SIMMONS HAROLD C
Form 4
June 02, 2011

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
SIMMONS HAROLD C

(Last) (First) (Middle)

5430 LBJ FREEWAY, SUITE 1700

(Street)

DALLAS, TX 75240

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
VALHI INC /DE/ [VHI]

3. Date of Earliest Transaction (Month/Day/Year)
06/02/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director __X__ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chairman of the Board

6. Individual or Joint/Group Filing(Check Applicable Line)
___ Form filed by One Reporting Person
_X_ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock, $0.01 par value per share	06/02/2011		P (1)	V	1,199	A	$ 43.8	0	I	by Kronos (2)
Common Stock, $0.01 par value per share								104,813,316	I	by VHC (3)
Common Stock,								1,442,428	I	by TFMC (4)

$0.01 par value per share			
Common Stock, $0.01 par value per share	380,216	D	
Common Stock, $0.01 par value per share	366,847	I	by CDCT (5)
Common Stock, $0.01 par value per share	219,796	I	by Spouse (6)
Common Stock, $0.01 par value per share	25,915	I	by Contran (7)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
SIMMONS HAROLD C 5430 LBJ FREEWAY, SUITE 1700 DALLAS, TX 75240	X	X	Chairman of the Board	
CONTRAN CORP 5430 LBJ FREEWAY, SUITE 1700 DALLAS, TX 75240		X		
VALHI HOLDING CO 5430 LBJ FREEWAY, SUITE 1700 DALLAS, TX 75240		X		
DIXIE RICE AGRICULTURE CORP INC 5430 LBJ FREEWAY, SUITE 1700 DALLAS, TX 75240		X		

Signatures

A. Andrew R. Louis, Attorney-in-fact, for Harold C. Simmons	06/02/2011
**Signature of Reporting Person	Date
A. Andrew R. Louis, Secretary, for Contran Corporation	06/02/2011
**Signature of Reporting Person	Date
A. Andrew R. Louis, Secretary, for Valhi Holding Company	06/02/2011
**Signature of Reporting Person	Date
A. Andrew R. Louis, Secretary, for Dixie Rice Agricultural Corporation, Inc.	06/02/2011
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) See the Description of this Transaction attached as Exhibit 99.1 to this statment.

(2) Beneficially owned by Kronos Worldwide, Inc. See the Additional Information filed as Exhibit 99.2 to this statement for a description of the relationships to the persons joining in this filing.

(3) Directly held by Valhi Holding Company. See the Additional Information filed as Exhibit 99.2 to this statement for a description of the relationships to the persons joining in this filing.

(4) Directly held by TIMET Finance Management Company. See the Additional Information filed as Exhibit 99.2 to this statement for a description of the relationships to the persons joining in this filing.

(5) Directly held by the Contran Amended and Restated Deferred Compensation Trust. See the Additional Information filed as Exhibit 99.2 to this statement for a description of the relationships to the persons joining in this filing.

(6) Directly held by the reporting person's wife. Mr. Simmons disclaims beneficial ownership of any shares of the issuer's common stock that his wife holds. See the Additional Information filed as Exhibit 99.2 to this statement for a description of the relationships to the persons joining in this filing.

(7)

Directly held by Contran Corporation. See the Additional Information filed as Exhibit 99.2 to this statement for a description of the relationships to the persons joining in this filing.

Remarks:
Exhibit Index
Exhibit 99.1 Description of Transaction
Exhibit 99.2 Additional Information

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. adding-left:2px;padding-top:2px;padding-bottom:2px;">
10,882

Book value per common share
$
47.39

$
46.91

$
45.71

$
42.66

$
40.44

16

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

Index to this MD&A

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

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OVERVIEW

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

Segment Realignment

As a result of realigned management responsibilities, we revised our property and casualty segments in the fourth quarter of 2014 to Specialty, Commercial, and International. Results of CNA Europe and Canada that were previously included in the Specialty and Commercial segments are now included in the International segment. There was no change in our Life & Group Non-Core and Corporate & Other Non-Core segments. Prior period segment disclosures have been conformed to the current year presentation. The new segment structure reflects the way management currently reviews results and makes business decisions.

Sale of Continental Assurance Company (CAC)

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

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

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CONSOLIDATED OPERATIONS

Results of Operations

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

Years ended December 31 (In millions)	2014	2013	2012
Operating Revenues			
Net earned premiums	$7,212	$7,271	$6,881
Net investment income	2,067	2,282	2,110
Other revenues	356	359	319
Total operating revenues	9,635	9,912	9,310
Claims, Benefits and Expenses			
Net incurred claims and benefits	5,577	5,793	5,716
Policyholders' dividends	14	13	13
Amortization of deferred acquisition costs	1,317	1,362	1,274
Other insurance related expenses	1,029	1,013	1,047
Other expenses	548	475	455
Total claims, benefits and expenses	8,485	8,656	8,505
Operating income from continuing operations before income tax	1,150	1,256	805
Income tax expense on operating income	(301)	(355)	(220)
Net operating income from continuing operations	849	901	585
Net realized investment gains, pretax	57	20	54
Income tax expense on net realized investment gains	(18)	(6)	(19)
Net realized investment gains	39	14	35
Income from continuing operations	888	915	620
(Loss) income from discontinued operations, net of tax	(197)	22	8
Net income	$691	$937	$628

2014 Compared with 2013

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

Net realized investment gains increased $25 million in 2014 as compared with 2013. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income from continuing operations decreased $52 million in 2014 as compared with 2013. Net operating income decreased $175 million for our core segments. Specialty and Commercial decreased while International produced consistent results. This decrease was primarily due to lower net investment income and lower favorable net prior year development, partially offset by improved current accident year underwriting results. Catastrophe losses were $102 million after-tax in 2014 as compared to $111 million after-tax in 2013. Net operating results improved $123 million for our non-core segments, primarily driven by results in our Corporate & Other Non-Core segment related to retroactive reinsurance accounting in 2013. 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 $53 million and $160 million was recorded in 2014 and 2013 related to our Specialty, Commercial, International and Corporate & Other Non-Core segments. Further information on net prior year development is in Note F to the Consolidated Financial Statements included under Item 8.

Net earned premiums decreased $59 million in 2014 as compared with 2013 driven by a $98 million decrease in Commercial, partially offset by a $43 million increase in Specialty. See the Segment Results section of this MD&A for further discussion.

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2013 Compared with 2012

Net income from continuing operations increased $295 million in 2013 as compared with 2012, driven by higher net operating income.

Net realized investment gains decreased $21 million in 2013 as compared with 2012. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income from continuing operations increased $316 million in 2013 as compared with 2012. Net operating income increased $427 million for our core segments, Specialty, Commercial and International. This increase was primarily due to improved current accident year underwriting results and higher net investment income. These favorable items were partially offset by lower favorable net prior year development. Catastrophe losses were $111 million after-tax in 2013 as compared to catastrophe impacts of $270 million after-tax in 2012. Net operating results decreased $111 million for our non-core segments, primarily driven by results in our Corporate & Other Non-Core segment related to retroactive reinsurance accounting. See the Life & Group Non-Core and Corporate & Other Non-Core sections of this MD&A for further discussion of our non-core results.

Aggregate favorable net prior year development of $160 million and $251 million was recorded in 2013 and 2012 related to our Specialty, Commercial, International and Corporate & Other Non-Core segments. Further information on net prior year development is in Note F to the Consolidated Financial Statements included under Item 8.

Net earned premiums increased $390 million in 2013 as compared with 2012 driven by the acquisition of Hardy in July of 2012, an $86 million increase in Specialty and a $36 million increase in Commercial. See the Segment Results section of this MD&A for further discussion.

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CRITICAL ACCOUNTING ESTIMATES

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

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

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

Insurance Reserves

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

Reinsurance and Insurance Receivables

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

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

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

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Valuation of Investments and Impairment of Securities

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

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

Long Term Care Policies

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

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

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

Pension and Postretirement Benefit Obligations

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

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

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

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

Explanation of Responses:

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Income Taxes

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

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RESERVES - ESTIMATES AND UNCERTAINTIES

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

Property and Casualty Claim and Claim Adjustment Expense Reserves

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

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

- uncertainty in future medical costs in workers' compensation. In particular, medical cost inflation could be greater than expected due to new treatments, drugs and devices; increased healthcare utilization; and/or the future costs of healthcare facilities. In addition, the relationship between workers' compensation and government and private healthcare providers could change, potentially shifting costs to workers' compensation;
- increased uncertainty related to medical professional liability, medical products liability and workers’ compensation coverages resulting from the Patient Protection and Affordable Care Act;
- significant class action litigation; and
- mass tort claims, including bodily injury claims related to benzene, lead, noise induced hearing loss, injuries from various medical products including pharmaceuticals and various other chemical and radiation exposure claims.

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

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

To mitigate the risks posed by our exposure to A&EP claims and claim adjustment expenses, as further discussed in Note F to the Consolidated Financial Statements, on August 31, 2010 we completed a transaction with NICO under which substantially all of our legacy A&EP liabilities were ceded to NICO effective January 1, 2010.

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The Loss Portfolio Transfer is a retroactive reinsurance contract. During the fourth quarter of 2013 the cumulative amounts ceded under the Loss Portfolio Transfer exceeded the consideration paid, resulting in a $189 million deferred retroactive reinsurance gain. This deferred benefit will be recognized in earnings in future periods in proportion to actual recoveries under the Loss Portfolio Transfer. Over the life of the contract, there is no economic impact as long as any additional losses are within the limit under the contract. The fourth quarter 2014 A&EP reserve review was not completed. Additional information and analysis on inuring third-party reinsurance recoveries are needed to finalize the review. We expect to complete the review in the first half of 2015.

Establishing Property & Casualty Reserve Estimates

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

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

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

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

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

The paid development method estimates ultimate losses by reviewing paid loss patterns and applying them to accident or policy years with further expected changes in paid loss. Selection of the paid loss pattern may require consideration of several factors including the impact of inflation on claims costs, the rate at which claims professionals make claim payments and close claims, the impact of judicial decisions, the impact of underwriting changes, the impact of large claim payments and other factors. Claim cost inflation itself may require evaluation of changes in the cost of repairing or replacing property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors. Because this method assumes that

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losses are paid at a consistent rate, changes in any of these factors can impact the results. Since the method does not rely on case reserves, it is not directly influenced by changes in the adequacy of case reserves.

For many products, paid loss data for recent periods may be too immature or erratic for accurate predictions. This situation often exists for long-tail exposures. In addition, changes in the factors described above may result in inconsistent payment patterns. Finally, estimating the paid loss pattern subsequent to the most mature point available in the data analyzed often involves considerable uncertainty for long-tail products such as workers' compensation.

The incurred development method is similar to the paid development method, but it uses case incurred losses instead of paid losses. Since the method uses more data (case reserves in addition to paid losses) than the paid development method, the incurred development patterns may be less variable than paid patterns. However, selection of the incurred loss pattern typically requires analysis of all of the same factors described above. In addition, the inclusion of case reserves can lead to distortions if changes in case reserving practices have taken place, and the use of case incurred losses may not eliminate the issues associated with estimating the incurred loss pattern subsequent to the most mature point available.

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

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

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

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

Stochastic modeling produces a range of possible outcomes based on varying assumptions related to the particular product being modeled. For some products, we use models which rely on historical development patterns at an aggregate level, while other products are modeled using individual claim variability assumptions supplied by the claims department. In either case, multiple simulations are run and the results are analyzed to produce a range of

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Explanation of Responses:

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potential outcomes. The results will typically include a mean and percentiles of the possible reserve distribution which aid in the selection of a point estimate.

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

For other more complex products where the above methods may not produce reliable indications, we use additional methods tailored to the characteristics of the specific situation.

Periodic Reserve Reviews

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

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

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

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

Our recorded reserves are management's best estimate. In order to provide an indication of the variability associated with our net reserves, the following discussion provides a sensitivity analysis that shows the approximate estimated impact of variations in significant factors affecting our reserve estimates for particular types of business. These significant factors are the ones that we believe could most likely materially affect the reserves. This discussion covers the major types of business for which we believe a material deviation to our reserves is reasonably possible. There can be no assurance that actual experience will be consistent with the current assumptions or with the variation

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indicated by the discussion. In addition, there can be no assurance that other factors and assumptions will not have a material impact on our reserves.

We believe a material deviation to our net reserves is reasonably possible for professional liability and management liability products and Surety products. This includes professional liability coverages provided to various professional firms, including architects, real estate agents, small and mid-sized accounting firms, law firms and other professional firms. This also includes directors and officers (D&O), employment practices, fiduciary, fidelity and surety coverages, as well as insurance products serving the healthcare delivery system. The most significant factor affecting reserve estimates for these products is claim severity. Claim severity is driven by the cost of medical care, the cost of wage replacement, legal fees, judicial decisions, legislative changes and other factors. Underwriting and claim handling decisions such as the classes of business written and individual claim settlement decisions can also impact claim severity. If the estimated claim severity increases by 9%, we estimate that the net reserves would increase by approximately $500 million. If the estimated claim severity decreases by 3%, we estimate that net reserves would decrease by approximately $150 million. Our net reserves for these products were approximately $5.4 billion at December 31, 2014.

The two types of business for which we believe a significant deviation to our net reserves is reasonably possible are workers' compensation and general liability.

For workers' compensation, since many years will pass from the time the business is written until all claim payments have been made, claim cost inflation on claim payments is the most significant factor affecting workers' compensation reserve estimates. Workers' compensation claim cost inflation is driven by the cost of medical care, the cost of wage replacement, expected claimant lifetimes, judicial decisions, legislative changes and other factors. If estimated workers' compensation claim cost inflation increases by 100 basis points for the entire period over which claim payments will be made, we estimate that our net reserves would increase by approximately $400 million. If estimated workers' compensation claim cost inflation decreases by 100 basis points for the entire period over which claim payments will be made, we estimate that our net reserves would decrease by approximately $400 million. Our net reserves for workers' compensation were approximately $4.5 billion at December 31, 2014.

For general liability, the most significant factor affecting reserve estimates is claim severity. Claim severity is driven by changes in the cost of repairing or replacing property, the cost of medical care, the cost of wage replacement, judicial decisions, legislation and other factors. If the estimated claim severity for general liability increases by 6%, we estimate that our net reserves would increase by approximately $200 million. If the estimated claim severity for general liability decreases by 3%, we estimate that our net reserves would decrease by approximately $100 million. Our net reserves for general liability were approximately $3.7 billion at December 31, 2014.

Given the factors described above, it is not possible to quantify precisely the ultimate exposure represented by claims and related litigation. As a result, we regularly review the adequacy of our reserves and reassess our reserve estimates as historical loss experience develops, additional claims are reported and settled and additional information becomes available in subsequent periods.

In light of the many uncertainties associated with establishing the estimates and making the assumptions necessary to establish reserve levels, we review our reserve estimates on a regular basis and make adjustments in the period that the need for such adjustments is determined. These reviews have resulted in our identification of information and trends that have caused us to change our reserves in prior periods and could lead to the identification of a need for additional material increases or decreases in claim and claim adjustment expense reserves, which could materially affect our results of operations, equity, business and insurer financial strength and corporate debt ratings positively or negatively. See the Ratings section of this MD&A for further information regarding our financial strength and corporate debt ratings.

Life & Group Non-Core Policyholder Reserves

We calculate and maintain reserves for policyholder benefits for our Life & Group Non-Core segment, which primarily includes long term care, based on actuarial assumptions. The determination of these reserves is fundamental to our financial results and requires management to make assumptions about expected investment and policyholder experience over the life of the contract. Since many of these contracts may be in force for several decades, these assumptions are subject to significant estimation risk.

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The actuarial assumptions represent management's best estimates at the date the contract was issued plus a margin for adverse deviation. Actuarial assumptions include estimates of morbidity, persistency, discount rates and expenses over the life of the contracts. Under GAAP, these assumptions are locked in throughout the life of the contract unless a premium deficiency develops. The impact of differences between the actuarial assumptions and actual experience is reflected in results of operations each period.

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

Our long term care reserves consist of an active life reserve, a liability for due and unpaid claims, claims in the course of settlement and incurred but not reported claims. The active life reserve represents the present value of expected future benefit payments and expenses less expected future premium.

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

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

As noted above, we annually assess whether there is a premium deficiency by performing a GPV. The level of margin in our long term care reserves at December 31, 2014 was approximately $100 million, a decrease of approximately $250 million from prior year-end. A summary of the changes in the margin is presented in the table below:

Long Term Care Active Life Reserve Margin (In millions)

December 31, 2013 Margin	$350	
Investment Assumptions:		
Updated Rate & Spread Assumptions	(640	)
Updated Investment Strategy/Assumptions	325	
Operating Assumptions:		
Roll Forward and Updated Liability Assumptions	(195	)
Anticipated Premium Rate Increases	260	
December 31, 2014 Margin	$100	

The decrease in the margin from the updated investment rate and spread assumptions reflects the impact of the decline in interest rates in 2014 and the expectation of a lower interest rate environment on the current year GPV. This margin reduction was somewhat offset by actual investment yields achieved during the year and planned changes in our investment strategy.

The decline in the margin related to liability assumptions was driven by morbidity. This was more than offset by an increase in planned rate increase actions.

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The table below summarizes the estimated pretax impact on our results of operations from various hypothetical revisions to our assumptions. We have assumed that revisions to such assumptions would occur in each policy type, age and duration within each policy group and would occur absent any changes, mitigating or otherwise, in the other assumptions. Although such hypothetical revisions are not currently required or anticipated, we believe they could occur based on past variances in experience and our expectations of the ranges of future experience that could reasonably occur.

Any required increase in the net GAAP reserves resulting from the hypothetical revisions in the table below would first reduce the margin in our carried reserves before it would affect results of operations. The estimated impacts to results of operations in the table below are after consideration of the existing margin.

Sensitivity Analysis
December 31, 2014

Hypothetical revisions (In millions)	Estimated reduction to pretax income
Discount rate:	
50 basis point decline	$640
100 basis point decline	$1,477
Morbidity:	
5% increase	$474
15% increase	$1,625
Persistency:	
5% decline in voluntary lapse and mortality	$246
10% decline in voluntary lapse and mortality	$616
Premium Rate:	
25% decrease in anticipated future rate increases	$68
50% decrease in anticipated future rate increases	$241

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

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SEGMENT RESULTS

The following discusses the results of continuing operations for our business segments.
Our core property and casualty commercial insurance operations are aggregated and reported in three business segments: Specialty, Commercial and International. Specialty provides a broad array of professional, financial and specialty property and casualty products and services, through a network of independent agents, brokers and managing general underwriters. Commercial includes property and casualty coverages sold to small businesses and middle market entities and organizations primarily through an independent agency distribution system. Commercial also includes commercial insurance and risk management products sold to large corporations primarily through insurance brokers. International provides management and professional liability coverages as well as a broad range of other property and casualty insurance products and services abroad through a network of brokers, independent agencies and managing general underwriters, as well as the Lloyd’s marketplace.
Our non-core operations are managed in two segments: Life & Group Non-Core and Corporate & Other Non-Core. Life & Group Non-Core primarily includes the results of our long term care businesses that are in run-off. Corporate & Other Non-Core primarily includes certain corporate expenses, including interest on corporate debt, and the results of certain property and casualty business in run-off, including CNA Re and A&EP. Intersegment eliminations are also included in this segment.
Our property and casualty field structure consists of 49 underwriting locations across the United States. In addition, there are five centralized processing operations which handle policy processing, billing and collection activities and also act as call centers to optimize service. The claims structure consists of two regional claim centers designed to efficiently handle the high volume of low severity claims including property damage, liability and workers' compensation medical only claims, and 16 principal claim offices handling the more complex claims. We also have a presence in Canada, Europe and Singapore consisting of 15 branch operations and access to business placed at Lloyd's of London through Hardy Syndicate 382.
We utilize the net operating income financial measure to monitor our operations. Net operating income (loss) is calculated by excluding from net income (loss) the after-tax effects of 1) net realized investment gains or losses, 2) income or loss from discontinued operations and 3) any cumulative effects of changes in accounting guidance. See further discussion regarding how we manage our business in Note P to the Consolidated Financial Statements included under Item 8. In evaluating the results of our Specialty, Commercial and International segments, we utilize the loss ratio, the expense ratio, the dividend ratio and the combined ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of insurance underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of policyholders' dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios. 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 Consolidated Financial Statements included under Item 8.

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Specialty

Business Overview

Specialty provides management and professional liability and other coverages through property and casualty products and services using a network of brokers, independent agencies and managing general underwriters. Specialty provides solutions for managing the risks of its clients, including architects, lawyers, accountants, health care organizations and professionals, financial intermediaries and public and private companies. Product offerings also include surety and fidelity bonds and warranty services.

Specialty includes the following business groups:

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

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

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

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The following table details the results of operations for Specialty.

Results of Operations			
Years ended December 31			
(In millions, except ratios)	2014	2013	2012
Net written premiums	$2,839	$2,880	$2,733
Net earned premiums	2,838	2,795	2,709
Net investment income	560	629	564
Net operating income	634	668	462
Net realized investment gains (losses)	10	(3)	10
Net income	644	665	472
Ratios			
Loss and loss adjustment expense	57.3 %	57.0 %	64.4 %
Expense	30.1	29.9	31.5
Dividend	0.2	0.2	0.1
Combined	87.6 %	87.1 %	96.0 %

2014 Compared with 2013

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

Specialty's average rate increased 3% for 2014, as compared with an increase of 6% in 2013 for the policies that renewed in each period. Retention of 86% and 85% was achieved in each period.

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

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

The combined ratio increased 0.5 points in 2014 as compared with 2013. The loss ratio increased 0.3 points due to less favorable net prior year development, partially offset by improvement in the current accident year loss ratio. Favorable net prior year development of $149 million and $210 million was recorded in 2014 and 2013. Further information on net prior year development is in Note F to the Consolidated Financial Statements included under Item 8.

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

Gross and Net Carried Claim and Claim Adjustment Expense Reserves

December 31 (In millions)	2014	2013
Gross Case Reserves	$2,136	$2,001
Gross IBNR Reserves	4,093	4,057
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$6,229	$6,058
Net Case Reserves	$1,929	$1,793
Net IBNR Reserves	3,726	3,789
Total Net Carried Claim and Claim Adjustment Expense Reserves	$5,655	$5,582

2013 Compared with 2012

Net written premiums for Specialty increased $147 million in 2013 as compared with 2012, primarily driven by increased rate. Net earned premiums increased $86 million in 2013 as compared with 2012, consistent with increases in net written premiums.

Specialty's average rate increased 6% for 2013, as compared with an increase of 5% in 2012 for the policies that renewed during those periods. Retention of 85% and 86% was achieved in each period.

Net income increased $193 million in 2013 as compared with 2012. This increase was driven by higher net operating income.

Net operating income increased $206 million in 2013 as compared with 2012, primarily due to improved underwriting results and higher net investment income.

The combined ratio improved 8.9 points in 2013 as compared with 2012. The loss ratio improved 7.4 points, primarily due to an improved current accident year loss ratio and higher favorable net prior year development. The expense ratio improved 1.6 points in 2013 as compared with 2012, primarily due to the impact of lower underwriting expenses and a higher net earned premium base.

Favorable net prior year development of $210 million and $107 million was recorded in 2013 and 2012. Further information on net prior year development is in Note F to the Consolidated Financial Statements included under Item 8.

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Commercial

Business Overview

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

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

The following table details the results of operations for Commercial.

Results of Operations

Years ended December 31 (In millions, except ratios)	2014	2013	2012
Net written premiums	$2,817	$2,960	$3,033
Net earned premiums	2,906	3,004	2,968
Net investment income	723	899	826
Net operating income	307	448	245
Net realized investment gains (losses)	10	(10)	23
Net income	317	438	268
Ratios			
Loss and loss adjustment expense	75.3 %	75.2 %	79.9 %
Expense	33.7	34.0	35.4
Dividend	0.3	0.3	0.4
Combined	109.3 %	109.5 %	115.7 %

2014 Compared with 2013

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

Commercial's average rate increased 5% in 2014, as compared with an increase of 9% in 2013 for the policies that renewed in each period. Retention of 74% was achieved in each respective period.

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

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

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

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

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

Gross and Net Carried Claim and Claim Adjustment Expense Reserves

December 31 (In millions)	2014	2013
Gross Case Reserves	$5,298	$5,570
Gross IBNR Reserves	4,216	4,521
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$9,514	$10,091
Net Case Reserves	$4,947	$5,119
Net IBNR Reserves	3,906	3,992
Total Net Carried Claim and Claim Adjustment Expense Reserves	$8,853	$9,111

2013 Compared with 2012

Net written premiums for Commercial decreased $73 million in 2013 as compared with 2012 primarily driven by underwriting actions taken in certain business classes. These underwriting actions were partially offset by continued strong rate increases. Net earned premiums increased $36 million in 2013 as compared with 2012 consistent with increased net written premiums in earlier periods.

Commercial's average rate increased 9% in 2013, as compared with an increase of 7% in 2012 for the policies that renewed in each period. Retention of 74% and 77% was achieved in each period.

Net income increased $170 million in 2013 as compared with 2012. This increase was due to higher net operating income, partially offset by decreased net realized investment results.

Net operating income increased $203 million in 2013 as compared with 2012. This increase was due to improved current accident year underwriting results, higher net investment income and a legal settlement benefit of $31 million after-tax. These favorable items were partially offset by the unfavorable impact of net prior year development.

The combined ratio improved 6.2 points in 2013 as compared with 2012. The loss ratio improved 4.7 points, primarily due to decreased catastrophe losses and an improved current accident year non-catastrophe loss ratio, partially offset by the unfavorable impact of net prior year development. Catastrophe losses were $133 million, or 4.4 points of the loss ratio for 2013, as compared to $353 million, or 12.1 points of the loss ratio for 2012. The expense ratio improved 1.4 points in 2013 as compared with 2012, primarily due to decreased expenses including favorable changes in estimates of insurance assessment liabilities.

Unfavorable net prior year development of $114 million was recorded in 2013, compared to favorable net prior year development of $61 million for 2012. Further information on net prior year development is in Note F to the Consolidated Financial Statements included under Item 8.

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International

Business Overview

International provides property and casualty insurance and specialty coverages in Canada, the United Kingdom and Continental Europe as well as globally through its operations at Lloyd's.

International includes the following business groups:

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

CNA Europe provides a diverse range of specialty products as well as commercial insurance products primarily in the healthcare, financial services, property, technology and marine industries throughout Europe.

Hardy operates through Lloyd's Syndicate 382 underwriting primarily short-tail exposures in marine & aviation, non-marine property, property treaty reinsurance and specialty lines.

Third-party capital providers provided 25% of Syndicate 382's capital for the 2012 year of account and we provided all of the capital for years of account 2013 and 2014.

In the fourth quarter of 2013, Hardy commuted with a third-party capital provider that had a 15% share of the 2012 year of account and as a result, we increased our share to 90% of the capital for the 2012 year of account. The commutation resulted in a gain of $1 million and recognition of the 15% share of the 2012 year of account results in premiums, losses and expenses.

The results below reflect Hardy's share of Syndicate 382's results.

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The following table details the results of operations for International.

Results of Operations						
Years ended December 31						
(In millions, except ratios)	2014		2013		2012	
Net written premiums	$880		$959		$648	
Net earned premiums	913		916		647	
Net investment income	61		60		59	
Net operating income	69		69		51	
Net realized investment gains	—		3		6	
Net income	69		72		57	
Ratios						
Loss and loss adjustment expense	53.5	%	53.4	%	55.8	%
Expense	38.9		39.7		38.1	
Dividend	—		—		—	
Combined	92.4	%	93.1	%	93.9	%

2014 Compared with 2013

Net written premiums for International decreased $79 million in 2014 as compared with 2013, primarily due to the Hardy commutation noted above as well as the termination of a specialty product managing general underwriter relationship in Canada. The Hardy commutation increased 2013 net written premiums by $51 million and 2013 net earned premiums by $45 million. Net earned premiums decreased $3 million in 2014 as compared with 2013, consistent with decreases in net written premiums.

International's average rate decreased 1% in 2014, as compared with an increase of 1% in 2013 for the policies that renewed in each period. Retention of 74% and 79% was achieved in each period.

There was no change in net operating income in 2014 as compared with 2013. The effects of foreign currency exchange rates and unfavorable current accident year underwriting results were offset by the release of the allowance for uncollectible reinsurance related to commutations in the first quarter of 2014.

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

The expense ratio improved 0.8 points in 2014 as compared with 2013, primarily due to decreased acquisition expenses.

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

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

Gross and Net Carried Claim and Claim Adjustment Expense Reserves

December 31 (In millions)	2014	2013
Gross Case Reserves	$752	$803
Gross IBNR Reserves	689	772
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$1,441	$1,575
Net Case Reserves	$598	$629
Net IBNR Reserves	663	705
Total Net Carried Claim and Claim Adjustment Expense Reserves	$1,261	$1,334

2013 Compared with 2012

Net written premiums for International increased $311 million and net earned premiums increased $269 million in 2013 as compared with 2012. Results for 2012 reflect Hardy's results from the date of acquisition, July 2, 2012. Additionally, premium increases were primarily driven by Hardy providing all of the capital support for the 2013 year of account and the commutation noted above.

International's average rate increased 1% in 2013, as compared with an increase of 2% in 2012 for the policies that renewed in each period. Retention of 79% and 80% was achieved in each period.

Net income increased $15 million in 2013 as compared with 2012. This increase was driven by higher net operating income.

Net operating income increased $18 million in 2013 as compared with 2012, due to improved current accident year underwriting results.

The combined ratio improved 0.8 points in 2013 as compared with 2012. The loss ratio improved 2.4 points, primarily due to an improved current accident year loss ratio, partially offset by less favorable net prior year development. Catastrophe losses in 2013 were $14 million, or 1.5 points of the loss ratio. Catastrophe losses in 2012, primarily related to Storm Sandy, were $20 million, or 4.0 points of the loss ratio, including the impact of reinstatement premiums. The expense ratio increased 1.6 points in 2013 as compared with 2012, primarily due to increased expenses.

Favorable net prior year development of $59 million and $71 million was recorded in 2013 and 2012. Further information on net prior year development is in Note F to the Consolidated Financial Statements included under Item 8.

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Life & Group Non-Core

Business Overview

The Life & Group Non-Core segment primarily includes the results of our individual and group long term care businesses that are in run-off. Our group long term care business, while considered non-core, currently continues to accept new employees in existing groups.

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

Results of Operations

Years ended December 31 (In millions)	2014	2013	2012
Net earned premiums	$556	$559	$559
Net investment income	700	662	629
Net operating loss	(69)	(74)	(92)
Net realized investment gains (losses)	7	18	(6)
Net loss	(62)	(56)	(98)

2014 Compared with 2013

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

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

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

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The following table summarizes policyholder reserves for Life & Group Non-Core. Consistent with the Consolidated Balance Sheet presentation, the comparative period continues to reflect CAC liabilities.

Life & Group Non-Core Policyholder Reserves

December 31, 2014

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

December 31, 2013

(In millions)	Claim and claim adjustment expenses	Future policy benefits	Policyholders' funds	Separate account business	Total
Long term care	$1,889	$7,329	$—	$—	$9,218
Annuities, including structured settlements	613	1,990	—	—	2,603
Institutional markets	1	9	57	181	248
Other	37	4	—	—	41
Total	2,540	9,332	57	181	12,110
Shadow adjustments [1]	83	406	—	—	489
Ceded reserves	435	733	35	—	1,203
Total gross reserves	$3,058	$10,471	$92	$181	$13,802

(1) To the extent that unrealized gains on fixed income securities supporting long term care products and annuity contracts would result in a premium deficiency if those gains were realized, a related decrease in Deferred acquisition costs and/or increase in Insurance reserves are recorded, net of tax, as a reduction of net unrealized gains through Other comprehensive income (loss) (Shadow Adjustments). The Shadow adjustments presented above do not include $314 million and $342 million related to Deferred acquisition costs at December 31, 2014 and 2013.

2013 Compared with 2012

Net earned premiums for Life & Group Non-Core in 2013 were consistent with 2012. Net loss decreased $42 million in 2013 as compared with 2012. This decrease was due to higher net investment income, rate increase actions in 2013 and long term care claim reserve strengthening in 2012. These favorable impacts were partially offset by unfavorable morbidity in our long term care business.

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Corporate & Other Non-Core

Overview

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

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

Results of Operations

Years ended December 31 (In millions)	2014	2013	2012
Net investment income	$23	$32	$32
Net operating loss	(92)	(210)	(81)
Net realized investment gains (losses)	12	6	2
Net loss	(80)	(204)	(79)

2014 Compared with 2013

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

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

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

Gross and Net Carried Claim and Claim Adjustment Expense Reserves

December 31 (In millions)	2014	2013
Gross Case Reserves	$1,189	$1,140
Gross IBNR Reserves	1,715	2,167
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$2,904	$3,307
Net Case Reserves	$144	$283
Net IBNR Reserves	171	184
Total Net Carried Claim and Claim Adjustment Expense Reserves	$315	$467

2013 Compared with 2012

Net loss increased $125 million in 2013 as compared with 2012, primarily driven by the impact of the deferred gain under retroactive reinsurance accounting related to the Loss Portfolio Transfer, as discussed above.

Favorable net prior year development of $5 million and $12 million was recorded in 2013 and 2012.

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INVESTMENTS

Net Investment Income

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

Net Investment Income

Years ended December 31 (In millions)	2014	2013	2012
Fixed maturity securities:			
Taxable	$1,399	$1,510	$1,572
Tax-Exempt	404	317	274
Total fixed maturity securities	1,803	1,827	1,846
Limited partnership investments	263	451	251
Other, net of investment expense	1	4	13
Pretax net investment income	$2,067	$2,282	$2,110
After-tax net investment income	$1,473	$1,578	$1,453
Effective income yield for the fixed maturity securities portfolio, pretax	4.8 %	5.0 %	5.2 %
Effective income yield for the fixed maturity securities portfolio, after-tax	3.5 %	3.5 %	3.6 %

After-tax net investment income for the year ended December 31, 2014 decreased $105 million as compared with the same period in 2013. The decrease was primarily driven by limited partnerships, which produced a rate of return of 9.7% as compared with 18.3% in the prior year. This was partially offset by an increase in after-tax fixed maturity securities investment income due to additional investments in tax-exempt securities.

After-tax net investment income increased $125 million in 2013 as compared with 2012. The increase was driven by a significant increase in limited partnership investment income. Limited partnership results were positively affected by more favorable equity market returns.

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Net Realized Investment Gains (Losses)

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

Net Realized Investment Gains (Losses)

Years ended December 31 (In millions)	2014	2013	2012
Fixed maturity securities:			
Corporate and other bonds	$67	$42	$101
States, municipalities and political subdivisions	(7)	36	(6)
Asset-backed	(21)	(40)	(25)
U.S. Treasury and obligations of government-sponsored enterprises	—	—	3
Foreign government	2	4	4
Redeemable preferred stock	—	(1)	—
Total fixed maturity securities	41	41	77
Equity securities	1	(22)	(23)
Derivative securities	(1)	(9)	(2)
Short term investments and other	16	10	2
Net realized investment gains (losses), pretax	57	20	54
Income tax (expense) benefit on net realized investment gains (losses)	(18)	(6)	(19)
Net realized investment gains (losses)	$39	$14	$35

Net realized investment gains increased $25 million for 2014 as compared with 2013, driven by higher net realized investment gains on sales of securities. Net realized investment gains decreased $21 million for 2013 as compared with 2012, driven by lower net realized investment gains on sales of securities, partially offset by lower other-than-temporary impairment (OTTI) losses recognized in earnings. Further information on our realized gains and losses, including our OTTI losses and impairment decision process, is set forth in Notes A and B to the Consolidated Financial Statements included under Item 8.

Portfolio Quality

Our fixed maturity portfolio consists primarily of high quality bonds, 93% and 92% of which were rated as investment grade (rated BBB- or higher) at December 31, 2014 and 2013. The classification between investment grade and non-investment grade is based on a ratings methodology that takes into account ratings from S&P and Moody's, in that order of preference. If a security is not rated by these agencies, we formulate an internal rating. At December 31, 2014 and 2013, approximately 99% of the fixed maturity portfolio was rated by S&P or Moody's, or was issued or guaranteed by the U.S. Government, Government agencies or Government-sponsored enterprises.

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

Fixed Maturity Ratings

December 31 (In millions)	2014	%		2013	%	
U.S. Government, Government agencies and Government-sponsored enterprises	$3,882	10	%	$3,683	9	%
AAA rated	2,850	7		2,776	7	
AA and A rated	19,998	49		20,353	49	
BBB rated	11,093	27		11,171	27	
Non-investment grade	2,945	7		3,250	8	
Total	$40,768	100	%	$41,233	100	%

Non-investment grade fixed maturity securities, as presented in the table below, include securities rated below BBB- by bond rating agencies and other unrated securities that, according to our analysis, are below investment grade. Non-investment grade securities generally involve a greater degree of risk than investment grade securities. The amortized cost of our non-investment grade fixed maturity securities was $2,828 million and $3,097 million at December 31, 2014 and 2013. The following table summarizes the ratings of these securities at fair value.

Non-investment Grade

December 31 (In millions)	2014	%		2013	%	
BB	$1,264	43	%	$1,393	43	%
B	847	29		967	30	
CCC - C	616	21		649	20	
D	218	7		241	7	
Total	$2,945	100	%	$3,250	100	%

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

Gross Unrealized Losses by Ratings Distribution

December 31, 2014 (In millions)	Estimated Fair Value	%		Gross Unrealized Losses	%	
U.S. Government, Government agencies and Government-sponsored enterprises	$147	4	%	$3	3	%
AAA	330	9		5	5	
AA	474	14		8	8	
A	760	21		15	16	
BBB	1,137	32		30	31	
Non-Investment Grade	696	20		36	37	
Total	$3,544	100	%	$97	100	%

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

Gross Unrealized Losses by Maturity Profile
December 31, 2014

(In millions)	Estimated Fair Value	%		Gross Unrealized Losses	%	
Due in one year or less	$63	2	%	$1	1	%
Due after one year through five years	834	24		22	22	
Due after five years through ten years	1,961	55		51	53	
Due after ten years	686	19		23	24	
Total	$3,544	100	%	$97	100	%

Duration

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

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

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

Effective Durations

December 31	2014		2013	
(In millions)	Fair Value	Effective Duration (In years)	Fair Value	Effective Duration (In years)
Investments supporting Life & Group Non-Core	$14,668	10.5	$15,009	11.3
Other interest sensitive investments	27,748	4.0	27,766	4.4
Total	$42,416	6.3	$42,775	6.9

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

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Short Term Investments

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

Short Term Investments December 31 (In millions)	2014	2013
Short term investments:		
Commercial paper	$922	$549
U.S. Treasury securities	466	636
Money market funds	206	94
Other	112	128
Total short term investments	$1,706	$1,407

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LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

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

For 2014, net cash provided by operating activities was $1,440 million as compared with $1,204 million for 2013. In 2014, cash provided by operating activities reflected increased receipts relating to returns on limited partnerships and lower net claim payments, substantially offset by increased tax payments. Additionally, in 2013 we contributed $75 million to the CNA Retirement Plan. Net cash provided by operating activities was $1,250 million in 2012. Operating cash flows in 2013 reflected increased claim payments partially offset by increased premium receipts.

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

Net cash used by investing activities was $918 million for 2014, as compared with net cash used of $898 million and $934 million for 2013 and 2012. The cash flow from investing activities is affected by various factors such as the anticipated payment of claims, financing activity, asset/liability management and individual security buy and sell decisions made in the normal course of portfolio management.

Cash flows from financing activities may include proceeds from the issuance of debt and equity securities, outflows for stockholder dividends or repayment of debt and outlays to reacquire equity instruments. Net cash used by financing activities was $519 million, $264 million and $239 million for 2014, 2013 and 2012.

Liquidity

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

CCC paid dividends of $650 million, $400 million and $450 million to CNAF during 2014, 2013 and 2012.

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

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Common Stock Dividends

Dividends of $2.00 per share of our common stock, including a special dividend of $1.00 per share, were declared and paid in 2014. On February 6, 2015, our Board of Directors declared a quarterly dividend of $0.25 per share and a special dividend of $2.00 per share, payable March 12, 2015 to stockholders of record on February 23, 2015. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board of Directors and will depend on many factors, including our earnings, financial condition, business needs and regulatory constraints.

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

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

Commitments, Contingencies and Guarantees

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

A summary of our commitments as of December 31, 2014 is presented in the following table.

Contractual Commitments

December 31, 2014

(In millions)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt (a)	$3,458	$153	$624	$736	$1,945
Lease obligations	245	36	65	46	98
Claim and claim adjustment expense reserves (b)	24,733	5,019	6,386	3,318	10,010
Future policy benefits reserves (c)	34,408	127	374	606	33,301
Policyholder funds reserves (c)	27	17	10	(2)	2
Total (d), (e)	$62,871	$5,352	$7,459	$4,704	$45,356

(a) Includes estimated future interest payments.

(b) Claim and claim adjustment expense reserves are not discounted and represent our estimate of the amount and timing of the ultimate settlement and administration of gross claims based on our assessment of facts and circumstances known as of December 31, 2014. See the Reserves - Estimates and Uncertainties section of this MD&A for further information.

(c) Future policy benefits and policyholders' funds reserves are not discounted and represent our estimate of the ultimate amount and timing of the settlement of benefits based on our assessment of facts and circumstances known as of December 31, 2014. See the Reserves - Estimates and Uncertainties section of this MD&A for further information.

(d) Does not include expected estimated contribution of $19 million to our pension and postretirement plans in 2015.

(e) Does not include investment commitments of $410 million related to limited partnerships, privately placed debt securities and mortgage loans.

Further information on our commitments, contingencies and guarantees is provided in Notes A, B, C, F, G, I, J and M to the Consolidated Financial Statements included under Item 8.

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Ratings

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

The table below reflects the various group ratings issued by A.M. Best, Moody's and S&P as of December 31, 2014. The table also includes the ratings for CNAF senior debt.

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

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

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

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FORWARD-LOOKING STATEMENTS

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

Company-Specific Factors

- the risks and uncertainties associated with our insurance reserves, as outlined in the Critical Accounting Estimates and the Reserves - Estimates and Uncertainties sections of this report, including the sufficiency of the reserves and the possibility for future increases, which would be reflected in the results of operations in the period that the need for such adjustment is determined;
- the risk that the other parties to the transaction in which, subject to certain limitations, we ceded our legacy A&EP liabilities will not fully perform their obligations to CNA, the uncertainty in estimating loss reserves for A&EP liabilities and the possible continued exposure of CNA to liabilities for A&EP claims that are not covered under the terms of the transaction;
- the performance of reinsurance companies under reinsurance contracts with us; and
- the risks and uncertainties associated with potential acquisitions and divestitures, including the consummation of such transactions, the successful integration of acquired operations and the potential for subsequent impairment of goodwill or intangible assets.

Industry and General Market Factors

- the impact of competitive products, policies and pricing and the competitive environment in which we operate, including changes in our book of business;
- product and policy availability and demand and market responses, including the level of ability to obtain rate increases and decline or non-renew underpriced accounts, to achieve premium targets and profitability and to realize growth and retention estimates;
- general economic and business conditions, including recessionary conditions that may decrease the size and number of our insurance customers and create additional losses to our lines of business, especially those that provide management and professional liability insurance, as well as surety bonds, to businesses engaged in real estate, financial services and professional services and inflationary pressures on medical care costs, construction costs and other economic sectors that increase the severity of claims;
- conditions in the capital and credit markets, including continuing uncertainty and instability in these markets, as well as the overall economy, and their impact on the returns, types, liquidity and valuation of our investments;
- conditions in the capital and credit markets that may limit our ability to raise significant amounts of capital on favorable terms; and
- the possibility of changes in our ratings by ratings agencies, including the inability to access certain markets or distribution channels and the required collateralization of future payment obligations as a result of such changes, and changes in rating agency policies and practices.

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Regulatory Factors

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

Impact of Catastrophic Events and Related Developments

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

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

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Active management of market risk is integral to our operations. We may take the following actions to manage our exposure to market risk within defined tolerance ranges: (1) change the character of future investments purchased or sold, (2) use derivatives to offset the market behavior of existing assets and liabilities or assets expected to be purchased and liabilities to be incurred, or (3) rebalance our existing asset and liability portfolios.

Sensitivity Analysis

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

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

The sensitivity analysis estimates the decline in the fair value of our interest sensitive assets and liabilities that were held on December 31, 2014 and 2013 due to an instantaneous change in the yield of the security at the end of the period of 100 and 150 basis points.

The sensitivity analysis also assumes an instantaneous 10% and 20% decline in the foreign currency exchange rates versus the United States dollar from their levels at December 31, 2014 and 2013, with all other variables held constant.

Equity price risk was measured assuming an instantaneous 10% and 25% decline in the S&P 500 from its level at December 31, 2014 and 2013, with all other variables held constant. Our equity holdings were assumed to be highly and positively correlated with the S&P 500.

The value of limited partnerships can be affected by changes in equity markets as well as changes in interest rates. A model was developed to analyze the observed changes in the value of limited partnerships held by the Company over a multiple year period along with the corresponding changes in various equity indices and interest rates. The result of the model allowed us to estimate the change in value of limited partnerships when equity markets decline by 10% and 25% and interest rates increase by 100 and 150 basis points.

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For December 31, 2013 our sensitivity analysis was also applied to the assets supporting our separate account business because certain of our separate account products guaranteed principal and a minimum rate of interest. All or a portion of these decreases related to the separate account assets may be offset by decreases in related separate account liabilities to customers, but that is dependent on the position of the separate account in relation to the specific guarantees at the time of the interest rate or price decline. Similarly, increases in the fair value of the separate account investments would also be offset by increases in the same related separate account liabilities by the same approximate amounts.

The following tables present the estimated effects on the fair value of our financial instruments at December 31, 2014 and 2013, due to an increase in yield rates of 100 basis points, a 10% decline in foreign currency exchange rates and a 10% decline in the S&P 500.

Market Risk Scenario 1

December 31, 2014		Increase (Decrease)		
(In millions)	Estimated Fair Value	Interest Rate Risk	Foreign Currency Risk	Equity Price Risk
Assets:				
Fixed maturity securities available-for-sale:				
Corporate and other bonds	$18,870	$(1,116)	$(173)	$—
States, municipalities and political subdivisions	12,740	(1,188)	—	—
Asset-backed	8,612	(329)	(6)	—
U.S. Treasury and obligations of government-sponsored enterprises	31	(1)	—	—
Foreign government	454	(15)	(38)	—
Redeemable preferred stock	42	(1)	—	(2)
Total fixed maturity securities available-for-sale	40,749	(2,650)	(217)	(2)
Fixed maturity securities trading	19	—	—	—
Equity securities available-for-sale	222	(9)	(1)	(22)
Limited partnership investments	2,937	—	—	(132)
Other invested assets	41	—	(3)	—
Mortgage loans (a)	608	(30)	—	—
Short term investments	1,706	(2)	(22)	—
Total assets	46,282	(2,691)	(243)	(156)
Derivative financial instruments, included in Other liabilities	(3)	17	—	—
Total securities	$46,279	$(2,674)	$(243)	$(156)
Long term debt (a)	$2,883	$(144)	$—	$—

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

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Market Risk Scenario 1

December 31, 2013 (In millions)	Estimated Fair Value	Increase (Decrease) Interest Rate Risk	Foreign Currency Risk	Equity Price Risk
General account:				
Fixed maturity securities available-for-sale:				
Corporate and other bonds	$20,862	$(1,145)	$(173)	$—
States, municipalities and political subdivisions	11,557	(1,293)	—	—
Asset-backed	7,989	(348)	(6)	—
U.S. Treasury and obligations of government-sponsored enterprises	144	(2)	—	—
Foreign government	543	(15)	(52)	—
Redeemable preferred stock	102	(5)	—	(4)
Total fixed maturity securities available-for-sale	41,197	(2,808)	(231)	(4)
Fixed maturity securities trading	36	—	—	—
Equity securities available-for-sale	185	(11)	—	(18)
Limited partnership investments	2,720	—	—	(109)
Other invested assets	54	—	(4)	—
Mortgage loans (a)	515	(24)	—	—
Short term investments	1,407	(2)	(6)	—
Total general account	46,114	(2,845)	(241)	(131)
Separate accounts:				
Fixed maturity securities	149	(3)	—	—
Short term investments	28	—	—	—
Total separate accounts	177	(3)	—	—
Derivative financial instruments, included in Other liabilities	—	—	—	—
Total securities	$46,291	$(2,848)	$(241)	$(131)
Long term debt (a)	$2,328	$(113)	$—	$—

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

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The following tables present the estimated effects on the fair value of our financial instruments at December 31, 2014 and 2013, due to an increase in yield rates of 150 basis points, a 20% decline in foreign currency exchange rates and a 25% decline in the S&P 500.

Market Risk Scenario 2

December 31, 2014		Increase (Decrease)		
(In millions)	Estimated Fair Value	Interest Rate Risk	Foreign Currency Risk	Equity Price Risk
Assets:				
Fixed maturity securities available-for-sale:				
Corporate and other bonds	$18,870	$(1,673)	$(348)	$—
States, municipalities and political subdivisions	12,740	(1,783)	—	—
Asset-backed	8,612	(493)	(11)	—
U.S. Treasury and obligations of government-sponsored enterprises	31	(2)	—	—
Foreign government	454	(22)	(75)	—
Redeemable preferred stock	42	(1)	—	(4)
Total fixed maturity securities available-for-sale	40,749	(3,974)	(434)	(4)
Fixed maturity securities trading	19	—	—	—
Equity securities available-for-sale	222	(13)	(3)	(56)
Limited partnership investments	2,937	—	—	(330)
Other invested assets	41	—	(5)	—
Mortgage loans (a)	608	(45)	—	—
Short term investments	1,706	(5)	(44)	—
Total assets	46,282	(4,037)	(486)	(390)
Derivative financial instruments, included in Other liabilities	(3)	26	—	—
Total securities	$46,279	$(4,011)	$(486)	$(390)
Long term debt (a)	$2,883	$(216)	$—	$—

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

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Market Risk Scenario 2

December 31, 2013		Increase (Decrease)		
(In millions)	Estimated Fair Value	Interest Rate Risk	Foreign Currency Risk	Equity Price Risk
General account:				
Fixed maturity securities available-for-sale:				
Corporate and other bonds	$20,862	$(1,663)	$(347)	$—
States, municipalities and political subdivisions	11,557	(1,903)	—	—
Asset-backed	7,989	(522)	(12)	—
U.S. Treasury and obligations of government-sponsored enterprises	144	(3)	—	—
Foreign government	543	(22)	(104)	—
Redeemable preferred stock	102	(8)	—	(10)
Total fixed maturity securities available-for-sale	41,197	(4,121)	(463)	(10)
Fixed maturity securities trading	36	—	—	—
Equity securities available-for-sale	185	(18)	—	(47)
Limited partnership investments	2,720	—	—	(272)
Other invested assets	54	—	(7)	—
Mortgage loans (a)	515	(36)	—	—
Short term investments	1,407	(4)	(12)	—
Total general account	46,114	(4,179)	(482)	(329)
Separate accounts:				
Fixed maturity securities	149	(3)	—	—
Short term investments	28	—	—	—
Total separate accounts	177	(3)	—	—
Derivative financial instruments, included in Other liabilities	—	—	—	—
Total securities	$46,291	$(4,182)	$(482)	$(329)
Long term debt (a)	$2,328	$(167)	$—	$—

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CNA Financial Corporation
Consolidated Statements of Operations
Years ended December 31

(In millions, except per share data)	2014	2013	2012
Revenues			
Net earned premiums	$7,212	$7,271	$6,881
Net investment income	2,067	2,282	2,110
Net realized investment gains:			
Other-than-temporary impairment losses	(77)	(74)	(127)
Portion of other-than-temporary impairments recognized in Other comprehensive income	—	(2)	(23)
Net other-than-temporary impairment losses recognized in earnings	(77)	(76)	(150)
Other net realized investment gains	134	96	204
Net realized investment gains	57	20	54
Other revenues	356	359	319
Total revenues	9,692	9,932	9,364
Claims, Benefits and Expenses			
Insurance claims and policyholders' benefits	5,591	5,806	5,729
Amortization of deferred acquisition costs	1,317	1,362	1,274
Other operating expenses	1,394	1,322	1,332
Interest	183	166	170
Total claims, benefits and expenses	8,485	8,656	8,505
Income from continuing operations before income tax	1,207	1,276	859
Income tax expense	(319)	(361)	(239)
Income from continuing operations	888	915	620
(Loss) income from discontinued operations, net of income tax benefit (expense) of $34, $(15) and $(5)	(197)	22	8
Net income	$691	$937	$628
Basic Earnings Per Share			
Income from continuing operations	$3.29	$3.39	$2.30
(Loss) income from discontinued operations	(0.73)	0.09	0.03
Basic earnings per share	$2.56	$3.48	$2.33
Diluted Earnings Per Share			
Income from continuing operations	$3.28	$3.39	$2.30
(Loss) income from discontinued operations	(0.73)	0.08	0.03
Diluted earnings per share	$2.55	$3.47	$2.33
Dividends per share	$2.00	$0.80	$0.60
Weighted Average Outstanding Common Stock and Common Stock Equivalents			
Basic	269.9	269.7	269.4
Diluted	270.6	270.2	269.8

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

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CNA Financial Corporation
Consolidated Statements of Comprehensive Income
Years ended December 31

(In millions)	2014	2013	2012
Other Comprehensive Income, Net of Tax			
Changes in:			
Net unrealized gains on investments with other-than-temporary impairments	$15	$6	$84
Net unrealized gains on other investments	267	(679)	339
Net unrealized gains on investments	282	(673)	423
Net unrealized losses on discontinued operations	(22)	—	—
Foreign currency translation adjustment	(95)	(11)	40
Pension and postretirement benefits	(207)	295	(112)
Other comprehensive income (loss), net of tax	(42)	(389)	351
Net income	691	937	628
Total comprehensive income	$649	$548	$979

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

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CNA Financial Corporation
Consolidated Balance Sheets

December 31 (In millions, except share data)	2014	2013
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of $37,335 and $39,311)	$40,768	$41,233
Equity securities at fair value (cost of $210 and $179)	222	185
Limited partnership investments	2,937	2,720
Other invested assets	41	54
Mortgage loans	588	508
Short term investments	1,706	1,407
Total investments	46,262	46,107
Cash	190	195
Reinsurance receivables (less allowance for uncollectible receivables of $48 and $71)	4,694	6,017
Insurance receivables (less allowance for uncollectible receivables of $61 and $84)	1,936	1,979
Accrued investment income	405	443
Deferred acquisition costs	600	624
Deferred income taxes	191	220
Property and equipment at cost (less accumulated depreciation of $364 and $365)	295	304
Goodwill	152	155
Other assets	841	969
Separate account business	—	181
Total assets	$55,566	$57,194
Liabilities		
Insurance reserves:		
Claim and claim adjustment expenses	$23,271	$24,089
Unearned premiums	3,592	3,718
Future policy benefits	9,490	10,471
Policyholders’ funds	27	116
Short term debt	—	549
Long term debt	2,559	2,011
Other liabilities (includes $153 and $197 due to Loews Corporation)	3,833	3,408
Separate account business	—	181
Total liabilities	42,772	44,543
Commitments and contingencies (Notes B, G and M)		
Stockholders' Equity		
Common stock ($2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; 269,980,202 and 269,717,583 shares outstanding)	683	683
Additional paid-in capital	2,151	2,145
Retained earnings	9,645	9,495
Accumulated other comprehensive income	400	442
Treasury stock (3,060,041 and 3,322,660 shares), at cost	(84)	(91)
Notes receivable for the issuance of common stock	(1)	(23)
Total stockholders’ equity	12,794	12,651
Total liabilities and stockholders' equity	$55,566	$57,194

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

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Explanation of Responses:

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CNA Financial Corporation
Consolidated Statements of Cash Flows
Years ended December 31

(In millions)	2014	2013	2012
Cash Flows from Operating Activities			
Net income	$691	$937	$628
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Loss on sale of subsidiaries	251	—	—
Deferred income tax expense	3	77	147
Trading portfolio activity	16	(10)	(23)
Net realized investment gains	(60)	(31)	(63)
Equity method investees	83	(323)	(89)
Net amortization of investments	3	(24)	(55)
Depreciation and amortization	83	101	125
Changes in:			
Receivables, net	731	44	49
Accrued investment income	—	(9)	4
Deferred acquisition costs	44	2	(16)
Insurance reserves	(363)	(68)	430
Other assets	(48)	(27)	144
Other liabilities	(48)	525	(49)
Other, net	54	10	18
Total adjustments	749	267	622
Net cash flows provided by operating activities	1,440	1,204	1,250
Cash Flows from Investing Activities			
Dispositions:			
Fixed maturity securities - sales	4,914	6,869	6,123
Fixed maturity securities - maturities, calls and redemptions	3,983	3,271	3,699
Equity securities	31	103	86
Limited partnerships	167	108	165
Mortgage loans	57	22	7
Purchases:			
Fixed maturity securities	(9,365)	(11,197)	(10,299)
Equity securities	(67)	(77)	(54)
Limited partnerships	(271)	(223)	(228)
Mortgage loans	(137)	(129)	(174)
Change in other investments	15	(22)	22
Change in short term investments	(388)	425	(7)
Purchase of Hardy	—	—	(197)
Purchases of property and equipment	(71)	(91)	(94)
Proceeds from sale of subsidiaries	198	—	—
Other dispositions	—	32	1
Other, net	16	11	16
Net cash flows used by investing activities	(918)	(898)	(934)

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

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Years ended December 31 (In millions)	2014	2013	2012
Cash Flows from Financing Activities			
Dividends paid to common stockholders	$(541)	$(216)	$(162)
Proceeds from the issuance of debt	546	—	—
Repayment of debt	(549)	(13)	(70)
Other, net	25	(35)	(7)
Net cash flows used by financing activities	(519)	(264)	(239)
Effect of foreign exchange rate changes on cash	(8)	(3)	4
Net change in cash	(5)	39	81
Cash, beginning of year	195	156	75
Cash, end of year	$190	$195	$156

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

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CNA Financial Corporation
Consolidated Statements of Stockholders' Equity
Years ended December 31

(In millions)	2014	2013	2012
Common Stock			
Balance, beginning of year	$683	$683	$683
Balance, end of year	683	683	683
Additional Paid-in Capital			
Balance, beginning of year	2,145	2,146	2,141
Stock-based compensation	6	(1)	5
Balance, end of year	2,151	2,145	2,146
Retained Earnings			
Balance, beginning of year	9,495	8,774	8,308
Dividends paid to common stockholders	(541)	(216)	(162)
Net income	691	937	628
Balance, end of year	9,645	9,495	8,774
Accumulated Other Comprehensive Income			
Balance, beginning of year	442	831	480
Other comprehensive income (loss)	(42)	(389)	351
Balance, end of year	400	442	831
Treasury Stock			
Balance, beginning of year	(91)	(99)	(102)
Stock-based compensation	7	8	3
Balance, end of year	(84)	(91)	(99)
Notes Receivable for the Issuance of Common Stock			
Balance, beginning of year	(23)	(21)	(22)
Decrease (increase) in notes receivable for common stock	22	(2)	1
Balance, end of year	(1)	(23)	(21)
Total Stockholders' Equity	$12,794	$12,651	$12,314

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

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CNA Financial Corporation
Notes to Consolidated Financial Statements
Note A. Summary of Significant Accounting Policies
Basis of Presentation
The Consolidated Financial Statements include the accounts of CNA Financial Corporation (CNAF) and its subsidiaries. Collectively, CNAF and its subsidiaries are referred to as CNA or the Company. Loews Corporation (Loews) owned approximately 90% of the outstanding common stock of CNAF as of December 31, 2014.
The accompanying Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Intercompany amounts have been eliminated. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.
Business
The Company's core property and casualty insurance operations are reported in three business segments: Specialty, Commercial and International. The Company's non-core operations are managed in two segments: Life & Group Non-Core and Corporate & Other Non-Core. Each segment is managed separately due to differences in their markets and product mix.
As a result of realigned management responsibilities, the Company revised its property and casualty segments in the fourth quarter of 2014. Results of CNA Europe and Canada that were previously included in the Specialty and Commercial segments are now included in the International segment. There was no change in the Company's Life & Group Non-Core and Corporate & Other Non-Core segments. Prior period segment disclosures have been conformed to the current year presentation. The new segment structure reflects the way management currently reviews results and makes business decisions.
Core insurance products primarily include commercial property and casualty coverages, including surety. Non-core insurance products, which have been placed in run-off, primarily include long term care. CNA services include risk management, information services, warranty and claims administration. The Company's products and services are primarily marketed through independent agents, brokers and managing general underwriters to a wide variety of customers, including small, medium and large businesses, insurance companies, associations, professionals and other groups.
Sale of Continental Assurance Company (CAC)
On August 1, 2014, the Company completed the sale of the common stock of CAC. The business sold, which was previously reported within the Life & Group Non-Core segment, is reported as discontinued operations. The Company elected not to present the assets and liabilities as held for sale on the comparative Consolidated Balance Sheet and included CAC cash flow activity in the comparative Consolidated Statements of Cash Flow. Further information is provided in Note Q to the Consolidated Financial Statements.
In connection with the sale of CAC, the Company entered into a 100% coinsurance agreement on a separate small block of annuity business outside of CAC. The coinsurance agreement required the transfer of assets with a book value equal to the ceded reserves on the inception date of the contract. Because a substantial portion of the assets supporting these liabilities are held in trust for the benefit of the original cedant, those assets were transferred on a funds withheld basis. Under this approach the Company maintains legal ownership of the assets, but the investment income and realized gains and losses on those assets inure to the reinsurer. As a result, the $34 million difference between market value and book value of the funds withheld assets at the coinsurance contract's inception was recognized as a loss in Other operating expenses. The funds withheld aspect of the agreement is considered an embedded derivative. The embedded derivative is separately accounted for at fair value and reported with the host contract in Other liabilities on the Company's Consolidated Balance Sheet. The Company recognizes Other operating expense equal to the Net investment income generated by these trust assets.

Explanation of Responses:

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Hardy Underwriting Bermuda Limited and its Subsidiaries (Hardy)

On July 2, 2012, the Company completed the acquisition of all outstanding shares of Hardy, a specialized Lloyd's of London (Lloyd's) underwriter. Through Syndicate 382, Hardy underwrites primarily short-tail exposures in marine and aviation, non-marine property, specialty lines and property treaty reinsurance. The results of Hardy from the date of acquisition are included in the results of the Company's International segment.

The purchase price for Hardy was $231 million. Acquisition related expenses of $4 million were incurred during the year ended December 31, 2012, including investment advisory, legal and other expenses, and were recorded in the Corporate & Other Non-Core segment.

Insurance Operations

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

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

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

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

Claim and claim adjustment expense reserves are presented net of anticipated amounts due from insureds related to losses under deductible policies of $1.4 billion and $1.3 billion as of December 31, 2014 and 2013. A significant portion of these amounts are supported by collateral. The Company has an allowance for uncollectible deductible amounts, which is presented as a component of the allowance for doubtful accounts included in Insurance receivables on the Consolidated Balance Sheets.

Structured settlements have been negotiated for certain property and casualty insurance claims. Structured settlements are agreements to provide fixed periodic payments to claimants. The Company's obligations for structured settlements not funded by annuities are included in claim and claim adjustment expense reserves and carried at present values determined using interest rates ranging from 5.5% to 8.0% at December 31, 2014 and 7.1% to 9.7% at December 31, 2013. At December 31, 2014 and 2013, the discounted reserves for unfunded structured settlements were $582 million and $580 million, net of discount of $924 million and $969 million.

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Workers' compensation lifetime claim reserves are calculated using mortality assumptions determined through statutory regulation and economic factors. Accident and health claim reserves are calculated using mortality and morbidity assumptions based on Company and industry experience. Workers' compensation lifetime claim reserves and accident and health claim reserves are discounted at interest rates ranging from 3.5% to 6.8% at December 31, 2014 and 3.0% to 6.8% at December 31, 2013. At December 31, 2014 and 2013, such discounted reserves totaled $2.5 billion and $2.4 billion, net of discount of $654 million and $617 million.

Future policy benefits reserves: Reserves for long term care policies and payout annuity contracts are computed using the net level premium method, which incorporates actuarial assumptions as to morbidity, persistency, discount rate and expenses. Expense assumptions primarily relate to claim adjudication. Actuarial assumptions generally vary by plan, age at issue and policy duration. The initial assumptions are determined at issuance, include a margin for adverse deviation and are locked in throughout the life of the contract unless a premium deficiency develops. If a premium deficiency emerges, the assumptions are unlocked and deferred acquisition costs, if any, and the future policy benefit reserves are adjusted. Interest rates for long term care products range from 4.5% to 7.9% at December 31, 2014 and 2013. Interest rates for payout annuity contracts ranged from 5.0% to 8.7% at December 31, 2013.

Policyholders' funds reserves: Policyholders' funds reserves on the Consolidated Balance Sheet as of December 31, 2013 primarily included reserves for investment contracts without life contingencies. For these contracts, policyholder liabilities are generally equal to the accumulated policy account values, which consist of an accumulation of deposit payments plus credited interest, less withdrawals and amounts assessed through the end of the period.

Guaranty fund and other insurance-related assessments: Liabilities for guaranty fund and other insurance-related assessments are accrued when an assessment is probable, when it can be reasonably estimated and when the event obligating the entity to pay an imposed or probable assessment has occurred. Liabilities for guaranty funds and other insurance-related assessments are not discounted and are included as part of Other liabilities on the Consolidated Balance Sheets. As of December 31, 2014 and 2013, the liability balances were $131 million and $143 million.

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

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

The Company has established an allowance for uncollectible reinsurance receivables which relates to both amounts already billed on ceded paid losses as well as ceded reserves that will be billed when losses are paid in the future. The allowance for uncollectible reinsurance receivables is estimated on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions. Reinsurer financial strength ratings are updated and reviewed on an annual basis or sooner if the Company becomes aware of significant changes related to a reinsurer. Because billed receivables generally approximate 5% or less of total reinsurance receivables, the age of the reinsurance receivables related to paid losses is not a significant input into the allowance analysis. Changes in the allowance for uncollectible reinsurance receivables are presented as a component of Insurance claims and policyholders' benefits on the Consolidated Statements of Operations.

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

Explanation of Responses:

is recorded as a component of Insurance claims and policyholders' benefits on the Consolidated Statements of Operations.

Reinsurance contracts that do not effectively transfer the economic risk of loss on the underlying policies are recorded using the deposit method of accounting, which requires that premium paid or received by the ceding company or assuming company be accounted for as a deposit asset or liability. The Company had $3 million recorded as deposit assets at December 31, 2014 and 2013, and $9 million and $130 million recorded as deposit liabilities at December 31, 2014 and 2013. Income on reinsurance contracts accounted for under the deposit method is recognized using an effective yield based on the anticipated timing of payments and the remaining life of the contract. When the anticipated timing of payments changes, the effective yield is recalculated to reflect actual payments to date and the estimated timing of future payments. The deposit asset or liability is adjusted to the amount that would have existed had the new effective yield been applied since the inception of the contract.

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

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

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

Deferred acquisition costs related to long term care contracts are amortized over the premium-paying period of the related policies using assumptions consistent with those used for computing future policy benefit reserves for such contracts. Assumptions are made at the date of policy issuance or acquisition and are consistently applied during the lives of the contracts. Deviations from estimated experience are included in results of operations when they occur. For these contracts, the amortization period is typically the estimated life of the policy. At December 31, 2014 and 2013, Deferred acquisition costs were presented net of Shadow Adjustments, as defined later in this note, of $314 million and $342 million.

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

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

Investments in life settlement contracts and related revenue recognition: Prior to 2002, the Company purchased investments in life settlement contracts. A life settlement contract is a contract between the owner of a life insurance policy (the policy owner) and a third-party investor (investor). Under a life settlement contract, the Company obtains the ownership and beneficiary rights of an underlying life insurance policy.

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

The fair value of the Company's investments in life settlement contracts were $82 million and $88 million at December 31, 2014 and 2013, and are included in Other assets on the Consolidated Balance Sheets. The cash receipts and payments related to life settlement contracts are included in Cash flows from operating activities on the Consolidated Statements of Cash Flows.

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Explanation of Responses:

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

December 31, 2014	Number of Life Settlement Contracts	Fair Value of Life Settlement Contracts (In millions)	Face Amount of Life Insurance Policies (In millions)
Estimated maturity during:			
2015	60	$11	$37
2016	60	10	33
2017	50	9	30
2018	50	7	26
2019	50	6	26
Thereafter	318	39	187
Total	588	$82	$339

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

The increase (decrease) in fair value recognized for the years ended December 31, 2014, 2013 and 2012 on contracts still held at each respective period-end was $8 million, $(2) million and $11 million. The gains recognized during the years ended December 31, 2014, 2013 and 2012 on contracts that settled were $25 million, $15 million and $42 million.

Separate Account Business: Separate account assets and liabilities on the Consolidated Balance Sheet as of December 31, 2013 represented contract holder funds related to investment and annuity products for which the policyholder assumes substantially all the risk and reward. The assets were segregated into accounts with specific underlying investment objectives and are legally segregated from the Company. All assets of the separate account business were carried at fair value with an equal amount recorded for separate account liabilities.

Investments

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

To the extent that unrealized gains on fixed income securities supporting long term care products and payout annuity contracts would result in a premium deficiency if those gains were realized, a related decrease in Deferred acquisition costs and/or increase in Insurance reserves are recorded, net of tax, as a reduction of net unrealized gains through Other comprehensive income (Shadow Adjustments). Shadow Adjustments, net of tax, increased $756 million and decreased $979 million for the years ended December 31, 2014 and 2013. At December 31, 2014 and 2013, net unrealized gains on investments included in Accumulated other comprehensive income (AOCI) were correspondingly reduced by $1,288 million and $532 million.

For asset-backed securities included in fixed maturity securities, the Company recognizes income using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The amortized cost of high credit quality fixed rate securities is adjusted to the amount that would have

Explanation of Responses:

existed had the new effective yield been applied since the acquisition of the securities. Such adjustments are reflected in Net investment income on the Consolidated Statements of Operations. Interest income on lower rated and variable rate securities is determined using the prospective yield method.

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

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

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

Short term investments are carried at fair value, with the exception of cash accounts earning interest, which are carried at cost and approximate fair value. Changes in fair value are reported as a component of Other comprehensive income.

Purchases and sales of all securities are recorded on the trade date, except for private placement debt securities, including bank loan participations, which are recorded once funded. Realized investment gains and losses are determined on the basis of the cost or amortized cost of the specific securities sold.

In the normal course of investing activities, the Company enters into relationships with variable interest entities (VIEs), primarily as a passive investor in certain limited partnerships and asset-backed securities issued by third-party VIEs. The Company is not the primary beneficiary of these VIEs, and therefore does not consolidate them. The Company determines whether it is the primary beneficiary of a VIE based on a qualitative assessment of the entity’s purpose, the nature of its operations, its capital structure, its contractual terms and the Company’s relative exposure to the related risks of the VIE. The Company’s maximum exposure to loss with respect to these investments is limited to the investment carrying values included in the Company’s Consolidated Balance Sheets and any unfunded commitments.

A security is impaired if the fair value of the security is less than its cost adjusted for accretion, amortization and previously recorded other-than-temporary impairment (OTTI) losses, otherwise defined as an unrealized loss. When a security is impaired, the impairment is evaluated to determine whether it is temporary or other-than-temporary.

Significant judgment is required in the determination of whether an OTTI loss has occurred for a security. The Company follows a consistent and systematic process for determining and recording an OTTI loss. The Company has established a committee responsible for the OTTI process. This committee, referred to as the Impairment Committee, is made up of three officers appointed by the Company’s Chief Financial Officer. The Impairment Committee is responsible for evaluating all securities in an unrealized loss position on at least a quarterly basis.

The Impairment Committee’s assessment of whether an OTTI loss has occurred incorporates both quantitative and qualitative information. Fixed maturity securities that the Company intends to sell, or it more likely than not will be required to sell before recovery of amortized cost, are considered to be other-than-temporarily impaired and the entire difference between the amortized cost basis and fair value of the security is recognized as an OTTI loss in earnings. The remaining fixed maturity securities in an unrealized loss position are evaluated to determine if a credit loss exists. The factors considered by the Impairment Committee include (a) the financial condition and

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near term prospects of the issuer, (b) whether the debtor is current on interest and principal payments, (c) credit ratings of the securities and (d) general market conditions and industry or sector specific outlook. The Company also considers results and analysis of cash flow modeling for asset-backed securities, and when appropriate, other fixed maturity securities. The focus of the analysis for asset-backed securities is on assessing the sufficiency and quality of underlying collateral and timing of cash flows based on scenario tests. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss is judged to exist and the asset-backed security is deemed to be temporarily impaired. If the present value of the expected cash flows is less than amortized cost, the security is judged to be other-than-temporarily impaired for credit reasons and that shortfall, referred to as the credit component, is recognized as an OTTI loss in earnings. The difference between the adjusted amortized cost basis and fair value, referred to as the non-credit component, is recognized as OTTI in Other comprehensive income. In subsequent reporting periods, a change in intent to sell or further credit impairment on a security whose fair value has not deteriorated will cause the non-credit component originally recorded as OTTI in Other comprehensive income to be recognized as an OTTI loss in earnings.

The Company performs the discounted cash flow analysis using stressed scenarios to determine future expectations regarding recoverability. Significant assumptions enter into these cash flow projections including delinquency rates, probable risk of default, loss severity upon a default, over collateralization and interest coverage triggers and credit support from lower level tranches.

The Company applies the same impairment model as described above for the majority of non-redeemable preferred stock securities on the basis that these securities possess characteristics similar to debt securities and that the issuers maintain their ability to pay dividends. For all other equity securities, in determining whether the security is other-than-temporarily impaired, the Impairment Committee considers a number of factors including, but not limited to: (a) the length of time and the extent to which the fair value has been less than amortized cost, (b) the financial condition and near term prospects of the issuer, (c) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for an anticipated recovery in value and (d) general market conditions and industry or sector specific outlook.

Income Taxes

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

Pension and Postretirement Benefits

The Company recognizes the overfunded or underfunded status of its defined benefit plans in Other assets or Other liabilities on the Consolidated Balance Sheets. Changes in funded status related to prior service costs and credits and actuarial gains and losses are recognized in the year in which the changes occur through Other comprehensive income. Annual service cost, interest cost, expected return on plan assets, amortization of prior service costs and credits and amortization of actuarial gains and losses are recognized in the Consolidated Statements of Operations. The vested benefit obligation for the CNA Retirement Plan is determined based on the employees' expected date of separation or retirement.

Stock-Based Compensation

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

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Foreign Currency

Foreign currency translation gains and losses are reflected in Stockholders' equity as a component of AOCI. The Company's foreign subsidiaries' balance sheet accounts are translated at the exchange rates in effect at each reporting date and income statement accounts are either translated at the exchange rate on the date of the transaction or at the average exchange rates. Foreign currency transaction gains (losses) of $(25) million, $2 million and $12 million were included in determining net income (loss) for the years ended December 31, 2014, 2013 and 2012.

Property and Equipment

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

Goodwill

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

Goodwill is tested for impairment annually or when certain triggering events require such tests. As a result of reviews completed for the year ended December 31, 2014, the Company determined that the estimated fair value of the reporting units were in excess of their carrying value including Goodwill. Changes in future periods in assumptions about the level of economic capital, business growth, earnings projections or the weighted average cost of capital could result in a goodwill impairment.

Other Intangible Assets

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

Earnings (Loss) Per Share Data

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

For the years ended December 31, 2014, 2013 and 2012, approximately 675 thousand, 552 thousand and 417 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 170 thousand, 111 thousand and 730 thousand potential shares attributable to exercises under stock-based employee compensation plans were not included in the calculation of diluted earnings per share because the effect would have been antidilutive.

Supplementary Cash Flow Information

Cash payments made for interest were $179 million, $164 million and $170 million for the years ended December 31, 2014, 2013 and 2012. Cash payments made for income taxes were $313 million and $129 million for the years ended December 31, 2014 and 2013. Cash refunds received for income taxes were $29 million for the year ended December 31, 2012.

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Note B. Investments

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

Net Investment Income

Years ended December 31			
(In millions)	2014	2013	2012
Fixed maturity securities	$1,803	$1,827	$1,846
Short term investments	3	3	5
Limited partnership investments	263	451	251
Equity securities	12	12	12
Mortgage loans	31	23	17
Trading portfolio	10	17	24
Other	3	2	7
Gross investment income	2,125	2,335	2,162
Investment expense	(58)	(53)	(52)
Net investment income	$2,067	$2,282	$2,110

As of December 31, 2014 and 2013, the Company held no non-income producing fixed maturity securities. As of December 31, 2014 and 2013, no investments in a single issuer exceeded 10% of stockholders' equity, other than investments in securities issued by the U.S. Treasury and obligations of government-sponsored enterprises.

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

Net Realized Investment Gains (Losses)

Years ended December 31			
(In millions)	2014	2013	2012
Net realized investment gains (losses):			
Fixed maturity securities:			
Gross realized gains	$170	$185	$222
Gross realized losses	(129)	(144)	(145)
Net realized investment gains (losses) on fixed maturity securities	41	41	77
Equity securities:			
Gross realized gains	8	13	19
Gross realized losses	(7)	(35)	(42)
Net realized investment gains (losses) on equity securities	1	(22)	(23)
Derivatives	(1)	(9)	(2)
Short term investments and other	16	10	2
Net realized investment gains (losses)	$57	$20	$54

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

Net Change in Unrealized Gains Years ended December 31 (In millions)	2014	2013	2012
Net change in unrealized gains on investments:			
Fixed maturity securities	$1,511	$(2,541)	$1,871
Equity securities	6	(15)	5
Other	—	—	(1)
Total net change in unrealized gains on investments	$1,517	$(2,556)	$1,875

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

Years ended December 31 (In millions)	2014	2013	2012
Fixed maturity securities available-for-sale:			
Corporate and other bonds	$18	$20	$25
States, municipalities and political subdivisions	46	—	34
Asset-backed:			
Residential mortgage-backed	5	19	48
Other asset-backed	1	2	—
Total asset-backed	6	21	48
U.S. Treasury and obligations of government-sponsored enterprises	—	—	1
Total fixed maturity securities available-for-sale	70	41	108
Equity securities available-for-sale:			
Common stock	7	8	6
Preferred stock	—	26	36
Total equity securities available-for-sale	7	34	42
Short term investments	—	1	—
OTTI losses recognized in earnings	$77	$76	$150

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The following tables provide a summary of fixed maturity and equity securities.
Summary of Fixed Maturity and Equity Securities

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

December 31, 2013 (In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
Fixed maturity securities available-for-sale:					
Corporate and other bonds	$19,352	$1,645	$135	$20,862	$—
States, municipalities and political subdivisions	11,281	548	272	11,557	—
Asset-backed:					
Residential mortgage-backed	4,940	123	92	4,971	(37)
Commercial mortgage-backed	1,995	90	22	2,063	(3)
Other asset-backed	945	13	3	955	—
Total asset-backed	7,880	226	117	7,989	(40)
U.S. Treasury and obligations of government-sponsored enterprises	139	6	1	144	—
Foreign government	531	15	3	543	—
Redeemable preferred stock	92	10	—	102	—
Total fixed maturity securities available-for-sale	39,275	2,450	528	41,197	$(40)
Total fixed maturity securities trading	36			36	
Equity securities available-for-sale:					
Common stock	36	9	—	45	
Preferred stock	143	1	4	140	
Total equity securities available-for-sale	179	10	4	185	
Total	$39,490	$2,460	$532	$41,418	

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The 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

	Less than 12 Months		12 Months or Longer		Total	
December 31, 2014 (In millions)	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities available-for-sale:						
Corporate and other bonds	$1,330	$46	$277	$15	$1,607	$61
States, municipalities and political subdivisions	335	5	127	3	462	8
Asset-backed:						
Residential mortgage-backed	293	5	189	8	482	13
Commercial mortgage-backed	264	2	99	3	363	5
Other asset-backed	607	10	7	—	614	10
Total asset-backed	1,164	17	295	11	1,459	28
U.S. Treasury and obligations of government-sponsored enterprises	3	—	4	—	7	—
Foreign government	3	—	3	—	6	—
Redeemable preferred stock	3	—	—	—	3	—
Total fixed maturity securities available-for-sale	2,838	68	706	29	3,544	97
Equity securities available-for-sale:						
Preferred stock	17	2	1	—	18	2
Total	$2,855	$70	$707	$29	$3,562	$99

	Less than 12 Months		12 Months or Longer		Total	
December 31, 2013 (In millions)	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities available-for-sale:						
Corporate and other bonds	$3,592	$129	$72	$6	$3,664	$135
States, municipalities and political subdivisions	3,251	197	129	75	3,380	272
Asset-backed:						
Residential mortgage-backed	1,293	29	343	63	1,636	92
Commercial mortgage-backed	640	22	—	—	640	22
Other asset-backed	269	3	—	—	269	3
Total asset-backed	2,202	54	343	63	2,545	117
U.S. Treasury and obligations of government-sponsored enterprises	13	1	—	—	13	1
Foreign government	111	3	—	—	111	3
Total fixed maturity securities available-for-sale	9,169	384	544	144	9,713	528
Equity securities available-for-sale:						
Preferred stock	87	4	—	—	87	4

Total	$9,256	$388	$544	$144	$9,800	$532

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Based on current facts and circumstances, the Company believes the unrealized losses presented in the December 31, 2014 Securities in a Gross Unrealized Loss Position table above, are not indicative of the ultimate collectibility of the current amortized cost of the securities, but rather are primarily attributable to changes in interest rates and credit spreads, market illiquidity and other factors. The Company has no current intent to sell securities with unrealized losses, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at December 31, 2014.

The following table summarizes the activity for the years ended December 31, 2014, 2013 and 2012 related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held at December 31, 2014, 2013 and 2012 for which a portion of an OTTI loss was recognized in Other comprehensive income.

Years ended December 31 (In millions)	2014	2013	2012
Beginning balance of credit losses on fixed maturity securities	$74	$95	$92
Additional credit losses for securities for which an OTTI loss was previously recognized	—	2	23
Credit losses for securities for which an OTTI loss was not previously recognized	—	—	2
Reductions for securities sold during the period	(9)	(23)	(14)
Reductions for securities the Company intends to sell or more likely than not will be required to sell	(3)	—	(8)
Ending balance of credit losses on fixed maturity securities	$62	$74	$95

Contractual Maturity

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

December 31	2014		2013	
(In millions)	Cost or Amortized Cost	Estimated Fair Value	Cost or Amortized Cost	Estimated Fair Value
Due in one year or less	$2,479	$2,511	$2,420	$2,455
Due after one year through five years	9,054	9,605	9,496	10,068
Due after five years through ten years	12,055	12,584	11,667	11,954
Due after ten years	13,728	16,049	15,692	16,720
Total	$37,316	$40,749	$39,275	$41,197

Limited Partnerships

The carrying value of limited partnerships as of December 31, 2014 and 2013 was $2,937 million and $2,720 million, which includes undistributed earnings of $1,040 million and $969 million. Limited partnerships comprising 65% of the total carrying value are reported on a current basis through December 31, 2014 with no reporting lag, 16% are reported on a one month lag and the remainder are reported on more than a one month lag. As of December 31, 2014 and 2013, the Company had 86 and 87 active limited partnership investments. The number of limited partnerships held and the strategies employed provide diversification to the limited partnership portfolio and the overall invested asset portfolio.

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Of the limited partnerships held, 73% and 74% at December 31, 2014 and 2013 employ hedge fund strategies that generate returns through investing in marketable securities in the public fixed income and equity markets. Limited partnerships representing 23% and 22% at December 31, 2014 and 2013 were invested in private debt and equity, and the remaining limited partnerships were primarily invested in real estate strategies. Hedge fund strategies include both long and short positions in fixed income, equity and derivative instruments. These hedge fund strategies may seek to generate gains from mispriced or undervalued securities, price differentials between securities, distressed investments, sector rotation or various arbitrage disciplines. Within hedge fund strategies, approximately 56% were equity related, 27% pursued a multi-strategy approach, 14% were focused on distressed investments and 3% were fixed income related at December 31, 2014.

The ten largest limited partnership positions held totaled $1,492 million and $1,471 million as of December 31, 2014 and 2013. Based on the most recent information available regarding the Company's percentage ownership of the individual limited partnerships, the carrying value reflected on the Consolidated Balance Sheets represents approximately 4% of the aggregate partnership equity at December 31, 2014 and 2013, and the related income reflected on the Consolidated Statements of Operations represents approximately 4%, 4% and 3% of the changes in total partnership equity for the years ended December 31, 2014, 2013 and 2012.

While the Company generally does not invest in highly leveraged partnerships, there are risks which may result in losses due to short-selling, derivatives or other speculative investment practices. The use of leverage increases volatility generated by the underlying investment strategies.

The Company's limited partnership investments contain withdrawal provisions that generally limit liquidity for a period of thirty days up to one year and in some cases do not permit withdrawals until the termination of the partnership. Typically, withdrawals require advance written notice of up to 90 days.

Commercial Mortgage Loans

Risks related to the recoverability of loan balances include declines in the estimated cash flows from underlying property leases, fair value of collateral and creditworthiness of tenants of credit tenant loan properties, where lease payments directly service the loan. The Company evaluates loans for impairment on a specific loan basis and identifies loans for evaluation of impairment based on the collection experience of each loan and other credit quality indicators such as debt service coverage ratio and the creditworthiness of the borrower or tenants of credit tenant loan properties. As of December 31, 2014 and 2013, there were no loans past due or in non-accrual status, and no valuation allowance was recorded.

Investment Commitments

As of December 31, 2014, the Company had committed approximately $327 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

As of December 31, 2014, the Company had a mortgage loan commitment of $8 million representing a signed loan application received and accepted.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases, sales and funding. As of December 31, 2014, the Company had commitments to purchase or fund additional amounts of $75 million and sell $97 million under the terms of such securities.

Investments on Deposit

Securities with carrying values of approximately $3.0 billion and $3.3 billion were deposited by the Company's insurance subsidiaries under requirements of regulatory authorities and others as of December 31, 2014 and 2013.

Cash and securities with carrying values of approximately $361 million and $353 million were deposited with financial institutions as collateral for letters of credit as of December 31, 2014 and 2013. In addition, cash and securities were deposited in trusts with financial institutions to secure reinsurance and other obligations with various third parties. The carrying values of these deposits were approximately $302 million and $294 million as of December 31, 2014 and 2013.

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Note C. Derivative Financial Instruments
The Company may use derivatives in the normal course of business, primarily in an attempt to reduce its exposure to market risk (principally interest rate risk, credit risk, equity price risk and foreign currency risk) stemming from various assets and liabilities. The Company's principal objective under such strategies is to achieve the desired reduction in economic risk, even if the position does not receive hedge accounting treatment.
The Company may enter into interest rate swaps, futures and commitments to purchase securities to manage interest rate risk. The Company may use foreign currency forward contracts to manage foreign currency risk.
In addition to the derivatives used for risk management purposes described above, the Company may also use derivatives for purposes of income enhancement. Income enhancement transactions are limited in scope and primarily involve the sale of covered options in which the Company receives a premium in exchange for selling a call or put option.
Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized fair value of the asset related to the instruments recognized on the Consolidated Balance Sheets. The Company generally requires that all over-the-counter derivative contracts be governed by an International Swaps and Derivatives Association Master Agreement, and exchanges collateral under the terms of these agreements with its derivative investment counterparties depending on the amount of the exposure and the credit rating of the counterparty. Gross estimated fair values of derivative positions are presented in Other invested assets and Other liabilities on the Consolidated Balance Sheet. The Company does not offset derivative positions against the fair value of collateral provided or positions subject to netting arrangements. 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 December 31, 2014 and 2013. There was no cash collateral provided by the Company at December 31, 2014 or 2013. There was no cash collateral received from counterparties held at December 31, 2014 or 2013.
A summary of the aggregate contractual or notional amounts and gross estimated fair values related to derivative financial instruments reported as Other invested assets or Other liabilities on the Consolidated Balance Sheets follows. 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

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

December 31, 2013	Contractual/	Estimated Fair Value	
(In millions)	Notional Amount	Asset	(Liability)
Without hedge designation			
Equity warrants	$5	$—	$—

For further discussion of the embedded derivative on funds withheld liability, see Note A to the Consolidated Financial Statements.

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Note D. Fair Value
Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are the most transparent or reliable.
Level 1 - Quoted prices for identical instruments in active markets.
Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.
Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are not observable.
Prices may fall within Level 1, 2 or 3 depending upon the methodologies and inputs used to estimate fair value for each specific security. In general the Company seeks to price securities using third-party pricing services. Securities not priced by pricing services are submitted to independent brokers for valuation and, if those are not available, internally developed pricing models are used to value assets using methodologies and inputs the Company believes market participants would use to value the assets. Prices obtained from third-party pricing services or brokers are not adjusted by the Company.
The Company performs control procedures over information obtained from pricing services and brokers to ensure prices received represent a reasonable estimate of fair value and to confirm representations regarding whether inputs are observable or unobservable. Procedures include i) the review of pricing service or broker pricing methodologies, ii) back-testing, where past fair value estimates are compared to actual transactions executed in the market on similar dates, iii) exception reporting, where changes in price, period-over-period, are reviewed and challenged with the pricing service or broker based on exception criteria, iv) deep dives, where the Company performs an independent analysis of the inputs and assumptions used to price individual securities and v) pricing validation, where prices received are compared to prices independently estimated by the Company.

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Assets and Liabilities Measured at Fair Value

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

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

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December 31, 2013 (In millions)	Level 1	Level 2	Level 3	Total Assets/(Liabilities) at Fair Value
Assets				
Fixed maturity securities:				
Corporate and other bonds	$33	$20,661	$204	$ 20,898
States, municipalities and political subdivisions	—	11,486	71	11,557
Asset-backed:				
Residential mortgage-backed	—	4,640	331	4,971
Commercial mortgage-backed	—	1,912	151	2,063
Other asset-backed	—	509	446	955
Total asset-backed	—	7,061	928	7,989
U.S. Treasury and obligations of government-sponsored enterprises	116	28	—	144
Foreign government	81	462	—	543
Redeemable preferred stock	45	57	—	102
Total fixed maturity securities	275	39,755	1,203	41,233
Equity securities	126	48	11	185
Other invested assets	—	54	—	54
Short term investments	769	563	—	1,332
Life settlement contracts, included in Other assets	—	—	88	88
Separate account business	9	171	1	181
Total assets	$1,179	$40,591	$1,303	$ 43,073

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The tables below present a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2014 and 2013.

Level 3 (In millions)	Balance at January 1, 2014	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income (loss)*	Net change in unrealized appreciation (depreciation) included in other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at December 31, 2014	Unrealized gains (losses) on Level 3 assets and liabilities held at December 31, 2014 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	$ 204	$ 2	$ (1)	$ 33	$ (23)	$ (16)	$ 18	$ (55)	$ 162	$ —
States, municipalities and political subdivisions	71	1	4	14	(10)	—	14	—	94	—
Asset-backed:										
Residential mortgage-backed	331	(21)	61	94	(174)	(72)	32	(62)	189	—
Commercial mortgage-backed	151	7	(6)	28	(60)	(29)	43	(51)	83	—
Other asset-backed	446	2	(6)	488	(111)	(117)	—	(47)	655	(1)
Total asset-backed	928	(12)	49	610	(345)	(218)	75	(160)	927	(1)
Total fixed maturity securities	1,203	(9)	52	657	(378)	(234)	107	(215)	1,183	(1)
Equity securities	11	3	(6)	16	(8)	—	—	—	16	—
Life settlement contracts	88	33	—	—	—	(39)	—	—	82	8
Separate account business	1	—	—	—	—	—	—	(1)	—	—
Total	$ 1,303	$ 27	$ 46	$ 673	$ (386)	$ (273)	$ 107	$ (216)	$ 1,281	$ 7

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Level 3 (In millions)	Balance at January 1, 2013	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income (loss)*	Net change in unrealized appreciation (depreciation) included in other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at December 31, 2013	Unrealized gains (losses) on Level 3 assets and liabilities held at December 31, 2013 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	$ 219	$ 3	$ —	$ 142	$ (116)	$ (44)	$ 51	$ (51)	$ 204	$ (2)
States, municipalities and political subdivisions	96	(2)	4	122	(79)	(61)	18	(27)	71	—
Asset-backed:										
Residential mortgage-backed	413	4	(14)	116	(10)	(75)	4	(107)	331	(3)
Commercial mortgage-backed	129	—	11	107	(3)	(11)	21	(103)	151	—
Other asset-backed	368	5	(4)	314	(197)	(35)	—	(5)	446	(2)
Total asset-backed	910	9	(7)	537	(210)	(121)	25	(215)	928	(5)
Redeemable preferred stock	26	(1)	—	—	—	(25)	—	—	—	—
Total fixed maturity securities	1,251	9	(3)	801	(405)	(251)	94	(293)	1,203	(7)
Equity securities	34	(27)	3	2	—	—	—	(1)	11	(27)
Other invested assets, including derivatives, net	—	—	—	—	(1)	1	—	—	—	—
Short term investments	6	—	—	—	(6)	—	—	—	—	—
Life settlement contracts	100	13	—	—	—	(25)	—	—	88	(2)
Separate account business	2	—	—	1	(2)	—	—	—	1	—
Total	$ 1,393	$ (5)	$ —	$ 804	$ (414)	$ (275)	$ 94	$ (294)	$ 1,303	$ (36)

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

Securities shown on the previous page may be transferred in or out of levels within the fair value hierarchy based on the availability of observable market information and quoted prices used to determine the fair value of the security. The availability of observable market information and quoted prices varies based on market conditions and trading volume. During the year ended December 31, 2014 there were $24 million of transfers from Level 2 to Level 1 and $1 million from Level 1 to Level 2. There were no transfers between Level 1 and Level 2 during the year ended December 31, 2013. The Company's policy is to recognize transfers between levels at the beginning of quarterly reporting periods.

Valuation Methodologies and Inputs

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

Fixed Maturity Securities

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

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

Equity Securities

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

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Derivative Financial Investments

Level 1 securities include exchange traded derivatives, primarily futures, valued using quoted market prices. Level 2 securities primarily include the embedded derivative on funds withheld liability and currency forwards. The embedded derivative on funds withheld liability is valued using the change in fair value of the assets supporting the funds withheld payable, which are fixed maturity securities valued with observable inputs. Currency forwards are valued using observable market forward rates. Over-the-counter derivatives, principally interest rate swaps, total return 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.

Overseas Deposits

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

Short Term Investments

Securities that are actively traded or have quoted prices are classified as Level 1. These securities include money market funds and treasury bills. Level 2 primarily includes commercial paper, for which all inputs are market observable. Fixed maturity securities purchased within one year of maturity are classified consistent with fixed maturity securities discussed above. Short term investments as presented in the tables above differ from the amounts presented on the 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 included 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.

December 31, 2014

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

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

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

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 Consolidated Balance Sheets are listed in the tables below.

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

December 31, 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	$23	$—	$—	$23	$23
Mortgage loans	508	—	—	515	515
Financial liabilities					
Premium deposits and annuity contracts	$57	$—	$—	$58	$58
Short term debt	549	—	575	—	575
Long term debt	2,011	—	2,328	—	2,328

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

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

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

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

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

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The carrying amounts reported on the 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 E. Income Taxes

The CNA Tax Group is included in the consolidated federal income tax return of Loews and its eligible subsidiaries. Loews and the Company have agreed that for each taxable year, the Company will 1) be paid by Loews the amount, if any, by which the Loews consolidated federal income tax liability is reduced by virtue of the inclusion of the CNA Tax Group in the Loews consolidated federal income tax return, or 2) pay to Loews an amount, if any, equal to the federal income tax that would have been payable by the CNA Tax Group filing a separate consolidated tax return. In the event that Loews should have a net operating loss in the future computed on the basis of filing a separate consolidated tax return without the CNA Tax Group, the Company may be required to repay tax recoveries previously received from Loews. This agreement may be canceled by either party upon 30 days written notice.

For the years ended December 31, 2014 and 2013, the Company paid $287 million and $89 million to Loews related to federal income taxes. For the year ended December 31, 2012, the Company received from Loews $75 million related to federal income taxes.

For 2012 through 2014, the IRS has accepted Loews and the Company into the Compliance Assurance Process (CAP), which is a voluntary program for large corporations. Under CAP, the IRS conducts a real-time audit and works contemporaneously with the Company to resolve any issues prior to the filing of the tax return. The Company believes that this approach should reduce tax-related uncertainties, if any.

At December 31, 2014 and 2013, there were no unrecognized tax benefits.

The Company recognizes interest accrued related to: 1) unrecognized tax benefits in Interest expense and 2) tax refund claims in Other revenues on the Consolidated Statements of Operations. The Company recognizes penalties (if any) in Income tax (expense) benefit on the Consolidated Statements of Operations. During 2014 and 2013, the Company recognized no interest and no penalties. During 2012, the Company recognized $2 million of interest income and no penalties. There were no amounts accrued for interest or penalties at December 31, 2014 or 2013.

The following table provides a reconciliation between the Company's federal income tax expense at statutory rates and the recorded income tax expense, excluding discontinued operations.

Tax Reconciliation

Years ended December 31 (In millions)	2014	2013	2012
Income tax expense at statutory rates	$(423)	$(447)	$(301)
Tax benefit from tax exempt income	119	97	84
Foreign taxes and credits	(6)	(1)	(13)
Other tax expense	(9)	(10)	(9)
Income tax expense	$(319)	$(361)	$(239)

At December 31, 2014, no deferred taxes are required on the undistributed earnings of subsidiaries subject to tax.

The following table provides the current and deferred components of the Company's income tax expense, excluding taxes on discontinued operations.

Current and Deferred Taxes

Years ended December 31 (In millions)	2014	2013	2012
Current tax expense	$(318)	$(292)	$(94)
Deferred tax expense	(1)	(69)	(145)
Total income tax expense	$(319)	$(361)	$(239)

Total income tax presented above includes foreign tax expense of approximately $24 million, $24 million and $34 million related to income from continuing foreign operations of approximately $66 million, $101 million and $88 million for the years ended December 31, 2014, 2013 and 2012.

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Explanation of Responses:

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The deferred tax effects of the significant components of the Company's deferred tax assets and liabilities are set forth in the table below.

Components of Net Deferred Tax Asset		
December 31		
(In millions)	2014	2013
Deferred Tax Assets:		
Insurance reserves:		
Property and casualty claim and claim adjustment expense reserves	$265	$289
Unearned premium reserves	187	178
Receivables	35	50
Employee benefits	289	187
Life settlement contracts	46	46
Deferred retroactive reinsurance benefit	61	66
Other assets	138	149
Gross deferred tax assets	1,021	965
Deferred Tax Liabilities:		
Investment valuation differences	50	68
Deferred acquisition costs	226	232
Net unrealized gains	489	383
Other liabilities	65	62
Gross deferred tax liabilities	830	745
Net deferred tax asset	$191	$220

At December 31, 2014, the CNA Tax Group had no loss carryforwards or tax credit carryforwards.

Although realization of deferred tax assets is not assured, management believes it is more likely than not that the recognized net deferred tax asset will be realized through recoupment of ordinary and capital taxes paid in prior carryback years and through future earnings, reversal of existing temporary differences and available tax planning strategies. As a result, no valuation allowance was recorded at December 31, 2014 or 2013.

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Note F. Claim and Claim Adjustment Expense Reserves

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

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

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company's results of operations and/or equity. The Company reported catastrophe losses, net of reinsurance, of $156 million, $169 million and $391 million for the years ended December 31, 2014, 2013 and 2012. Catastrophe losses in 2012 included Storm Sandy.

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The table below provides a reconciliation between beginning and ending claim and claim adjustment expense reserves, including claim and claim adjustment expense reserves of the life company as of and for the years ended December 31, 2014, 2013 and 2012.

Reconciliation of Claim and Claim Adjustment Expense Reserves
As of and for the years ended December 31

(In millions)	2014	2013	2012
Reserves, beginning of year:			
Gross	$24,089	$24,763	$24,303
Ceded	4,972	5,126	5,020
Net reserves, beginning of year	19,117	19,637	19,283
Change in net reserves due to acquisition (disposition) of subsidiaries	(13)	—	291
Net incurred claim and claim adjustment expenses:			
Provision for insured events of current year	5,043	5,114	5,273
Decrease in provision for insured events of prior years	(36)	(115)	(182)
Amortization of discount	161	154	145
Total net incurred (a)	5,168	5,153	5,236
Net payments attributable to:			
Current year events	(945)	(981)	(988)
Prior year events	(4,355)	(4,588)	(4,280)
Total net payments	(5,300)	(5,569)	(5,268)
Foreign currency translation adjustment and other	(45)	(104)	95
Net reserves, end of year	18,927	19,117	19,637
Ceded reserves, end of year	4,344	4,972	5,126
Gross reserves, end of year	$23,271	$24,089	$24,763

(a) Total net incurred above does not agree to Insurance claims and policyholders' benefits as reflected on the Consolidated Statements of Operations due to amounts related to retroactive reinsurance deferred gain accounting, uncollectible reinsurance and loss deductible receivables, and benefit expenses related to future policy benefits and policyholders' funds, which are not reflected in the table above.

The changes in provision for insured events of prior years (net prior year claim and claim adjustment expense reserve development, including unallocated claim and claim adjustment expense) were as follows.

Reserve Development
Years ended December 31

(In millions)	2014	2013	2012
Property and casualty reserve development	$(39)	$(115)	$(180)
Life reserve development in life company	3	—	(2)
Total	$(36)	$(115)	$(182)

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The following tables summarize the gross and net carried reserves as of December 31, 2014 and 2013.

Gross and Net Carried Claim and Claim Adjustment Expense Reserves

December 31, 2014 (In millions)	Specialty	Commercial	International	Life & Group Non-Core	Corporate & Other Non-Core	Total
Gross Case Reserves	$2,136	$5,298	$752	$2,881	$1,189	$12,256
Gross IBNR Reserves	4,093	4,216	689	302	1,715	11,015
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$6,229	$9,514	$1,441	$3,183	$2,904	$23,271
Net Case Reserves	$1,929	$4,947	$598	$2,572	$144	$10,190
Net IBNR Reserves	3,726	3,906	663	271	171	8,737
Total Net Carried Claim and Claim Adjustment Expense Reserves	$5,655	$8,853	$1,261	$2,843	$315	$18,927

December 31, 2013 (In millions)	Specialty	Commercial	International	Life & Group Non-Core	Corporate & Other Non-Core	Total
Gross Case Reserves	$2,001	$5,570	$803	$2,748	$1,140	$12,262
Gross IBNR Reserves	4,057	4,521	772	310	2,167	11,827
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$6,058	$10,091	$1,575	$3,058	$3,307	$24,089
Net Case Reserves	$1,793	$5,119	$629	$2,352	$283	$10,176
Net IBNR Reserves	3,789	3,992	705	271	184	8,941
Total Net Carried Claim and Claim Adjustment Expense Reserves	$5,582	$9,111	$1,334	$2,623	$467	$19,117

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Net Prior Year Development

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. These changes can be favorable or unfavorable. The following tables and discussion include the net prior year development recorded for Specialty, Commercial, International and Corporate & Other Non-Core segments for the years ended December 31, 2014, 2013 and 2012. Favorable net prior year development of $14 million, $9 million and $11 million was recorded in the Life & Group Non-Core segment for the years ended December 31, 2014, 2013 and 2012.

Net Prior Year Development

Year ended December 31, 2014

(In millions)	Specialty	Commercial	International	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(136)	$176	$(59)	$(2)	$(21)
Pretax (favorable) unfavorable premium development	(13)	(20)	2	(1)	(32)
Total pretax (favorable) unfavorable net prior year development	$(149)	$156	$(57)	$(3)	$(53)

Year ended December 31, 2013

(In millions)	Specialty	Commercial	International	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(196)	$122	$(38)	$(6)	$(118)
Pretax (favorable) unfavorable premium development	(14)	(8)	(21)	1	(42)
Total pretax (favorable) unfavorable net prior year development	$(210)	$114	$(59)	$(5)	$(160)

Year ended December 31, 2012

(In millions)	Specialty	Commercial	International	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(93)	$(25)	$(74)	$(13)	$(205)
Pretax (favorable) unfavorable premium development	(14)	(36)	3	1	(46)
Total pretax (favorable) unfavorable net prior year development	$(107)	$(61)	$(71)	$(12)	$(251)

Premium development can occur in the property and casualty business when there is a change in exposure on auditable policies or when premium accruals differ from processed premium. Audits on policies usually occur in a period after the expiration date of the policy.

For the year ended December 31, 2013, favorable premium development for International was recorded related to a commutation as discussed later in this note.

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Specialty

The following table provides further detail of the net prior year claim and allocated claim adjustment expense reserve development (development) recorded for the Specialty segment for the years ended December 31, 2014, 2013 and 2012.

Years ended December 31 (In millions)	2014	2013	2012
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:			
Medical Professional Liability	$39	$(27)	$(34)
Other Professional Liability and Management Liability	(87)	(73)	19
Surety	(82)	(74)	(63)
Warranty	(2)	(3)	(5)
Other	(4)	(19)	(10)
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(136)	$(196)	$(93)

2014

Unfavorable development for medical professional liability was primarily related to increased frequency of large medical products liability class action lawsuits in accident years 2012 and prior and increased frequency of other large medical professional liability losses in accident years 2011 through 2013.

Overall, favorable development for other professional liability and management liability was related to better than expected severity in accident years 2008 through 2011, including favorable outcomes on individual large claims. Additional favorable development related to lower than expected frequency in accident years 2011 through 2013. Unfavorable development was recorded due to higher than expected severity in financial institution and professional service coverages in accident years 2009 through 2011.

Favorable development for surety coverages was primarily due to better than expected large loss emergence in accident years 2012 and prior.

2013

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

Overall, favorable development for other professional liability and management liability was related to better than expected loss emergence in accident years 2010 and prior. Unfavorable development was recorded in accident year 2011 related to an increase in severity in management liability.

Favorable development for surety coverages was primarily due to better than expected large loss emergence in accident years 2011 and prior.

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

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2012

Favorable development for medical professional liability was primarily due to better than expected loss emergence in accident years 2008 and prior.

Overall, unfavorable development for other professional liability and management liability was primarily due to increased frequency and severity in our lawyer coverages in accident years 2008 through 2011, a large claim settlement in 2005 related to lawyers and increased frequency of large claims in public company directors and officers coverages related to the financial crisis in accident year 2011. Favorable development was recorded primarily due to better than expected loss emergence in accident years 2003 through 2009.

Favorable development for surety coverages was primarily due to better than expected loss emergence in accident years 2010 and prior.

Overall, favorable development for other coverages was primarily due to favorable loss emergence in property and workers' compensation coverages in accident years 2005 and subsequent. Unfavorable development was recorded in accident year 2009 primarily due to an unfavorable outcome on an individual general liability claim.

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Commercial

The following table provides further detail of the development recorded for the Commercial segment for the years ended December 31, 2014, 2013 and 2012.

Years ended December 31 (In millions)	2014	2013	2012
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:			
Commercial Auto	$31	$18	$25
General Liability	45	64	(66)
Workers' Compensation	139	91	15
Property and Other	(39)	(51)	1
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$176	$122	$(25)

2014

Unfavorable development for commercial auto was primarily related to higher than expected frequency in accident years 2012 and 2013 and higher than expected severity for liability coverages in accident years 2010 through 2013. Favorable development was recorded related to fewer large claims than expected in accident years 2008 and 2009.

Overall, unfavorable development for general liability was primarily related to higher than expected severity in accident years 2010 through 2013. Favorable development was recorded primarily related to lower than expected frequency of large losses in accident years 2005 through 2009.

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

Favorable development for property and other first-party coverages was recorded in accident years 2013 and prior, primarily related to fewer claims than expected and favorable individual claim settlements.

2013

Unfavorable development for commercial auto coverages was primarily due to higher than expected frequency in accident years 2011 and 2012 and large loss emergence in accident years 2009 and 2010.

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 includes the Company's 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. Additional unfavorable development was recorded in accident year 2012 related to increased frequency and severity on claims related to DBA contractors and in accident year 2010 due to higher than expected large losses and increased severity in the state of California.

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

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2012

Unfavorable development for commercial auto coverages was primarily due to higher than expected loss emergence in accident years 2007 and subsequent and higher than expected frequency in accident year 2011.

Overall, favorable development for general liability coverages was primarily due to better than expected loss emergence in accident years 2006 and subsequent related to umbrella business and 2003 and prior related to large account business. Unfavorable development was recorded in accident years 2009 through 2011 related to several large losses.

Overall, unfavorable development for workers' compensation was primarily due to increased medical severity in accident years 2010 and 2011 and the recognition of losses related to favorable premium development in accident year 2011. Favorable development was recorded in accident years 2001 and prior reflecting favorable experience.

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International

The following table provides further detail of the development recorded for the International segment for the years ended December 31, 2014, 2013 and 2012.

Years ended December 31 (In millions)	2014	2013	2012
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:			
Medical Professional Liability	$(7)	$(7)	$1
Other Professional Liability	(26)	(30)	(41)
Liability	(13)	(8)	(2)
Property & Marine	(14)	13	(30)
Other	(9)	(17)	(2)
Commutations	10	11	—
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$(59)	$(38)	$(74)

2014

Overall, favorable development for other professional liability was primarily related to better than expected severity in accident years 2012 and prior. Unfavorable development was recorded in accident year 2008 due to financial crisis claims.

Favorable development for liability was primarily related to better than expected frequency and severity in accident years 2009 and subsequent.

Favorable development for property and marine coverages primarily related to better than expected frequency of large claims in accident years 2012 and prior.

Favorable development for other coverages was a result of better than expected frequency in Hardy, primarily in financial institution coverages.

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

2013

Overall, favorable development for other professional liability was primarily related to better than expected severity in accident years 2011 and prior. Unfavorable development was recorded related to higher than expected severity in accident year 2012.

Overall, unfavorable development for property and marine coverages was primarily due to 2011 catastrophe events, including the Thailand floods and the New Zealand Lyttelton earthquake, and one large non-catastrophe claim. Favorable development was recorded related to better than expected severity in accident years 2008 through 2011.

Favorable development for other coverages was largely a result of better than expected severity in Hardy in accident year 2012.

The commutation of a third-party capital provider's 15% participation in the 2012 year of account resulted in recognition of the 15% share of year of account premiums, losses and expenses.

2012

Favorable development for other professional liability was primarily related to better than expected severity in accident years 2007 and prior.

Favorable development for property and marine coverages related to better than expected severity in accident years 2011 and prior.

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A&EP Reserves

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

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

Years ended December 31 (In millions)	2014	2013	2012
Net A&EP adverse development before consideration of LPT	$—	$363	$261
Provision for uncollectible third-party reinsurance on A&EP	—	140	—
Additional amounts ceded under LPT	—	503	261
Retroactive reinsurance benefit recognized	(13)	(314)	(261)
Pretax impact of unrecognized deferred retroactive reinsurance benefit	$(13)	$189	$—

During 2013 and 2012, unfavorable development was recorded for accident years 2000 and prior related to A&EP claims due to an increase in ultimate claim severity and higher than anticipated claim reporting, as well as increased defense costs. Additionally, in 2013 the Company recognized a provision for uncollectible third-party reinsurance which increased the expected recovery from NICO. The fourth quarter 2014 A&EP reserve review was not completed. Additional information and analysis on inuring third-party reinsurance recoveries are needed to finalize the review. The Company expects to complete the review in the first half of 2015.

In the fourth quarter of 2013, the cumulative amounts ceded under the Loss Portfolio Transfer of $2.5 billion exceeded the $2.2 billion consideration paid, resulting in a $189 million deferred retroactive reinsurance gain. This deferred benefit is recognized in earnings in proportion to actual recoveries under the Loss Portfolio Transfer. Over the life of the contract, there is no economic impact as long as any additional losses are within the limit under the contract. In 2014, $13 million of the deferred retroactive reinsurance benefit was recognized, and the remaining unrecognized benefit at December 31, 2014 was $176 million.

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

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Note 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 Consolidated Financial Statements.

Note H. Reinsurance

The Company cedes insurance to reinsurers to limit its maximum loss, provide greater diversification of risk, minimize exposures on larger risks and to exit certain lines of business. The ceding of insurance does not discharge the primary liability of the Company. A credit exposure exists with respect to property and casualty and life reinsurance ceded to the extent that any reinsurer is unable to meet its obligations or to the extent that the reinsurer disputes the liabilities assumed under reinsurance agreements. Property and casualty reinsurance coverages are tailored to the specific risk characteristics of each product line and the Company's retained amount varies by type of coverage. Reinsurance contracts are purchased to protect specific lines of business such as property and workers' compensation. Corporate catastrophe reinsurance is also purchased for property and workers' compensation exposure. Currently, most reinsurance contracts are purchased on an excess of loss basis. The Company also utilizes facultative reinsurance in certain lines. In addition, the Company assumes reinsurance, primarily through Hardy and as a member of various reinsurance pools and associations.

The following table summarizes the amounts receivable from reinsurers at December 31, 2014 and 2013.

Components of Reinsurance Receivables

December 31 (In millions)	2014	2013
Reinsurance receivables related to insurance reserves:		
Ceded claim and claim adjustment expenses	$4,344	$4,972
Ceded future policy benefits	185	733
Ceded policyholders' funds	—	35
Reinsurance receivables related to paid losses	213	348
Reinsurance receivables	4,742	6,088
Allowance for uncollectible reinsurance	(48)	(71)
Reinsurance receivables, net of allowance for uncollectible reinsurance	$4,694	$6,017

The Company has established an allowance for uncollectible reinsurance receivables. The Company reviews the allowance quarterly and adjusts the allowance as necessary to reflect changes in estimates of uncollectible balances. The allowance may also be reduced related to write-offs of reinsurance receivable balances.

The Company attempts to mitigate its credit risk related to reinsurance by entering into reinsurance arrangements with reinsurers that have credit ratings above certain levels, and by obtaining collateral. On a limited basis, the Company may enter into reinsurance agreements with reinsurers that are not rated, primarily captive reinsurers. The primary methods of obtaining collateral are through reinsurance trusts, letters of credit and funds withheld balances. Such collateral was approximately $3.4 billion and $3.9 billion at December 31, 2014 and 2013.

The Company's largest recoverables from a single reinsurer at December 31, 2014, including ceded unearned premium reserves were approximately $2,565 million from subsidiaries of Berkshire Hathaway Group, $244 million from subsidiaries of the Hartford Insurance Group and $185 million from subsidiaries of Wilton Re. The recoverable from the Berkshire Hathaway Group includes amounts related to third-party reinsurance for which NICO has assumed the credit risk under the terms of the Loss Portfolio Transfer as discussed in Note F to the Consolidated Financial Statements.

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The effects of reinsurance on earned premiums and written premiums for the years ended December 31, 2014, 2013 and 2012 are shown in the following tables.

Components of Earned Premiums

(In millions)	Direct	Assumed	Ceded	Net	Assumed/ Net %	
2014 Earned Premiums						
Property and casualty	$9,452	$277	$3,073	$6,656	4.2	%
Accident and health	508	48	—	556	8.6	%
Total earned premiums	$9,960	$325	$3,073	$7,212	4.5	%
2013 Earned Premiums						
Property and casualty	$9,063	$258	$2,609	$6,712	3.8	%
Accident and health	511	48	—	559	8.6	%
Total earned premiums	$9,574	$306	$2,609	$7,271	4.2	%
2012 Earned Premiums						
Property and casualty	$8,354	$197	$2,229	$6,322	3.1	%
Accident and health	512	47	—	559	8.4	%
Total earned premiums	$8,866	$244	$2,229	$6,881	3.5	%

Components of Written Premiums

(In millions)	Direct	Assumed	Ceded	Net	Assumed/ Net %	
2014 Written Premiums						
Property and casualty	$9,283	$276	$3,024	$6,535	4.2	%
Accident and health	504	49	—	553	8.9	%
Total written premiums	$9,787	$325	$3,024	$7,088	4.6	%
2013 Written Premiums						
Property and casualty	$9,103	$249	$2,556	$6,796	3.7	%
Accident and health	505	47	—	552	8.5	%
Total written premiums	$9,608	$296	$2,556	$7,348	4.0	%
2012 Written Premiums						
Property and casualty	$8,467	$169	$2,225	$6,411	2.6	%
Accident and health	506	47	—	553	8.5	%
Total written premiums	$8,973	$216	$2,225	$6,964	3.1	%

Included in the direct and ceded earned premiums for the years ended December 31, 2014, 2013 and 2012 are $2,643 million, $2,156 million and $1,794 million related to property business that is 100% reinsured under a significant third-party captive program. The third-party captives that participate in this program are affiliated with the non-insurance company policyholders, therefore this program provides a means for the policyholders to self-insure this property risk. The Company receives and retains a ceding commission.

Accident and health premiums are from long duration contracts; property and casualty premiums are from short duration contracts.

Insurance claims and policyholders' benefits reported on the Consolidated Statements of Operations are net of reinsurance recoveries of $1,379 million, $1,450 million and $1,443 million for the years ended December 31, 2014, 2013 and 2012, including $1,458 million, $712 million and $814 million related to the significant third-party captive program discussed above. Reinsurance recoveries in 2014 were unfavorably affected by the commutation of a workers’

compensation reinsurance pool.

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Note I. Debt

Debt is composed of the following obligations.

December 31 (In millions)	2014	2013
Short term debt:		
Senior notes of CNAF, 5.850%, face amount of $549, due December 15, 2014	$—	$549
Long term debt:		
Senior notes of CNAF:		
6.500%, face amount of $350, due August 15, 2016	349	349
6.950%, face amount of $150, due January 15, 2018	150	149
7.350%, face amount of $350, due November 15, 2019	348	348
5.875%, face amount of $500, due August 15, 2020	497	497
5.750%, face amount of $400, due August 15, 2021	397	397
3.950%, face amount of $550, due May 15, 2024	547	—
Debenture of CNAF, 7.250%, face amount of $243, due November 15, 2023	241	241
Subordinated variable rate debt of Hardy, face amount of $30, due September 15, 2036	30	30
Total long term debt	2,559	2,011
Total debt	$2,559	$2,560

CCC is a member of the Federal Home Loan Bank of Chicago (FHLBC). FHLBC membership provides participants with access to additional sources of liquidity through various programs and services. As a requirement of membership in the FHLBC, CCC held $16 million of FHLBC stock as of December 31, 2014 and 2013 giving it access to approximately $330 million of additional liquidity. As of December 31, 2014 and 2013, CCC had no outstanding borrowings from the FHLBC.

The Company has a four-year $250 million senior unsecured revolving credit facility with a syndicate of banks which is intended to be used for general corporate purposes. At the Company's election, the commitments under the credit agreement may be increased from time to time up to an additional aggregate amount of $100 million. Under the credit agreement, the Company is required to pay a facility fee which would adjust automatically in the event of a change in the Company's financial ratings. The credit agreement includes several covenants, including maintenance of a minimum consolidated net worth and a specified ratio of consolidated indebtedness to consolidated total capitalization. The minimum consolidated net worth, as defined as of December 31, 2014, was $8.6 billion. As of December 31, 2014 and 2013, we had no outstanding borrowings under the credit agreement. The credit facility expires in 2016.

The Company's debt obligations contain customary covenants for investment grade issuers. The Company was in compliance with all covenants as of and for the years ended December 31, 2014 and 2013.

The combined aggregate maturities for debt at December 31, 2014 are presented in the following table.

Maturity of Debt (In millions)	
2015	$—
2016	350
2017	—
2018	150
2019	350
Thereafter	1,723
Less discount	(14)
Total	$2,559

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Note J. Benefit Plans

Pension and Postretirement Health Care Benefit Plans

CNA sponsors noncontributory defined benefit pension plans, primarily through the CNA Retirement Plan, covering certain eligible employees. These plans are closed to new entrants.

Effective January 1, 2000, the CNA Retirement Plan was closed to new participants. Existing participants at that time were given a choice to either continue to accrue benefits under the CNA Retirement Plan or to cease accruals at December 31, 1999. Employees who chose to continue to accrue benefits under the plan will receive a benefit based on their years of credited service and highest 60 months of compensation at termination. Compensation is defined as regular salary, eligible bonuses and overtime. Employees who elected to cease accruals at December 31, 1999 received the present value of their accrued benefit in an accrued pension account that is credited with interest based on the annual rate of interest on 30-year Treasury securities. These employees also receive certain enhanced employer contributions in the CNA Savings and Capital Accumulation Plan.

CNA's funding policy for defined benefit pension plans is to make contributions in accordance with applicable governmental regulatory requirements with consideration of the funded status of the plans.

During 2014, the CNA Retirement Plan offered a limited-time lump sum settlement payment opportunity to the majority of the terminated vested participants of the plan. The lump sum settlements reduce the Company’s risk and volatility related to funding the CNA Retirement Plan. The number of participants that elected to accept the lump sum opportunity was approximately 20% of the then total participants in the plan. The settlement payments of $253 million were made from CNA Retirement Plan assets. The $84 million settlement charge recorded by the Company in the fourth quarter of 2014 represents recognition of a portion of the unrecognized actuarial losses previously reflected in AOCI. This settlement charge is included in Other operating expenses within the Corporate & Other Non-Core segment.

CNA provides certain health care benefits to eligible retired employees, their covered dependents and their beneficiaries primarily through the CNA Health and Group Benefits Program. These postretirement benefits have largely been eliminated for active employees.

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

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The following table provides a reconciliation of benefit obligations and plan assets for the years ended December 31, 2014 and 2013.

Funded Status

	Pension Benefits		Postretirement Benefits	
(In millions)	2014	2013	2014	2013
Benefit obligation at January 1	$2,943	$3,271	$40	$47
Changes in benefit obligation:				
Service cost	9	12	—	1
Interest cost	132	121	1	1
Participants' contributions	—	—	5	5
Plan amendments	(3)	—	(7)	—
Actuarial (gain) loss	367	(289)	1	(3)
Benefits paid	(165)	(165)	(11)	(12)
Settlements	(257)	(8)	—	—
Foreign currency translation and other	(7)	1	—	1
Benefit obligation at December 31	3,019	2,943	29	40
Fair value of plan assets at January 1	2,656	2,425	—	—
Change in plan assets:				
Actual return on plan assets	216	311	—	—
Company contributions	12	92	6	7
Participants' contributions	—	—	5	5
Benefits paid	(165)	(165)	(11)	(12)
Settlements	(257)	(8)	—	—
Foreign currency translation and other	(6)	1	—	—
Fair value of plan assets at December 31	2,456	2,656	—	—
Funded status	$(563)	$(287)	$(29)	$(40)
Amounts recognized on the Consolidated Balance Sheets at December 31:				
Other assets	$9	$9	$—	$—
Other liabilities	(572)	(296)	(29)	(40)
Net amount recognized	$(563)	$(287)	$(29)	$(40)
Amounts recognized in Accumulated other comprehensive income, not yet recognized in net periodic cost (benefit):				
Prior service credit	$—	$—	$(9)	$(98)
Net actuarial loss	974	745	8	8
Net amount recognized	$974	$745	$(1)	$(90)

The accumulated benefit obligation for all defined benefit pension plans was $2,962 million and $2,889 million at December 31, 2014 and 2013.

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

Net Periodic Cost (Benefit)

Years ended December 31 (In millions)	2014		2013		2012	
Pension cost (benefit)						
Service cost	$9		$12		$12	
Interest cost on projected benefit obligation	132		121		135	
Expected return on plan assets	(191	)	(181	)	(171	)
Amortization of net actuarial loss	25		47		39	
Settlement loss	84		3		—	
Net periodic pension cost (benefit)	$59		$2		$15	
Postretirement cost (benefit)						
Service cost	$—		$1		$—	
Interest cost on projected benefit obligation	1		1		2	
Amortization of prior service credit	(10	)	(18	)	(18	)
Amortization of net actuarial loss	1		2		1	
Curtailment gain	(86	)	—		—	
Net periodic postretirement cost (benefit)	$(94	)	$(14	)	$(15	)

The amounts recognized in Other comprehensive income are presented in the following table.

Years ended December 31 (In millions)	2014		2013		2012	
Pension and postretirement benefits						
Amounts arising during the period	$(337	)	$422		$(195	)
Curtailment and other	(81	)	—		—	
Settlement	84		—		—	
Reclassification adjustment relating to prior service credit	(10	)	(18	)	(18	)
Reclassification adjustment relating to actuarial loss	26		49			