 1	Level 2	Level 3	Total Assets/(Liabilities) at Fair Value
Assets				
Fixed maturity securities:				
Corporate and other bonds	$6	$22,011	$219	$ 22,236
States, municipalities and political subdivisions	—	10,687	96	10,783
Asset-backed:				
Residential mortgage-backed	—	5,507	413	5,920
Commercial mortgage-backed	—	1,693	129	1,822
Other asset-backed	—	584	368	952
Total asset-backed	—	7,784	910	8,694
U.S. Treasury and obligations of government-sponsored enterprises	158	24	—	182
Foreign government	140	473	—	613
Redeemable preferred stock	40	59	26	125
Total fixed maturity securities	344	41,038	1,251	42,633
Equity securities	117	98	34	249
Other invested assets	—	58	1	59
Short term investments	987	799	6	1,792
Life settlement contracts, included in Other assets	—	—	100	100
Separate account business	4	306	2	312
Total assets	$1,452	$42,299	$1,394	$ 45,145
Liabilities				
Derivative financial instruments, included in Other liabilities	$—	$(2)	$(1)	$ (3)
Total liabilities	$—	$(2)	$(1)	$ (3)

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The tables below present a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended June 30, 2013 and 2012.

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) included 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	$ 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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Level 3 (In millions)	Balance at April 1, 2012	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 at June 30, 2012	Unrealized gains (losses) on Level 3 assets and liabilities held at June 30, 2012 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	$486	$ 3	$ 2	$ 68	$(27)	$ (13)	$ 9	$ (40)	$488	$ —
States, municipalities and political subdivisions	173	—	1	—	—	(85)	—	—	89	—
Asset-backed:										
Residential mortgage-backed	447	1	(18)	22	—	(9)	—	—	443	—
Commercial mortgage-backed	105	2	4	87	(12)	(4)	—	(16)	166	—
Other asset-backed	384	2	(1)	182	(99)	(34)	—	—	434	—
Total asset-backed	936	5	(15)	291	(111)	(47)	—	(16)	1,043	—
Redeemable preferred stock	53	—	—	—	(26)	—	—	—	27	—
Total fixed maturity securities	1,648	8	(12)	359	(164)	(145)	9	(56)	1,647	—
Equity securities	74	—	19	15	(15)	—	—	—	93	(1)
Other invested assets, including derivatives, net	10	—	—	—	—	—	—	—	10	—
Short term investments	—	—	—	4	—	—	—	—	4	—
Life settlement contracts	115	20	—	—	—	(19)	—	—	116	3
Separate account business	4	—	—	—	(1)	—	—	—	3	—
Total	$ 1,851	$ 28	$ 7	$ 378	$(180)	$ (164)	$ 9	$ (56)	$ 1,873	$ 2

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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, 2013 and 2012.

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) included 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)

Level 3 (In millions)	Balance at January 1, 2012	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 at June 30, 2012	Unrealized gains (losses) on Level 3 assets and liabilities held at June 30, 2012 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	$ 482	$ 6	$ 6	$ 147	$ (113)	$ (32)	$ 42	$ (50)	$ 488	$ —
States, municipalities and political subdivisions	171	—	3	—	—	(85)	—	—	89	—
Asset-backed:										
Residential mortgage-backed	452	2	(22)	60	—	(16)	—	(33)	443	—
Commercial mortgage-backed	59	2	8	129	(12)	(4)	—	(16)	166	—
Other asset-backed	343	6	3	358	(176)	(59)	—	(41)	434	—
Total asset-backed	854	10	(11)	547	(188)	(79)	—	(90)	1,043	—
Redeemable preferred stock	—	—	—	53	(26)	—	—	—	27	—
Total fixed maturity securities	1,507	16	(2)	747	(327)	(196)	42	(140)	1,647	—
Equity securities	67	—	16	26	(16)	—	—	—	93	(3)
Other invested assets, including derivatives, net	10	—	—	—	—	—	—	—	10	—
Short term investments	27	—	—	16	—	(39)	—	—	4	—
Life settlement contracts	117	23	—	—	—	(24)	—	—	116	3
Separate account business	23	—	—	—	(20)	—	—	—	3	—
Total	$ 1,751	$ 39	$ 14	$ 789	$ (363)	$ (259)	$ 42	$ (140)	$ 1,873	$ —

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

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

Securities shown in the Level 3 tables on the previous pages may be transferred in or out of Level 3 based on the availability of observable market information used to determine the fair value of the security. The availability of observable market information varies based on market conditions and trading volume and may cause securities to move in and out of Level 3 from reporting period to reporting period. There were no transfers between Level 1 and Level 2 during the three or six months ended June 30, 2013 or 2012. The Company's policy is to recognize transfers between levels at the beginning of quarterly reporting periods.

Valuation Methodologies and Inputs

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

Fixed Maturity Securities

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

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

Equity Securities

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

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Other Invested Assets

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

Short Term Investments

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

Life Settlement Contracts

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

Separate Account Business

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

Significant Unobservable Inputs

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

Assets (In millions)	Fair Value at June 30, 2013	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Fixed maturity securities	$106	Discounted cash flow	Expected call date	1.6 - 3.5 years (3.1 years)
			Credit spread	1.95% - 7.95% (2.67%)
	$83	Market approach	Private offering price	$36.32 - $113.76 ($101.70)
Equity securities	$13	Market approach	Private offering price	$33.73 - $4,017.00 per share ($936.89 per share)
Life settlement contracts	$91	Discounted cash flow	Discount rate risk premium	9%
			Mortality assumption	69% - 883% (209.2%)

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

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

Financial Assets and Liabilities Not Measured at Fair Value

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

June 30, 2013	Carrying	Estimated Fair Value			
(In millions)	Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Notes receivable for the issuance of common stock	$24	$—	$—	$24	$24
Mortgage loans	437	—	—	449	449
Financial liabilities					
Premium deposits and annuity contracts	$75	$—	$—	$76	$76
Short term debt	13	—	13	—	13
Long term debt	2,558	—	2,912	—	2,912

December 31, 2012	Carrying	Estimated Fair Value			
(In millions)	Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Notes receivable for the issuance of common stock	$21	$—	$—	$21	$21
Mortgage loans	401	—	—	418	418
Financial liabilities					
Premium deposits and annuity contracts	$100	$—	$—	$104	$104
Short term debt	13	—	13	—	13
Long term debt	2,557	—	3,016	—	3,016

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

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

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

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

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

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

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 $65 million and $104 million for the three and six months ended June 30, 2013. Catastrophe losses in 2013 related primarily to U.S. storms. The Company reported catastrophe losses, net of reinsurance, of $68 million and $96 million for the three and six months ended June 30, 2012.

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, 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)

Three months ended June 30, 2012

(In millions)	CNA Specialty	CNA Commercial	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(35)	$(13)	$(4)	$(52)
Pretax (favorable) unfavorable premium development	(5)	(19)	1	(23)
Total pretax (favorable) unfavorable net prior year development	$(40)	$(32)	$(3)	$(75)

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)

Six months ended June 30, 2012

(In millions)	CNA Specialty	CNA Commercial	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(41)	$(27)	$(2)	$(70)
Pretax (favorable) unfavorable premium development	(14)	(36)	2	(48)
Total pretax (favorable) unfavorable net prior year development	$(55)	$(63)	$—	$(118)

For the three and six months ended June 30, 2012, favorable premium development was recorded for CNA Commercial primarily due to premium adjustments on auditable policies arising from increased exposures.

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, 2013 and 2012.

Periods ended June 30	Three Months		Six Months	
(In millions)	2013	2012	2013	2012
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Medical Professional Liability	$(17)	$(9)	$(20)	$(15)
Other Professional Liability	(23)	(6)	(24)	(2)
Surety	1	—	2	1
Warranty	—	—	—	(1)
Other	(2)	(20)	(14)	(24)
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(41)	$(35)	$(56)	$(41)

Three Month Comparison

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 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.

2012

Favorable development for medical professional liability was primarily due to a decrease in incurred loss severity in accident years 2008 through 2010.

Other includes standard property and casualty coverages provided to CNA Specialty customers. Favorable development for other coverages was primarily due to favorable loss emergence in property and workers' compensation coverages in accident years 2005 and subsequent.

Six Month Comparison

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 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.

2012

Favorable development for medical professional liability was primarily due to a decrease in incurred loss severity in accident years 2008 through 2010 and reductions in the estimated frequency of large losses in accident years 2008 and prior.

Favorable development for other coverages was primarily due to favorable loss emergence in property and workers' compensation coverages in accident years 2005 and subsequent.

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, 2013 and 2012.

Periods ended June 30	Three Months		Six Months	
(In millions)	2013	2012	2013	2012
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Commercial Auto	$2	$2	$(3)	$2
General Liability	15	(13)	(6)	(5)
Workers' Compensation	45	8	70	(11)
Property and Other	(35)	(10)	(45)	(13)
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$27	$(13)	$16	$(27)

Three Month Comparison

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.

2012

Favorable development for general liability coverages was primarily related to favorable loss emergence in accident years 2005 and prior.

Favorable development for property and marine coverages was due to a favorable outcome on an individual claim in accident year 2005 and favorable loss emergence in non-catastrophe losses in accident year 2010.

Six Month Comparison

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.

2012

Overall, favorable development for workers' compensation reflects favorable experience in accident years 2001 and prior. Unfavorable development was recorded in accident year 2010 related to increased medical severity and in accident year 2011 related to favorable premium development.

Favorable development for property and marine coverages was due to a favorable outcome on an individual claim in accident year 2005 and favorable loss emergence in non-catastrophe losses in accident year 2010.

Hardy

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

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

Three and Six 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.

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	Three Months		Six Months	
(In millions)	2013	2012	2013	2012
Pension cost (benefit)				
Service cost	$3	$3	$6	$6
Interest cost on projected benefit obligation	30	33	60	67
Expected return on plan assets	(45)	(42)	(90)	(85)
Amortization of net actuarial (gain) loss	12	9	24	19
Net periodic pension cost (benefit)	$—	$3	$—	$7
Postretirement cost (benefit)				
Interest cost on projected benefit obligation	$1	$1	$1	$1
Amortization of prior service credit	(5)	(5)	(9)	(9)
Net periodic postretirement cost (benefit)	$(4)	$(4)	$(8)	$(8)

Note I. Other Intangible Assets

Other intangible assets are presented in the following table.

	June 30, 2013		December 31, 2012	
(In millions)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived intangible assets:				
Value of business acquired	$59	$57	$62	$43
Trade name	8	1	8	—
Distribution channel	12	1	13	—
Total finite-lived intangible assets	79	59	83	43
Indefinite-lived intangible assets	69		73	
Total other intangible assets	$148	$59	$156	$43

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. For the three and six months ended June 30, 2012, no amortization expense was recognized. The gross carrying amounts and accumulated amortization in the table above may change from period to period as a result of foreign currency translation. Estimated future amortization expense for intangible assets is $2 million for the remainder of 2013, $3 million in 2014, $1 million in 2015 and $2 million in years 2016, 2017 and 2018.

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, 2013 that the Company could be required to pay under this guarantee, in excess of amounts already recorded, were approximately $92 million. If the Company were required to assume the entire lease obligation, the Company would have the right to pursue reimbursement from the other shareholders and the right to all sublease revenues.

Guarantees

In the course of selling business entities and assets to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging from nine months following the applicable closing date to the expiration of the relevant statutes of limitation. As of June 30, 2013, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was $724 million.

In addition, the Company has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of June 30, 2013, the Company had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser's ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire or until the agreed upon contract terms expire.

As of June 30, 2013 and December 31, 2012, the Company had recorded liabilities of approximately $7 million related to indemnification agreements and management believes that it is not likely that any future indemnity claims will be significantly greater than the amounts recorded.

Note K. Business Segments

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

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

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

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

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

Three 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	$ 746	$ 840	$ 76	$ 138	$ —	$ —	$ 1,800
Net investment income	151	211	1	207	8	—	578
Other revenues	63	65	(1)	1	2	(1)	129
Total operating revenues	960	1,116	76	346	10	(1)	2,507
Claims, Benefits and Expenses							
Net incurred claims and benefits	452	644	41	380	(2)	—	1,515
Policyholders' dividends	1	2	—	3	—	—	6
Amortization of deferred acquisition costs	156	153	20	6	—	—	335
Other insurance related expenses	65	142	13	33	—	—	253
Other expenses	60	2	6	2	39	(1)	108
Total claims, benefits and expenses	734	943	80	424	37	(1)	2,217
Operating income (loss) before income tax	226	173	(4)	(78)	(27)	—	290
Income tax (expense) benefit on operating income (loss)	(78)	(61)	2	42	9	—	(86)
Net operating income (loss)	148	112	(2)	(36)	(18)	—	204
Net realized investment gains (losses), pre-tax	(6)	(12)	1	—	3	—	(14)
Income tax (expense) benefit on net realized investment gains (losses)	2	4	(1)	—	(1)	—	4
Net realized investment gains (losses)	(4)	(8)	—	—	2	—	(10)
Net income (loss)	$ 144	$ 104	$ (2)	$ (36)	$ (16)	$ —	$ 194

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Three months ended June 30, 2012 (In millions)	CNA Specialty	CNA Commercial	Hardy	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Operating revenues							
Net earned premiums	$ 719	$ 809		$ 139	$ 2	$ (1)	$ 1,668
Net investment income	112	151		201	6	—	470
Other revenues	57	11		16	2	—	86
Total operating revenues	888	971		356	10	(1)	2,224
Claims, Benefits and Expenses							
Net incurred claims and benefits	448	591		323	(20)	—	1,342
Policyholders’ dividends	1	3		2	—	—	6
Amortization of deferred acquisition costs	154	147		8	—	—	309
Other insurance related expenses	77	135		36	1	(1)	248
Other expenses	50	10		4	47	—	111
Total claims, benefits and expenses	730	886		373	28	(1)	2,016
Operating income (loss) before income tax	158	85		(17)	(18)	—	208
Income tax (expense) benefit on operating income (loss)	(52)	(28)		20	4	—	(56)
Net operating income (loss)	106	57		3	(14)	—	152
Net realized investment gains (losses), pre-tax	8	13		4	(3)	—	22
Income tax (expense) benefit on net realized investment gains (losses)	(2)	(5)		(1)	—	—	(8)
Net realized investment gains (losses)	6	8		3	(3)	—	14
Net income (loss)	$ 112	$ 65		$ 6	$ (17)	$ —	$ 166

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	411	16	—	1,211
Other revenues	123	75	—	5	5	(1)	207
Total operating revenues	1,913	2,213	142	695	21	(2)	4,982
Claims, Benefits and Expenses							
Net incurred claims and benefits	917	1,244	72	705	2	—	2,940
Policyholders' dividends	2	4	—	4	—	—	10
Amortization of deferred acquisition costs	306	302	41	14	—	—	663
Other insurance related expenses	136	285	29	66	—	(1)	515
Other expenses	114	11	13	7	85	(1)	229
Total claims, benefits and expenses	1,475	1,846	155	796	87	(2)	4,357
Operating income (loss) before income tax	438	367	(13)	(101)	(66)	—	625
Income tax (expense) benefit on operating income (loss)	(150)	(130)	3	65	22	—	(190)
Net operating income (loss)	288	237	(10)	(36)	(44)	—	435
Net realized investment gains (losses), pre-tax	(3)	(8)	2	14	9	—	14
Income tax (expense) benefit on net realized investment gains (losses)	1	3	(1)	(5)	(3)	—	(5)
Net realized investment gains (losses)	(2)	(5)	1	9	6	—	9
Net income (loss)	$ 286	$ 232	$ (9)	$ (27)	$ (38)	$ —	$ 444

June 30, 2013 (In millions)							
Reinsurance receivables	$ 698	$ 1,146	$ 235	$ 1,258	$ 2,704	$ —	$ 6,041
Insurance receivables	$ 786	$ 1,219	$ 208	$ 11	$ 3	$ —	$ 2,227
Deferred acquisition costs	$ 317	$ 277	$ 56	$ —	$ —	$ —	$ 650
Goodwill	$ 117	$ —	$ 35	$ —	$ —	$ —	$ 152
Insurance reserves							
Claim and claim adjustment expenses	$ 6,877	$ 10,973	$ 447	$ 3,031	$ 3,011	$ —	$ 24,339
Unearned premiums	1,787	1,682	265	136	—	(1)	3,869
Future policy benefits	—	—	—	10,787	—	—	10,787
Policyholders' funds	9	14	—	110	—	—	133

Six months ended June 30, 2012 (In millions)	CNA Specialty	CNA Commercial	Hardy	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Operating revenues							
Net earned premiums	$ 1,425	$ 1,612		$ 280	$ 1	$ (1)	$ 3,317
Net investment income	287	416		399	16	—	1,118
Other revenues	113	20		14	7	—	154
Total operating revenues	1,825	2,048		693	24	(1)	4,589
Claims, Benefits and Expenses							
Net incurred claims and benefits	916	1,158		659	(13)	—	2,720
Policyholders' dividends	(1)	6		4	—	—	9
Amortization of deferred acquisition costs	302	286		16	—	—	604
Other insurance related expenses	149	279		71	—	(1)	498
Other expenses	100	17		10	95	—	222
Total claims, benefits and expenses	1,466	1,746		760	82	(1)	4,053
Operating income (loss) before income tax	359	302		(67)	(58)	—	536
Income tax (expense) benefit on operating income (loss)	(121)	(106)		51	18	—	(158)
Net operating income (loss)	238	196		(16)	(40)	—	378
Net realized investment gains (losses), pre-tax	16	24		17	1	—	58
Income tax (expense) benefit on net realized investment gains (losses)	(4)	(9)		(6)	(1)	—	(20)
Net realized investment gains (losses)	12	15		11	—	—	38
Net income (loss)	$ 250	$ 211		$ (5)	$ (40)	$ —	$ 416
December 31, 2012 (In millions)							
Reinsurance receivables	$ 665	$ 1,155	$ 294	$ 1,273	$ 2,844	$ —	$ 6,231
Insurance receivables	$ 673	$ 1,116	$ 181	$ 9	$ 4	$ —	$ 1,983
Deferred acquisition costs	$ 300	$ 269	$ 29	$ —	$ —	$ —	$ 598
Goodwill	$ 117	$ —	$ 37	$ —	$ —	$ —	$ 154
Insurance reserves							
Claim and claim adjustment expenses	$ 6,748	$ 11,326	$ 521	$ 3,006	$ 3,162	$ —	$ 24,763
Unearned premiums	1,685	1,569	222	134	—	—	3,610
Future policy benefits	—	—	—	11,475	—	—	11,475
Policyholders' funds	8	15	—	134	—	—	157

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	Three Months		Six Months	
(In millions)	2013	2012	2013	2012
CNA Specialty				
International	$59	$53	$118	$110
Professional & Management Liability	687	645	1,387	1,339
Surety	123	121	239	240
Warranty & Alternative Risks	85	77	166	152
CNA Specialty revenues	954	896	1,910	1,841
CNA Commercial				
Commercial Insurance	827	736	1,653	1,571
International	90	90	183	181
Small Business	187	158	369	320
CNA Commercial revenues	1,104	984	2,205	2,072
Hardy revenues	77		144	
Life & Group Non-Core				
Health	287	287	585	578
Life & Annuity	58	57	119	117
Other	1	16	5	15
Life & Group Non-Core revenues	346	360	709	710
Corporate & Other Non-Core revenues	13	7	30	25
Eliminations	(1)	(1)	(2)	(1)
Total revenues	$2,493	$2,246	$4,996	$4,647

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

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

Changes in Accumulated Other Comprehensive Income (Loss)

(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

(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 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)
Pension and postretirement benefits	Other operating expenses

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

Overview

The following discussion highlights significant factors affecting the Company. References to “we,” “our,” “us” or like terms refer to the business of CNA. Based on 2011 statutory net written premiums, we are the seventh largest commercial insurance writer and the 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, 2012.

We utilize the net operating income financial measure to monitor our operations. Net operating income is calculated by excluding from net income (loss) the after-tax effects of 1) net realized investment gains or losses and 2) any cumulative effects of changes in accounting guidance. See further discussion regarding how we manage our business in Note K to the Condensed Consolidated Financial Statements included under Part I, Item 1. In the evaluation of the results of our CNA Specialty, CNA Commercial and Hardy segments, we utilize the loss ratio, the expense ratio, the dividend ratio and the combined ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of insurance underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of policyholders' dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios.

Changes in estimates of claim and allocated claim adjustment expense reserves and premium accruals, net of reinsurance, for prior years are defined as net prior year development within this MD&A. These changes can be favorable or unfavorable. Net prior year development does not include the impact of related acquisition expenses. Further information on our reserves is provided in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

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	Three Months		Six Months	
(In millions)	2013	2012	2013	2012
Operating Revenues				
Net earned premiums	$1,800	$1,668	$3,564	$3,317
Net investment income	578	470	1,211	1,118
Other revenues	129	86	207	154
Total operating revenues	2,507	2,224	4,982	4,589
Claims, Benefits and Expenses				
Net incurred claims and benefits	1,515	1,342	2,940	2,720
Policyholders' dividends	6	6	10	9
Amortization of deferred acquisition costs	335	309	663	604
Other insurance related expenses	253	248	515	498
Other expenses	108	111	229	222
Total claims, benefits and expenses	2,217	2,016	4,357	4,053
Operating income before income tax	290	208	625	536
Income tax expense on operating income	(86)	(56)	(190)	(158)
Net operating income	204	152	435	378
Net realized investment gains (losses), pre-tax	(14)	22	14	58
Income tax (expense) benefit on net realized investment gains (losses)	4	(8)	(5)	(20)
Net realized investment gains (losses)	(10)	14	9	38
Net income	$194	$166	$444	$416

Three Month Comparison

Net income increased $28 million for the three months ended June 30, 2013 as compared with the same period in 2012. This increase was due to higher net operating income, partially offset by decreased net realized investment results.

Net realized investment results decreased $24 million for the three months ended June 30, 2013 as compared with the same period in 2012. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income increased $52 million for the three months ended June 30, 2013 as compared with the same period in 2012. Net operating income increased $95 million for our core segments, CNA Specialty, CNA Commercial and Hardy. This increase was primarily due to higher net investment income, improved current accident year underwriting results and a settlement benefit of $30 million after-tax related to workers' compensation residual market litigation. Catastrophe losses were $43 million after-tax for the three months ended June 30, 2013 as compared with $44 million after-tax for the same period in 2012. These favorable items were partially offset by lower favorable net prior year development. Net operating results decreased $43 million for our non-core segments, primarily related to results in our Life & Group Non-Core segment. See the Life & Group Non-Core and Corporate & Other Non-Core sections of this MD&A for further discussion of our non-core results.

Favorable net prior year development of $13 million and $75 million was recorded for the three months ended June 30, 2013 and 2012 related to our CNA Specialty, CNA Commercial, Hardy and Corporate & Other Non-Core segments. Further information on net prior year development for the three months ended June 30, 2013 and 2012 is included in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Net earned premiums increased $132 million for the three months ended June 30, 2013 as compared with the same period in 2012, driven by the acquisition of Hardy in July of 2012, a $31 million increase in CNA Commercial and a $27 million increase in CNA Specialty. See the Segment Results section of this MD&A for further discussion.

Six Month Comparison

Net income increased $28 million for the six months ended June 30, 2013 as compared with the same period in 2012. This increase was due to higher net operating income, partially offset by decreased net realized investment gains.

Net realized investment gains decreased $29 million for the six months ended June 30, 2013 as compared with the same period in 2012.

Net operating income increased $57 million for the six months ended June 30, 2013 as compared with the same period in 2012. Net operating income increased $81 million for our core segments, CNA Specialty, CNA Commercial and Hardy. This increase was primarily due to improved current accident year underwriting results, higher net investment income and the legal settlement benefit referenced above. These favorable items were partially offset by lower favorable net prior year development. Catastrophe losses were $68 million after-tax for the six months ended June 30, 2013 as compared with $62 million after-tax for the same period in 2012. Net operating results decreased $24 million for our non-core segments, primarily related to results in our Life & Group Non-Core segment. See the Life & Group Non-Core and Corporate & Other Non-Core sections of this MD&A for further discussion of our non-core results.

Favorable net prior year development of $52 million and $118 million was recorded for the six months ended June 30, 2013 and 2012 related to our CNA Specialty, CNA Commercial, Hardy and Corporate & Other Non-Core segments. Further information on net prior year development for the six months ended June 30, 2013 and 2012 is included in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Net earned premiums increased $247 million for the six months ended June 30, 2013 as compared with the same period in 2012, driven by the acquisition of Hardy in July of 2012, a $65 million increase in CNA Commercial and a $44 million increase in CNA Specialty. See the Segment Results section of this MD&A for further discussion.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

- Insurance Reserves
- Reinsurance and Insurance Receivables
- Valuation of Investments and Impairment of Securities
- Long Term Care Products and Payout Annuity Contracts
- Pension and Postretirement Benefit Obligations
- Income Taxes

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

SEGMENT RESULTS

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

CNA Specialty

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

Results of Operations

Periods ended June 30	Three Months		Six Months	
(In millions, except ratios)	2013	2012	2013	2012
Net written premiums	$756	$718	$1,559	$1,483
Net earned premiums	746	719	1,469	1,425
Net investment income	151	112	321	287
Net operating income	148	106	288	238
Net realized investment gains (losses)	(4)	6	(2)	12
Net income	144	112	286	250
Ratios				
Loss and loss adjustment expense	60.6 %	62.2 %	62.4 %	64.2 %
Expense	29.7	32.1	30.1	31.7
Dividend	0.1	0.1	0.2	(0.1)
Combined	90.4 %	94.4 %	92.7 %	95.8 %

Three Month Comparison

Net written premiums for CNA Specialty increased $38 million for the three months ended June 30, 2013 as compared with the same period in 2012, driven by increased rate. Net earned premiums increased $27 million as compared with the same period in 2012, consistent with increased net written premiums over recent quarters.

CNA Specialty's average rate increased 7% for the three months ended June 30, 2013, as compared with an increase of 5% for the three months ended June 30, 2012, for the policies that renewed in each period. Retention of 84% and 86% was achieved in each period.

Net income increased $32 million for the three months ended June 30, 2013 as compared with the same period in 2012. This increase was due to higher net operating income, partially offset by decreased net realized investment results.

Net operating income increased $42 million for the three months ended June 30, 2013 as compared with the same period in 2012. This increase was primarily due to higher net investment income and improved underwriting results.

The combined ratio improved 4.0 points for the three months ended June 30, 2013 as compared with the same period in 2012. The loss ratio improved 1.6 points, due primarily to an improved current accident year loss ratio. The expense ratio improved 2.4 points, primarily due to the impact of lower expenses and a higher net earned premium base.

Favorable net prior year development of $46 million and $40 million was recorded for the three months ended June 30, 2013 and 2012. Further information on CNA Specialty's net prior year development for the three months ended June 30, 2013 and 2012 is included in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Six Month Comparison

Net written premiums for CNA Specialty increased $76 million for the six months ended June 30, 2013 as compared with the same period in 2012, primarily driven by increased rate. Net earned premiums increased $44 million as compared with the same period in 2012, consistent with increased net written premiums over recent quarters.

CNA Specialty's average rate increased 7% for the six months ended June 30, 2013, as compared with an increase of 4% for the six months ended June 30, 2012, for the policies that renewed in each period. Retention of 85% and 86% was achieved in each period.

Net income increased $36 million for the six months ended June 30, 2013 as compared with the same period in 2012, due to the same reasons discussed above in the three month comparison.

Net operating income increased $50 million for the six months ended June 30, 2013 as compared with the same period in 2012. This increase was primarily due to improved underwriting results and higher net investment income.

The combined ratio improved 3.1 points for the six months ended June 30, 2013 as compared with the same period in 2012. The loss ratio improved 1.8 points, due to an improved current accident year loss ratio and higher favorable net prior year development. The expense ratio improved 1.6 points, primarily due to the impact of lower expenses and a higher net earned premium base.

Favorable net prior year development of $69 million and $55 million was recorded for the six months ended June 30, 2013 and 2012. Further information on CNA Specialty's net prior year development for the six months ended June 30, 2013 and 2012 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, 2013 and December 31, 2012 for CNA Specialty.

Gross and Net Carried Claim and Claim Adjustment Expense Reserves

(In millions)	June 30, 2013	December 31, 2012
Gross Case Reserves	$2,320	$2,292
Gross IBNR Reserves	4,557	4,456
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$6,877	$6,748
Net Case Reserves	$2,035	$2,008
Net IBNR Reserves	4,156	4,104
Total Net Carried Claim and Claim Adjustment Expense Reserves	$6,191	$6,112

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)	2013	2012	2013	2012
Net written premiums	$826	$889	$1,744	$1,732
Net earned premiums	840	809	1,677	1,612
Net investment income	211	151	461	416
Net operating income	112	57	237	196
Net realized investment gains (losses)	(8)	8	(5)	15
Net income	104	65	232	211
Ratios				
Loss and loss adjustment expense	76.5 %	72.9 %	74.1 %	71.8 %
Expense	34.9	34.8	35.0	35.0
Dividend	0.3	0.4	0.2	0.4
Combined	111.7 %	108.1 %	109.3 %	107.2 %

Three Month Comparison

Net written premiums for CNA Commercial decreased $63 million for the three months ended June 30, 2013 as compared with the same period in 2012, primarily driven by underwriting actions taken in certain business classes, including a transfer of $44 million of in-force business. These underwriting actions were partially offset by continued strong rate increases. Net earned premiums increased $31 million for the three months ended June 30, 2013 as compared with the same period in 2012, consistent with increased net written premiums over recent quarters.

CNA Commercial's average rate increased 9% for the three months ended June 30, 2013, as compared with an increase of 7% for the three months ended June 30, 2012, for the policies that renewed in each period. Retention of 75% and 77% was achieved in each period.

Net income increased $39 million for the three months ended June 30, 2013 as compared with the same period in 2012. This increase was due to higher net operating income, partially offset by decreased net realized investment results.

Net operating income increased $55 million for the three months ended June 30, 2013 as compared with the same period in 2012. This increase was primarily due to higher net investment income, a settlement benefit of $30 million after-tax and improved current accident year underwriting results. These favorable items were partially offset by unfavorable net prior year development in 2013, which includes $23 million after-tax recorded for workers' compensation in response to legislation related to the New York Fund for Reopened Cases, as discussed further in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1. The settlement benefit related to workers' compensation residual market litigation, and is reflected within Other revenues and is not included in the combined ratio.

The combined ratio increased 3.6 points for the three months ended June 30, 2013 as compared with the same period in 2012. The loss ratio increased 3.6 points, primarily due to unfavorable net prior year development, partially offset by an improved current accident year loss ratio. Catastrophe losses were $59 million, or 7.1 points of the loss ratio, for the three months ended June 30, 2013, as compared with $65 million, or 8.0 points of the loss ratio, for the three months ended June 30, 2012.

Unfavorable net prior year development of $22 million was recorded for the three months ended June 30, 2013, compared to favorable net prior year development of $32 million for the three months ended June 30, 2012. Further information on CNA Commercial net prior year development for the three months ended June 30, 2013 and 2012 is included in Note F to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Six Month Comparison

Net written premiums for CNA Commercial increased $12 million for the six months ended June 30, 2013 as compared with the same period in 2012, primarily driven by strong rate increases, partially offset by underwriting actions taken in certain business classes. Net earned premiums increased $65 million for the six months ended June 30, 2013 as compared with the same period in 2012, consistent with increased net written premiums over recent quarters.

CNA Commercial's average rate increased 9% for the six months ended June 30, 2013, as compared with an increase of 6% for the six months ended June 30, 2012, for the policies that renewed in each period. Retention of 76% and 77% was achieved in each period.

Net income increased $21 million for the six months ended June 30, 2013 as compared with the same period in 2012, due to the same reasons discussed above in the three month comparison.

Net operating income increased $41 million for the six months ended June 30, 2013 as compared with the same period in 2012. This increase was primarily due to the same reasons discussed above in the three month comparison.

The combined ratio increased 2.1 points for the six months ended June 30, 2013 as compared with the same period in 2012. The loss ratio increased 2.3 points, primarily due to unfavorable net prior year development, partially offset by an improved current accident year loss ratio. Catastrophe losses were $97 million, or 5.8 points of the loss ratio, for the six months ended June 30, 2013, as compared with $91 million, or 5.6 points of the loss ratio, for the six months ended June 30, 2012.

Unfavorable net prior year development of $1 million was recorded for the six months ended June 30, 2013, compared to favorable net prior year development of $63 million for the six months ended June 30, 2012. Further information on CNA Commercial net prior year development for the six months ended June 30, 2013 and 2012 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, 2013 and December 31, 2012 for CNA Commercial.

Gross and Net Carried Claim and Claim Adjustment Expense Reserves

(In millions)	June 30, 2013	December 31, 2012