

CNA FINANCIAL CORP
Form 10-Q
October 30, 2012

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

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from _____ to _____

Commission File Number 1-5823

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

60604
(Zip Code)

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

Yes No

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

Yes No

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

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

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

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

Class
Common Stock, Par value \$2.50

Outstanding at October 26, 2012
269,397,139

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements

CNA Financial Corporation

Condensed Consolidated Statements of Operations (Unaudited)

Periods ended September 30

(In millions, except per share data)

	Three Months		Nine Months	
	2012	2011	2012	2011
Revenues				
Net earned premiums	\$1,781	\$1,732	\$5,098	\$4,942
Net investment income	601	394	1,719	1,531
Net realized investment gains (losses), net of participating policyholders' interests:				
Other-than-temporary impairment losses	(62	) (75	) (89	) (136
Portion of other-than-temporary impairments recognized in Other comprehensive income	(2	) (2	) (25	) (44
Net other-than-temporary impairment losses recognized in earnings	(64	) (77	) (114	) (180
Other net realized investment gains	72	50	180	181
Net realized investment gains (losses), net of participating policyholders' interests	8	(27	) 66	1
Other revenues	76	76	230	214
Total revenues	2,466	2,175	7,113	6,688
Claims, Benefits and Expenses				
Insurance claims and policyholders' benefits	1,435	1,400	4,164	4,131
Amortization of deferred acquisition costs	333	297	937	880
Other operating expenses	341	311	976	914
Interest	43	43	128	132
Total claims, benefits and expenses	2,152	2,051	6,205	6,057
Income from continuing operations before income tax	314	124	908	631
Income tax expense	(93	) (48	) (271	) (196
Income from continuing operations	221	76	637	435
Loss from discontinued operations, net of income tax benefit of -, -, - and \$0	—	—	—	(1
Net income	221	76	637	434
Net (income) loss attributable to noncontrolling interests	—	(1	) —	(15
Net income attributable to CNA	\$221	\$75	\$637	\$419
Income Attributable to CNA Common Stockholders				
Income from continuing operations attributable to CNA common stockholders	\$221	\$75	\$637	\$420
Loss from discontinued operations attributable to CNA common stockholders	—	—	—	(1
Income attributable to CNA common stockholders	\$221	\$75	\$637	\$419

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

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Periods ended September 30 (In millions, except per share data)	Three Months		Nine Months	
	2012	2011	2012	2011
Basic Earnings Per Share Attributable to CNA Common Stockholders				
Income from continuing operations attributable to CNA common stockholders	\$0.82	\$0.28	\$2.37	\$1.56
Loss from discontinued operations attributable to CNA common stockholders	—	—	—	—
Income attributable to CNA common stockholders	\$0.82	\$0.28	\$2.37	\$1.56
Diluted Earnings Per Share Attributable to CNA Common Stockholders				
Income from continuing operations attributable to CNA common stockholders	\$0.82	\$0.28	\$2.36	\$1.56
Loss from discontinued operations attributable to CNA common stockholders	—	—	—	—
Income attributable to CNA common stockholders	\$0.82	\$0.28	\$2.36	\$1.56
Dividends per share	\$0.15	\$0.10	\$0.45	\$0.30
Weighted Average Outstanding Common Stock and Common Stock Equivalents				
Basic	269.4	269.3	269.4	269.3
Diluted	269.8	269.6	269.8	269.6
The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).				

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CNA Financial Corporation

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Periods ended September 30

(In millions)

Other Comprehensive Income, Net of Tax

Changes in:

Net unrealized gains (losses) on investments with other-than-temporary impairments

Net unrealized gains on other investments

Net unrealized gains on investments

Foreign currency translation adjustment

Pension and postretirement benefits

Net unrealized gains on discontinued operations and other

Allocation to participating policyholders

Other comprehensive income, net of tax

Net income

Comprehensive income

Other comprehensive (income) loss attributable to noncontrolling interests related to changes in net unrealized (gains) losses on investments

Net (income) loss attributable to noncontrolling interests

Comprehensive (income) loss attributable to noncontrolling interests

Total comprehensive income attributable to CNA

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

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CNA Financial Corporation

Condensed Consolidated Balance Sheets (Unaudited)

(In millions, except share data)	September 30, 2012	December 31, 2011	
Assets			
Investments:			
Fixed maturity securities at fair value (amortized cost of \$37,945 and \$37,345)	\$42,305	\$39,937	
Equity securities at fair value (cost of \$228 and \$288)	260	304	
Limited partnership investments	2,370	2,245	
Other invested assets	11	12	
Mortgage loans	358	234	
Short term investments	2,484	1,641	
Total investments	47,788	44,373	
Cash	129	75	
Reinsurance receivables (less allowance for uncollectible receivables of \$74 and \$91)	5,840	6,001	
Insurance receivables (less allowance for uncollectible receivables of \$102 and \$112)	1,902	1,614	
Accrued investment income	484	436	
Deferred acquisition costs	603	552	
Deferred income taxes	8	415	
Property and equipment at cost (less accumulated depreciation of \$408 and \$420)	317	309	
Goodwill and other intangible assets	285	139	
Other assets (includes \$0 and \$130 due from Loews Corporation)	911	779	
Separate account business	345	417	
Total assets	\$58,612	\$55,110	
Liabilities and Equity			
Liabilities:			
Insurance reserves:			
Claim and claim adjustment expenses	\$24,331	\$24,303	
Unearned premiums	3,681	3,250	
Future policy benefits	10,974	9,810	
Policyholders' funds	165	191	
Participating policyholders' funds	71	68	
Short term debt	13	83	
Long term debt	2,557	2,525	
Other liabilities (includes \$87 and \$0 due to Loews Corporation)	3,815	2,975	
Separate account business	345	417	
Total liabilities	45,952	43,622	
Commitments and contingencies (Notes D, H and J)			
Equity:			
Common stock (\$2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; 269,397,139 and 269,274,900 shares outstanding)	683	683	
Additional paid-in capital	2,144	2,141	
Retained earnings	8,823	8,308	
Accumulated other comprehensive income	1,130	480	
Treasury stock (3,643,104 and 3,765,343 shares), at cost	(99) (102)
Notes receivable for the issuance of common stock	(21) (22)
Total CNA stockholders' equity	12,660	11,488	
Total liabilities and equity	\$58,612	\$55,110	
The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).			

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CNA Financial Corporation

Condensed Consolidated Statements of Cash Flows (Unaudited)

Nine months ended September 30

(In millions)

Cash Flows from Operating Activities

	2012	2011	
Net income	\$637	\$434	
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Loss from discontinued operations	—	1	
Loss on disposal of property and equipment	1	8	
Deferred income tax expense	95	151	
Trading portfolio activity	(13	) (8)
Net realized investment gains, net of participating policyholders' interests	(66	) (1)
Equity method investees	(68	) 80	
Amortization of investments	(43	) (47)
Depreciation and amortization	83	59	
Changes in:			
Receivables, net	348	267	
Accrued investment income	(46	) (42)
Deferred acquisition costs	(27	) (21)
Insurance reserves	(53	) (5)
Other assets	90	110	
Other liabilities	47	(181)
Other, net	8	10	
Total adjustments	356	381	
Net cash flows provided by operating activities-continuing operations	\$993	\$815	
Net cash flows provided (used) by operating activities-discontinued operations	\$—	\$(2)
Net cash flows provided by operating activities-total	\$993	\$813	
Cash Flows from Investing Activities			
Purchases of fixed maturity securities	\$(7,369	) \$(8,854)
Proceeds from fixed maturity securities:			
Sales	4,761	5,900	
Maturities, calls and redemptions	2,655	2,434	
Purchases of equity securities	(30	) (51)
Proceeds from sales of equity securities	72	171	
Origination of mortgage loans	(129	) (118)
Change in short term investments	(505	) 499	
Change in other investments	35	(137)
Purchase of Hardy	(197) —	
Purchases of property and equipment	(60	) (67)
Other, net	20	4	
Net cash flows used by investing activities-continuing operations	\$(747	) \$(219)
Net cash flows provided (used) by investing activities-discontinued operations	\$—	\$2	
Net cash flows used by investing activities-total	\$(747	) \$(217)

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

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Nine months ended September 30

(In millions)

	2012	2011	
Cash Flows from Financing Activities			
Acquisition of CNA Surety noncontrolling interest	\$—	\$(475)
Dividends paid to common stockholders	(122	)	(81)
Proceeds from the issuance of debt	—	396	
Repayment of debt	(70	)	(420)
Stock options exercised	1	2	
Other, net	(4	)	(10)
Net cash flows used by financing activities-continuing operations	\$(195	)	\$(588)
Net cash flows provided (used) by financing activities-discontinued operations	\$—	\$—	
Net cash flows used by financing activities-total	\$(195	)	\$(588)
Effect of foreign exchange rate changes on cash	\$3	\$(1)
Net change in cash	\$54	\$7	
Cash, beginning of year	75	77	
Cash, end of period	\$129	\$84	

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

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CNA Financial Corporation

Condensed Consolidated Statements of Equity (Unaudited)

Nine months ended September 30

(In millions)	2012	2011	
Common Stock			
Balance, beginning of period	\$683	\$683	
Balance, end of period	683	683	
Additional Paid-in Capital			
Balance, beginning of period, as previously reported	2,146	2,200	
Cumulative effect adjustment from accounting change for deferred acquisition costs, net of tax	(5) —	
Balance, beginning of period, as adjusted	2,141	2,200	
Stock-based compensation	3	3	
Acquisition of CNA Surety noncontrolling interest	—	(65)
Other	—	1	
Balance, end of period	2,144	2,139	
Retained Earnings			
Balance, beginning of period, as previously reported	8,382	7,876	
Cumulative effect adjustment from accounting change for deferred acquisition costs, net of tax	(74	) (72)
Balance, beginning of period, as adjusted	8,308	7,804	
Dividends paid to common stockholders	(122	) (81)
Net income attributable to CNA	637	419	
Balance, end of period	8,823	8,142	
Accumulated Other Comprehensive Income			
Balance, beginning of period, as previously reported	470	326	
Cumulative effect adjustment from accounting change for deferred acquisition costs, net of tax	10	—	
Balance, beginning of period, as adjusted	480	326	
Other comprehensive income attributable to CNA	650	550	
Acquisition of CNA Surety noncontrolling interest	—	19	
Balance, end of period	1,130	895	
Treasury Stock			
Balance, beginning of period	(102	) (105)
Stock-based compensation	3	3	
Balance, end of period	(99	) (102)
Notes Receivable for the Issuance of Common Stock			
Balance, beginning of period	(22	) (26)
Decrease in notes receivable for the issuance of common stock	1	4	
Balance, end of period	(21	) (22)
Total CNA Stockholders' Equity	12,660	11,735	
Noncontrolling Interests			
Balance, beginning of period, as previously reported	—	570	
Cumulative effect adjustment from accounting change for deferred acquisition costs, net of tax	—	(7)
Balance, beginning of period, as adjusted	—	563	
Net income	—	15	
Other comprehensive income	—	8	
Acquisition of CNA Surety noncontrolling interest	—	(429)

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Other	—	(12)
Balance, end of period	—	145	
Total Equity	\$12,660	\$11,880	

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

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Notes to Condensed Consolidated Financial Statements (Unaudited)

Note A. General

Basis of Presentation

The Condensed Consolidated Financial Statements (Unaudited) include the accounts of CNA Financial Corporation (CNAF) and its controlled subsidiaries. Collectively, CNAF and its controlled subsidiaries are referred to as CNA or the Company. CNA's property and casualty and remaining life and group insurance operations are primarily conducted by Continental Casualty Company (CCC), The Continental Insurance Company, Western Surety Company, and Continental Assurance Corporation. Loews Corporation (Loews) owned approximately 90% of the outstanding common stock of CNAF as of September 30, 2012.

The accompanying Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Certain financial information that is normally included in annual financial statements, including certain financial statement notes, prepared in accordance with GAAP, is not required for interim reporting purposes and has been condensed or omitted. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in CNAF's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) for the year ended December 31, 2011, including the summary of significant accounting policies in Note A. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

The interim financial data as of September 30, 2012 and for the three and nine months ended September 30, 2012 and 2011 is unaudited. However, in the opinion of management, the interim data includes all adjustments, consisting of normal recurring accruals, necessary for a fair statement of the Company's results for the interim periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

Intercompany amounts have been eliminated.

Noncontrolling Interests

Net income attributable to noncontrolling interests for the three and nine months ended September 30, 2011 represented the noncontrolling interests in CNA Surety Corporation (Surety) and First Insurance Company of Hawaii (FICOH). On June 10, 2011, CNA completed the acquisition of the noncontrolling interest of Surety and on November 29, 2011, CNA completed the sale of its 50% ownership interest in FICOH.

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the Financial Accounting Standards Board issued updated accounting guidance which limits the capitalization of costs incurred to acquire or renew insurance contracts to those that are incremental direct costs of successful contract acquisitions. The previous guidance allowed the capitalization of acquisition costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts, whether the costs related to successful or unsuccessful efforts.

As of January 1, 2012, the Company adopted the updated accounting guidance prospectively as of January 1, 2004, the earliest date practicable. Due to the lack of available historical data related to certain accident and health contracts issued prior to January 1, 2004, a full retrospective application of the change in accounting guidance was impracticable. Acquisition costs capitalized prior to January 1, 2004 will continue to be accounted for under the previous accounting guidance and will be 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.

For the three and nine months ended September 30, 2012, the adoption of the new accounting guidance resulted in no impact and a \$3 million decrease in Net income attributable to CNA and no impact and a \$0.01 decrease in Basic and Diluted earnings per share attributable to CNA common stockholders.

The Company has adjusted its previously reported financial information included herein to reflect the change in accounting guidance for deferred acquisition costs. The impacts of adopting the new accounting standard on the

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Company's Condensed Consolidated Balance Sheet as of December 31, 2011 were a \$106 million decrease in Deferred acquisition costs and a \$37 million increase in Deferred income taxes. The impacts to Accumulated other comprehensive income (AOCI) and Additional paid-in capital were the result of the indirect effects of the Company's adoption of this guidance on Shadow Adjustments, as further discussed in Note D, and the Company's acquisition of the noncontrolling interest of Surety as discussed above.

The impacts on the Company's Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011 were a \$59 million and \$171 million decrease in Amortization of deferred acquisition costs, a \$59 million and \$178 million increase in Other operating expenses, a \$1 million and \$2 million decrease in Income tax expense, and a \$1 million increase and no impact in Net income attributable to noncontrolling interests, resulting in no impact and a \$5 million decrease in Net income attributable to CNA, and no impact and a \$0.02 decrease in Basic and Diluted earnings per share attributable to CNA common stockholders. There were no changes to net cash flows from operating, investing or financing activities for the comparative periods presented as a result of the adoption of the new accounting standard.

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Note B. Hardy

On July 2, 2012, the Company completed the previously announced acquisition of all outstanding shares of Hardy Underwriting Bermuda Limited and its subsidiaries (Hardy), a specialized Lloyd's of London (Lloyd's) underwriter. Through Lloyd's Syndicate 382, Hardy underwrites primarily short-tail exposures in marine and aviation, non-marine property, specialty lines and property treaty reinsurance. The acquisition of Hardy aligns with the Company's specialized underwriting focus and will be a key platform for expanding the Company's global business through the Lloyd's marketplace. The results of Hardy for the period from July 2, 2012 to September 30, 2012 are included in the results of our core property and casualty insurance operations as a separate segment.

For the year ended December 31, 2011, Hardy reported gross written premiums of \$430 million and recorded a loss of \$55 million in its group consolidated financial statements prepared in accordance with International Financial Reporting Standards.

The purchase price for Hardy was \$231 million. Acquisition related expenses of \$4 million were incurred during the nine months ended September 30, 2012, including investment advisory, legal and other expenses, and were recorded in the Corporate and Other Non-Core segment.

The fair value of the assets acquired and the liabilities assumed as a result of the acquisition of Hardy were as follows:

(In millions)	Acquisition Date July 2, 2012
Investments:	
Fixed maturity securities	\$ 117
Short term investments	255
Total investments	372
Cash	34
Reinsurance receivables	252
Insurance receivables	222
Accrued investment income	2
Property and equipment	4
Goodwill and other intangible assets	171
Other assets	109
Total assets acquired	\$ 1,166
Claim and claim adjustment expenses	\$ 500
Unearned premiums	249
Long term debt	30
Other liabilities	156
Total liabilities assumed	\$ 935

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The intangible assets acquired are presented in the following table.

(In millions)	Amount	Economic Useful Life
Syndicate capacity	\$55	Indefinite
Total indefinite-lived intangible assets	55	
Value of business acquired	60	1 - 4 years
Trade name	8	8 years
Distribution channel	13	15 years
Total finite-lived intangible assets	81	
Total intangible assets as of the acquisition date	\$136	

For the three months ended September 30, 2012, amortization expense of \$18 million was included in Amortization of deferred acquisition costs and \$6 million was included in Other operating expenses in the Statement of Operations for the Hardy segment. Estimated future amortization expense for these intangible assets is \$19 million in the fourth quarter of 2012, \$21 million in 2013, \$4 million in 2014, \$1 million in 2015 and \$2 million in both 2016 and 2017. The acquisition resulted in goodwill of \$35 million which was recorded in the Hardy segment. The recognized goodwill is based on the Company's expected growth and profitability of Hardy. The goodwill is not deductible for tax purposes.

Lloyd's requires syndicate capital providers to provide funds at Lloyd's (FAL) which is available to Lloyd's should funds in the Lloyd's premium trust fund be insufficient to cover obligations. At September 30, 2012, the Company had a deposit of \$66 million of short duration U.S. Treasury securities in a Lloyd's custody account related to the FAL. Although the Company still owns these securities, these securities are controlled by Lloyd's and are therefore restricted. Additionally, cash and securities with a carrying value of approximately \$71 million were deposited by Hardy under local requirements of regulatory authorities as of September 30, 2012.

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Note C. Earnings Per Share

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

For the three and nine months ended September 30, 2012, approximately 450 thousand and 400 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 693 thousand and 740 thousand potential shares attributable to exercises under stock-based employee compensation plans were not included in the calculation of diluted earnings per share because the effect would have been antidilutive.

For the three and nine months ended September 30, 2011, approximately 279 thousand and 286 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 1.2 million and 1.1 million potential shares attributable to exercises under stock-based employee compensation plans were not included in the calculation of diluted earnings per share because the effect would have been antidilutive.

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Note D. Investments

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

Net Investment Income

Periods ended September 30 (In millions)	Three Months		Nine Months	
	2012	2011	2012	2011
Fixed maturity securities	\$507	\$494	\$1,528	\$1,505
Short term investments	2	2	5	6
Limited partnership investments	89	(93)	184	32
Equity securities	4	4	10	16
Mortgage loans	5	2	13	6
Trading portfolio (a)	7	(1)	18	5
Other	—	1	3	6
Gross investment income	614	409	1,761	1,576
Investment expense	(13)	(15)	(42)	(45)
Net investment income	\$601	\$394	\$1,719	\$1,531

(a) There were no net unrealized gains (losses) related to changes in fair value of trading securities still held included in net investment income for the three or nine months ended September 30, 2012. Net unrealized losses related to changes in fair value on trading securities still held included in net investment income were \$1 million for the three and nine months ended September 30, 2011.

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

Net Realized Investment Gains (Losses)

Periods ended September 30 (In millions)	Three Months		Nine Months	
	2012	2011	2012	2011
Net realized investment gains (losses):				
Fixed maturity securities:				
Gross realized gains	\$75	\$56	\$193	\$233
Gross realized losses	(49)	(85)	(120)	(222)
Net realized investment gains (losses) on fixed maturity securities	26	(29)	73	11
Equity securities:				
Gross realized gains	5	1	10	7
Gross realized losses	(20)	(2)	(24)	(10)
Net realized investment gains (losses) on equity securities	(15)	(1)	(14)	(3)
Derivatives	(1)	1	(1)	—
Short term investments and other (a) (b)	(2)	2	8	(7)
Net realized investment gains (losses), net of participating policyholders' interests	\$8	\$(27)	\$66	\$1

(a) The nine months ended September 30, 2011 included a \$9 million loss related to the early extinguishment of debt in 2011.

(b) Includes net unrealized gains (losses) related to changes in the fair value of securities for which the fair value option has been elected. There were no net unrealized gains (losses) included in the three months ended September 30, 2012 or 2011 or the nine months ended September 30, 2012. There were \$1 million of net unrealized gains for the nine months ended September 30, 2011.

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

Periods ended September 30 (In millions)	Three Months		Nine Months	
	2012	2011	2012	2011
Fixed maturity securities available-for-sale:				
Corporate and other bonds	\$7	\$49	\$23	\$73
States, municipalities and political subdivisions	17	—	17	—
Asset-backed:				
Residential mortgage-backed	20	21	49	95
Other asset-backed	—	4	—	4
Total asset-backed	20	25	49	99
U.S. Treasury and obligation of government-sponsored enterprises	—	—	1	—
Total fixed maturity securities available-for-sale	44	74	90	172
Equity securities available-for-sale:				
Common stock	1	3	5	7
Preferred stock	19	—	19	1
Total equity securities available-for-sale	20	3	24	8
Net OTTI losses recognized in earnings	\$64	\$77	\$114	\$180

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

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

The Impairment Committee's assessment of whether an OTTI loss has occurred incorporates both quantitative and qualitative information. Fixed maturity securities that the Company intends to sell, or it more likely than not will be required to sell before recovery of amortized cost, are considered to be other-than-temporarily impaired and the entire difference between the amortized cost basis and fair value of the security is recognized as an OTTI loss in earnings. The remaining fixed maturity securities in an unrealized loss position are evaluated to determine if a credit loss exists. The factors considered by the Impairment Committee include (a) the financial condition and near term prospects of the issuer, (b) whether the debtor is current on interest and principal payments, (c) credit ratings of the securities and (d) general market conditions and industry or sector specific outlook. The Company also considers results and analysis of cash flow modeling for asset-backed securities, and when appropriate, other fixed maturity securities. The focus of the analysis for asset-backed securities is on assessing the sufficiency and quality of underlying collateral and timing of cash flows based on scenario tests. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss is judged to exist and the asset-backed security is deemed to be temporarily impaired. If the present value of the expected cash flows is less than amortized cost, the security is judged to be other-than-temporarily impaired for credit reasons and that shortfall, referred to as the credit component, is recognized as an OTTI loss in earnings. The difference between the adjusted amortized cost basis and fair value, referred to as the non-credit component, is recognized as OTTI in Other comprehensive income. 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.

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

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

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

Summary of Fixed Maturity and Equity Securities

September 30, 2012

(In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
Fixed maturity securities available-for-sale:					
Corporate and other bonds	\$19,209	\$2,634	\$32	\$21,811	\$—
States, municipalities and political subdivisions	9,415	1,450	53	10,812	—
Asset-backed:					
Residential mortgage-backed	5,907	264	81	6,090	(12)
Commercial mortgage-backed	1,582	123	17	1,688	(3)
Other asset-backed	944	23	1	966	—
Total asset-backed	8,433	410	99	8,744	(15)
U.S. Treasury and obligations of government-sponsored enterprises	182	11	1	192	—
Foreign government	588	26	—	614	—
Redeemable preferred stock	101	14	—	115	—
Total fixed maturity securities available-for-sale	37,928	4,545	185	42,288	\$(15)
Total fixed maturity securities trading	17	—	—	17	
Equity securities available-for-sale:					
Common stock	22	24	—	46	
Preferred stock	206	8	—	214	
Total equity securities available-for-sale	228	32	—	260	
Total	\$38,173	\$4,577	\$185	\$42,565	

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December 31, 2011 (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	\$19,086	\$1,946	\$154	\$20,878	\$—
States, municipalities and political subdivisions	9,018	900	136	9,782	—
Asset-backed:					
Residential mortgage-backed	5,786	172	183	5,775	99
Commercial mortgage-backed	1,365	48	59	1,354	(2)
Other asset-backed	946	13	4	955	—
Total asset-backed	8,097	233	246	8,084	97
U.S. Treasury and obligations of government-sponsored enterprises	479	14	—	493	—
Foreign government	608	28	—	636	—
Redeemable preferred stock	51	7	—	58	—
Total fixed maturity securities available-for-sale	37,339	3,128	536	39,931	\$97
Total fixed maturity securities trading	6	—	—	6	
Equity securities available-for-sale:					
Common stock	30	17	—	47	
Preferred stock	258	4	5	257	
Total equity securities available-for-sale	288	21	5	304	
Total	\$37,633	\$3,149	\$541	\$40,241	

The net unrealized gains on investments included in the tables above are recorded as a component of AOCI. When presented in AOCI, these amounts are net of tax and any required Shadow Adjustments. At September 30, 2012 and December 31, 2011, the net unrealized gains on investments included in AOCI were net of after-tax Shadow Adjustments of \$1,277 million and \$723 million. To the extent that unrealized gains on fixed income securities supporting certain products within the Life & Group Non-Core segment would result in a premium deficiency if realized, a related decrease in Deferred acquisition costs and/or increase in Insurance reserves is recorded, net of tax, as a reduction through Other comprehensive income (Shadow Adjustments).

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

Securities in a Gross Unrealized Loss Position

September 30, 2012 (In millions)	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities available-for-sale:						
Corporate and other bonds	\$600	\$18	\$210	\$14	\$810	\$32
States, municipalities and political subdivisions	84	1	227	52	311	53
Asset-backed:						
Residential mortgage-backed	327	3	580	78	907	81
Commercial mortgage-backed	142	2	132	15	274	17
Other asset-backed	66	1	—	—	66	1
Total asset-backed	535	6	712	93	1,247	99
	22	1	—	—	22	1

U.S. Treasury and obligations of
government-sponsored enterprises

Total	\$1,241	\$26	\$1,149	\$159	\$2,390	\$185
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December 31, 2011 (In millions)	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities available-for-sale:						
Corporate and other bonds	\$2,552	\$126	\$159	\$28	\$2,711	\$154
States, municipalities and political subdivisions	67	1	721	135	788	136
Asset-backed:						
Residential mortgage-backed	719	36	874	147	1,593	183
Commercial mortgage-backed	431	39	169	20	600	59
Other asset-backed	389	4	—	—	389	4
Total asset-backed	1,539	79	1,043	167	2,582	246
Total fixed maturity securities available-for-sale	4,158	206	1,923	330	6,081	536
Equity securities available-for-sale:						
Preferred stock	117	5	—	—	117	5
Total	\$4,275	\$211	\$1,923	\$330	\$6,198	\$541

Based on current facts and circumstances, the Company believes the unrealized losses presented in the September 30, 2012 Securities in a Gross Unrealized Loss Position table above, are primarily attributable to broader economic conditions, changes in interest rates and credit spreads, market illiquidity and other market factors, but are not indicative of the ultimate collectibility of the current amortized cost of the securities. The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at September 30, 2012.

The amount of pretax net realized gains (losses) on available-for-sale securities reclassified out of AOCI into earnings was \$12 million and \$59 million for the three and nine months ended September 30, 2012 and \$(29) million and \$12 million for the three and nine months ended September 30, 2011.

The following table summarizes the activity for the three and nine months ended September 30, 2012 and 2011 related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held at September 30, 2012 and 2011 for which a portion of an OTTI loss was recognized in Other comprehensive income (loss).

Periods ended September 30 (In millions)	Three Months		Nine Months	
	2012	2011	2012	2011
Beginning balance of credit losses on fixed maturity securities	\$99	\$82	\$92	\$141
Additional credit losses for securities for which an OTTI loss was previously recognized	2	11	23	29
Credit losses for securities for which an OTTI loss was not previously recognized	—	10	2	11
Reductions for securities sold during the period	(3	) (4	) (11	) (50
Reductions for securities the Company intends to sell or more likely than not will be required to sell	—	—	(8	) (32
Ending balance of credit losses on fixed maturity securities	\$98	\$99	\$98	\$99

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Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at September 30, 2012 and December 31, 2011. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

Contractual Maturity

(In millions)	September 30, 2012		December 31, 2011	
	Cost or Amortized Cost	Estimated Fair Value	Cost or Amortized Cost	Estimated Fair Value
Due in one year or less	\$1,861	\$1,876	\$1,802	\$1,812
Due after one year through five years	13,382	14,176	13,110	13,537
Due after five years through ten years	8,490	9,337	8,410	8,890
Due after ten years	14,195	16,899	14,017	15,692
Total	\$37,928	\$42,288	\$37,339	\$39,931

Investment Commitments

As of September 30, 2012, the Company had committed approximately \$114 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships. The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases, sales and funding. The purchase and sale of these investments are recorded on the date that the legal agreements are finalized and cash settlements are made. As of September 30, 2012, the Company had commitments to purchase \$159 million and sell \$154 million of such investments. The Company has an obligation to fund additional amounts under the terms of current loan participations that may not be recorded until a draw is made. As of September 30, 2012, the Company had obligations on unfunded bank loan participations in the amount of \$6 million.

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Note E. Derivative Financial Instruments

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

Recognized Gains (Losses)

Periods ended September 30 (In millions)	Three Months		Nine Months	
	2012	2011	2012	2011
Without hedge designation				
Currency forwards	\$(1)	\$—	\$(1)	\$(1)
Forward commitments for mortgage-backed securities	—	1	—	1
Total without hedge designation	(1)	1	(1)	—
Trading activities				
Futures sold, not yet purchased	(1)	—	—	—
Total	\$(2)	\$1	\$(1)	\$—

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 Condensed 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

September 30, 2012 (In millions)	Contractual/ Notional Amount	Estimated Fair Value	
		Asset	(Liability)
Without hedge designation			
Credit default swaps - purchased protection	\$20	\$—	\$(1)
Currency forwards	72	—	(2)
Equity warrants	5	—	—
Total	\$97	\$—	\$(3)

December 31, 2011 (In millions)	Contractual/ Notional Amount	Estimated Fair Value	
		Asset	(Liability)
Without hedge designation			
Credit default swaps - purchased protection	\$20	\$—	\$(1)
Currency forwards	22	1	—
Equity warrants	4	—	—
Total	\$46	\$1	\$(1)

During the three and nine months ended September 30, 2012, new derivative transactions entered into totaled \$472 million and \$1,251 million in notional value while derivative termination activity totaled \$488 million and \$1,200 million. This activity was primarily attributable to interest rate futures, forward commitments for mortgage-backed securities and foreign currency forwards. During the three and nine months ended September 30, 2011, new derivative transactions entered into totaled approximately \$229 million and \$728 million in notional value while derivative termination activity totaled approximately \$166 million and \$673 million. This activity was primarily attributable to interest rate futures, forward commitments for mortgage-backed securities and foreign currency forwards.

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Note F. Fair Value

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

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

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

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

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

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Assets and Liabilities Measured at Fair Value

Assets and liabilities measured at fair value on a recurring basis are summarized below.
September 30, 2012

(In millions)	Level 1	Level 2	Level 3	Total Assets/(Liabilities) at Fair Value
Assets				
Fixed maturity securities:				
Corporate and other bonds	\$—	\$21,569	\$259	\$ 21,828
States, municipalities and political subdivisions	—	10,723	89	10,812
Asset-backed:				
Residential mortgage-backed	—	5,653	437	6,090
Commercial mortgage-backed	—	1,571	117	1,688
Other asset-backed	—	595	371	966
Total asset-backed	—	7,819	925	8,744
U.S. Treasury and obligations of government-sponsored enterprises	168	24	—	192
Foreign government	139	475	—	614
Redeemable preferred stock	29	60	26	115
Total fixed maturity securities	336	40,670	1,299	42,305
Equity securities	98	112	50	260
Derivative and other financial instruments, included in Other invested assets	—	—	11	11
Short term investments	1,209	1,223	8	2,440
Life settlement contracts, included in Other assets	—	—	113	113
Separate account business	4	338	3	345
Total assets	\$1,647	\$42,343	\$1,484	\$ 45,474
Liabilities				
Derivative financial instruments, included in Other liabilities	\$—	\$(2) \$(1) \$ (3
Total liabilities	\$—	\$(2) \$(1) \$ (3

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December 31, 2011				Total
(In millions)	Level 1	Level 2	Level 3	Assets/(Liabilities) at Fair Value
Assets				
Fixed maturity securities:				
Corporate and other bonds	\$—	\$20,402	\$482	\$ 20,884
States, municipalities and political subdivisions	—	9,611	171	9,782
Asset-backed:				
Residential mortgage-backed	—	5,323	452	5,775
Commercial mortgage-backed	—	1,295	59	1,354
Other asset-backed	—	612	343	955
Total asset-backed	—	7,230	854	8,084
U.S. Treasury and obligations of government-sponsored enterprises	451	42	—	493
Foreign government	92	544	—	636
Redeemable preferred stock	5	53	—	58
Total fixed maturity securities	548	37,882	1,507	39,937
Equity securities	124	113	67	304
Derivative and other financial instruments, included in Other invested assets	—	1	11	12
Short term investments	1,106	508	27	1,641
Life settlement contracts, included in Other assets	—	—	117	117
Separate account business	21	373	23	417
Total assets	\$1,799	\$38,877	\$1,752	\$ 42,428
Liabilities				
Derivative financial instruments, included in Other liabilities	\$—	\$—	\$(1) \$ (1
Total liabilities	\$—	\$—	\$(1) \$ (1

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The tables below present a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended September 30, 2012 and 2011.

Level 3 (In millions)	Balance at July 1, 2012	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income (loss)*	Net change in unrealized appreciation (depreciation) included in other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at September 30, 2012	Unrealized gains (losses) on Level 3 assets and liabilities held at September 30, 2012 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	\$488	\$ 1	\$ (4)	\$ 50	\$(5)	\$(11)	\$—	\$(260)	\$ 259	\$(1)
States, municipalities and political subdivisions	89	—	—	—	—	—	—	—	89	—
Asset-backed:										
Residential mortgage-backed	443	(17)	20	21	—	(8)	—	(22)	437	(18)
Commercial mortgage-backed	166	4	6	12	—	(17)	11	(65)	117	—
Other asset-backed	434	2	5	143	(117)	(34)	—	(62)	371	—
Total asset-backed	1,043	(11)	31	176	(117)	(59)	11	(149)	925	(18)
Redeemable preferred stock	27	—	(1)	—	—	—	—	—	26	—
Total fixed maturity securities	1,647	(10)	26	226	(122)	(70)	11	(409)	1,299	(19)
Equity securities	93	(19)	(10)	—	—	—	—	(14)	50	(19)
Derivative and other financial instruments, net	10	—	—	—	—	—	—	—	10	—
Short term investments	4	—	—	7	(4)	—	1	—	8	—
Life settlement contracts	116	7	—	—	—	(10)	—	—	113	—
Separate account business	3	—	—	—	—	—	—	—	3	—
Total	\$1,873	\$(22)	\$ 16	\$ 233	\$(126)	\$(80)	\$ 12	\$(423)	\$ 1,483	\$(38)

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Level 3 (In millions)	Balance at July 1, 2011	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income (loss)*	Net change in unrealized appreciation (depreciation) other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at September 30, 2011	Unrealized gains (losses) on Level 3 assets and liabilities held at September 30, 2011 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	\$812	\$ (7)	\$ (3)	\$ 113	\$(107)	\$ (47)	\$ 12	\$(154)	\$ 619	\$ (10)
States, municipalities and political subdivisions	179	—	—	3	—	—	—	—	182	—
Asset-backed:										
Residential mortgage-backed	687	1	(5)	73	(81)	(13)	—	(31)	631	—
Commercial mortgage-backed	95	—	(7)	76	—	—	—	(5)	159	—
Other asset-backed	491	(5)	(6)	114	(105)	(25)	2	(37)	429	(4)
Total asset-backed	1,273	(4)	(18)	263	(186)	(38)	2	(73)	1,219	(4)
Total fixed maturity securities	2,264	(11)	(21)	379	(293)	(85)	14	(227)	2,020	(14)
Equity securities	36	—	—	—	(1)	—	—	(3)	32	—
Derivative and other financial instruments, net	9	(1)	—	1	—	—	—	—	9	—
Short term investments	6	—	—	—	—	—	—	—	6	—
Life settlement contracts	129	11	—	—	—	(15)	—	—	125	(1)
Separate account business	37	—	—	—	(2)	—	—	—	35	—
Total	\$2,481	\$ (1)	\$ (21)	\$ 380	\$(296)	\$ (100)	\$ 14	\$(230)	\$ 2,227	\$ (15)

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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 nine months ended September 30, 2012 and 2011.

Level 3 (In millions)	Balance at January 1, 2012	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income (loss)*	Net change in unrealized appreciation (depreciation) in other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at September 30, 2012	Unrealized gains (losses) on Level 3 assets and liabilities held at September 30, 2012 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	\$ 482	\$ 7	\$ 2	\$ 197	\$(118)	\$(43)	\$42	\$(310)	\$ 259	\$(1)
States, municipalities and political subdivisions	171	—	3	—	—	(85)	—	—	89	—
Asset-backed:										
Residential mortgage-backed	452	(15)	(2)	81	—	(24)	—	(55)	437	(18)
Commercial mortgage-backed	59	6	14	141	(12)	(21)	11	(81)	117	—
Other asset-backed	343	8	8	501	(293)	(93)	—	(103)	371	—
Total asset-backed	854	(1)	20	723	(305)	(138)	11	(239)	925	(18)
Redeemable preferred stock	—	—	(1)	53	(26)	—	—	—	26	—
Total fixed maturity securities	1,507	6	24	973	(449)	(266)	53	(549)	1,299	(19)
Equity securities	67	(19)	6	26	(16)	—	—	(14)	50	(21)
Derivative and other financial instruments, net	10	—	—	—	—	—	—	—	10	—
Short term investments	27	—	—	23	(4)	(39)	1	—	8	—
Life settlement contracts	117	30	—	—	—	(34)	—	—	113	3
Separate account business	23	—	—	—	(20)	—	—	—	3	—
Total	\$ 1,751	\$ 17	\$ 30	\$ 1,022	\$(489)	\$(339)	\$ 54	\$(563)	\$ 1,483	\$(37)

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Level 3 (In millions)	Balance at January 1, 2011	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income (loss)*	Net change in unrealized (depreciation) included in other comprehensive income (loss)	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance at September 30, 2011	Unrealized gains (losses) on Level 3 assets and liabilities held at September 30, 2011 recognized in net income (loss)*
Fixed maturity securities:										
Corporate and other bonds	\$624	\$ (5)	\$ (6)	\$ 459	\$(157)	\$(144)	\$52	\$(204)	\$ 619	\$ (11)
States, municipalities and political subdivisions	266	—	—	3	—	(87)	—	—	182	—
Asset-backed:										
Residential mortgage-backed	767	(11)	9	170	(164)	(54)	—	(86)	631	(15)
Commercial mortgage-backed	73	3	11	81	(4)	—	—	(5)	159	—
Other asset-backed	359	—	(6)	441	(236)	(80)	2	(51)	429	(4)
Total asset-backed	1,199	(8)	14	692	(404)	(134)	2	(142)	1,219	(19)
Redeemable preferred stock	3	3	(3)	—	(3)	—	—	—	—	—
Total fixed maturity securities	2,092	(10)	5	1,154	(564)	(365)	54	(346)	2,020	(30)
Equity securities	26	(2)	(1)	19	(12)	—	5	(3)	32	(3)
Derivative and other financial instruments, net	25	2	—	1	(19)	—	—	—	9	1
Short term investments	27	—	—	12	—	(23)	—	(10)	6	—
Life settlement contracts	129	20	—	—	—	(24)	—	—	125	2
Separate account business	41	—	—	—	(6)	—	—	—	35	—
Total	\$2,340	\$ 10	\$ 4	\$ 1,186	\$(601)	\$(412)	\$59	\$(359)	\$ 2,227	\$ (30)

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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)
Derivative financial instruments held in a trading portfolio	Net investment income
Derivative financial instruments not held in a trading portfolio and fair value option financial instruments	Net realized investment gains (losses)
Life settlement contracts	Other revenues

Securities shown in the Level 3 tables on the previous pages may be transferred in or out of Level 3 based on the availability of observable market information used to determine the fair value of the security. The availability of observable market information varies based on market conditions and trading volume and may cause securities to move in and out of Level 3 from reporting period to reporting period. There were \$106 million of transfers from Level 2 to Level 1 during the three and nine months ended September 30, 2012 and no transfers between Level 1 and Level 2 during the three or nine months ended September 30, 2011. 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 highly liquid U.S. and foreign government bonds, and redeemable preferred stock, valued using quoted market prices. Level 2 securities include most other fixed maturity securities as the significant inputs are observable in the marketplace. Securities are generally assigned to Level 3 in cases where broker/dealer quotes are significant inputs to the valuation and there is a lack of transparency as to whether these quotes are based on information that is observable in the marketplace. Level 3 securities also include tax-exempt auction rate certificates and private placement debt securities. Fair value of auction rate securities is determined utilizing a pricing model with three primary inputs. The interest rate and spread inputs are observable from like instruments while the expected call date assumption is unobservable due to the uncertain nature of principal prepayments prior to maturity. Fair value of private placement debt securities is determined using internal models with inputs that are not market observable.

Equity Securities

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

Derivative and Other Financial Instruments

Exchange traded derivatives, primarily futures, are valued using quoted market prices and are classified within Level 1 of the fair value hierarchy. Level 2 derivatives primarily include currency forwards valued using observable

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market forward rates. Over-the-counter derivatives, principally interest rate swaps, total return swaps, credit default swaps, equity warrants and options, are valued using inputs including broker/dealer quotes and are classified within Level 3 of the valuation hierarchy due to a lack of transparency as to whether these quotes are based on information that is observable in the marketplace. Other financial instruments consist of Level 3 securities for which the fair value option has been elected which contain embedded derivatives and are priced using either broker/dealer quotes or internal models with inputs that are not market observable.

Short Term Investments

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

Life Settlement Contracts

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

Separate Account Business

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

Significant Unobservable Inputs

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

	Fair Value at September 30, 2012	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Assets				
(In millions)				
Fixed maturity securities	\$98	Discounted cash flow	Expected call date	3.6 - 5.6 years (4.6 years)
	\$61	Market approach	Private offering price	\$60.00 - \$105.00 (\$101.49)
Equity securities	\$33	Market approach	Private offering price	\$0.10 - \$3,842.00 per share (\$583.95 per share)
	\$17	Income approach	EBITDA projection ⁽¹⁾ EBITDA multiple ⁽¹⁾	\$80 million 1.82
Life settlement contracts	\$113	Discounted cash flow	Discount rate risk premium Mortality assumption	9% 65% - 928% (185%)

(1) Earnings before interest, tax, depreciation and amortization

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

lower fair value measurement.

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Financial Assets and Liabilities Not Measured at Fair Value

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

September 30, 2012 (In millions)	Carrying Amount	Estimated Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Notes receivable for the issuance of common stock	\$21	\$—	\$—	\$21	\$21
Mortgage loans	358	—	—	374	374
Financial liabilities					
Premium deposits and annuity contracts	\$103	\$—	\$—	\$108	\$108
Short term debt	13	—	13	—	13
Long term debt	2,557	—	2,986	—	2,986

December 31, 2011 (In millions)	Carrying Amount	Estimated Fair Value	
Financial assets			
Notes receivable for the issuance of common stock	\$22	\$22	
Mortgage loans	234	247	
Financial liabilities			
Premium deposits and annuity contracts	\$109	\$114	
Short term debt	83	84	
Long term debt	2,525	2,679	

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

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

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

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

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

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Note G. 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 \$27 million and \$123 million for the three and nine months ended September 30, 2012. Catastrophe losses in 2012 related primarily to U.S. storms and Hurricane Isaac. The Company reported catastrophe losses, net of reinsurance, of \$50 million and \$205 million for the three and nine months ended September 30, 2011.

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Net Prior Year Development

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

Net Prior Year Development

Three months ended September 30, 2012

(In millions)	CNA Specialty	CNA Commercial	Hardy	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	\$(39)	) \$2	) \$(6)	) \$3	\$(40)
Pretax (favorable) unfavorable premium development	(1)	) (5)	) —	(1)	(7)
Total pretax (favorable) unfavorable net prior year development	\$(40)	) \$(3)	) \$(6)	) \$2	\$(47)

Three months ended September 30, 2011

(In millions)	CNA Specialty	CNA Commercial	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	\$(5)	) \$(42)	) \$11	\$(36)
Pretax (favorable) unfavorable premium development	(26)	) (11)	) 1	(36)
Total pretax (favorable) unfavorable net prior year development	\$(31)	) \$(53)	) \$12	\$(72)

Nine months ended September 30, 2012

(In millions)	CNA Specialty	CNA Commercial	Hardy	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	\$(80)	) \$(25)	) \$(6)	) \$1	\$(110)
Pretax (favorable) unfavorable premium development	(15)	) (41)	) —	1	(55)
Total pretax (favorable) unfavorable net prior year development	\$(95)	) \$(66)	) \$(6)	) \$2	\$(165)

Nine months ended September 30, 2011

(In millions)	CNA Specialty	CNA Commercial	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	\$(72)	) \$(99)	) \$5	\$(166)
Pretax (favorable) unfavorable premium development	(34)	) 21	) —	(13)
Total pretax (favorable) unfavorable net prior year development	\$(106)	) \$(78)	) \$5	\$(179)

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

For the three and nine months ended September 30, 2011, favorable premium development was recorded for CNA Specialty primarily due to changes in estimates of exposures in medical professional liability tail coverages.

For the nine months ended September 30, 2011, unfavorable premium development for CNA Commercial was recorded due to a further reduction of ultimate premium estimates relating to retrospectively rated policies, partially

offset by premium adjustments on auditable policies due to increased exposures.

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CNA Specialty

The following table provides further detail of the net prior year claim and allocated claim adjustment expense reserve development (development) recorded for the CNA Specialty segment for the three and nine months ended September 30, 2012 and 2011.

Periods ended September 30 (In millions)	Three Months		Nine Months	
	2012	2011	2012	2011
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Medical Professional Liability	\$9	\$(18)	\$(6)	\$(52)
Other Professional Liability	1	1	(1)	(20)
Surety	(60)	1	(59)	(2)
Warranty	—	—	(1)	(12)
Other	11	11	(13)	14
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	\$(39)	\$(5)	\$(80)	\$(72)

Three Month Comparison

2012

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

Other includes standard property and casualty coverages provided to CNA Specialty customers. Unfavorable development for other coverages was primarily due to an unfavorable outcome on an individual general liability claim in accident year 2009.

2011

Favorable development for medical professional liability was primarily due to favorable case incurred emergence in nurses and physicians in accident years 2008 and prior.

Unfavorable development for other coverages was primarily due to increased frequency of large claims in auto and workers' compensation coverages in accident years 2009 and 2010.

Nine Month Comparison

2012

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.

2011

Favorable development for medical professional liability was primarily due to favorable case incurred emergence in nurses, physicians and primary institutions in accident years 2008 and prior.

Favorable development for other professional liability was driven by better than expected loss emergence in life agents' coverages.

Favorable development in warranty was driven by favorable policy year experience on an aggregate stop loss policy covering the Company's non-insurance warranty subsidiary.

Unfavorable development for other coverages was primarily due to increased frequency of large claims in auto and workers' compensation coverages in accident years 2009 and 2010.

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CNA Commercial

The following table provides further detail of development recorded for the CNA Commercial segment for the three and nine months ended September 30, 2012 and 2011.

Periods ended September 30 (In millions)	Three Months		Nine Months	
	2012	2011	2012	2011
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Commercial Auto	\$9	\$(2)	) \$11	\$(36)
General Liability	(21)	) 4	(26)	) 26
Workers' Compensation	24	3	13	39
Property and Other	(10)	) (47)	) (23)	) (128)
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	\$2	\$(42)	) \$(25)	) \$(99)

Three Month Comparison

2012

Favorable development for general liability coverages was primarily due to favorable loss emergence in accident years 2003 and prior related to large account business.

Unfavorable development for workers' compensation was primarily due to increased medical severity in accident years 2010 and 2011.

Favorable development for property and marine coverages was due to favorable loss emergence in non-catastrophe losses in accident years 2009 and subsequent.

2011

Overall, unfavorable development for workers' compensation was related to increased medical severity and higher adjusting and other payments in accident years 2008 and subsequent. Additionally, favorable development for workers' compensation was due to reduced indemnity severity in accident years 2002 and prior.

Favorable development for property and other coverages was due to decreased frequency of large losses in accident year 2010 and favorable loss emergence related to non-catastrophe claims in accident years 2010 and prior.

Nine Month Comparison

2012

Unfavorable development for commercial auto coverages was primarily due to higher than expected frequency in accident years 2009 and subsequent.

Favorable development for general liability coverages was primarily due to favorable loss emergence in accident years 2003 and prior related to large account business.

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

Favorable development for property and marine coverages was due to a favorable outcome on an individual claim in accident year 2005 and favorable loss emergence in non-catastrophe losses in accident years 2009 through 2011.

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2011

Favorable development for commercial auto coverages was due to lower than expected severity on bodily injury claims in accident years 2006 and prior.

The unfavorable development in the general liability coverages was primarily due to two large claim outcomes on umbrella claims in accident year 2001.

Unfavorable development for workers' compensation was related to increased medical severity and higher adjusting and other payments in accident years 2008 and subsequent.

Favorable development for property and other coverages was due to decreased frequency of large losses in commercial multi-peril coverages primarily in accident year 2010, a favorable settlement on an individual equipment breakdown claim in accident year 2003, favorable loss emergence related to catastrophe claims in accident year 2008 and favorable loss emergence related to non-catastrophe claims in accident years 2010 and prior.

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Note H. Legal Proceedings and Contingent Liabilities

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

Note I. Benefit Plans

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

Net Periodic Cost (Benefit)

Periods ended September 30 (In millions)	Three Months		Nine Months	
	2012	2011	2012	2011
Pension cost (benefit)				
Service cost	\$3	\$3	\$9	\$10
Interest cost on projected benefit obligation	34	37	101	110
Expected return on plan assets	(43	) (44	) (128	) (130
Amortization of net actuarial (gain) loss	10	7	29	19
Net periodic pension cost (benefit)	\$4	\$3	\$11	\$9
Postretirement cost (benefit)				
Interest cost on projected benefit obligation	\$1	\$1	\$2	\$3
Amortization of prior service credit	(4) (5) (13) (14
Net periodic postretirement cost (benefit)	\$(3) \$(4) \$(11) \$(11

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Note J. Commitments, Contingencies, and Guarantees

Commitments and Contingencies

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

In the event that the other parties to the joint venture are unable to meet their commitments in funding the operations of this joint venture, the Company would be required to assume the obligation for the entire office building operating lease. The Company does not believe it is likely that it will be required to do so. However, the maximum potential future lease payments and other related costs at September 30, 2012 that the Company could be required to pay under this guarantee, in excess of amounts already recorded, were approximately \$118 million. If the Company were required to assume the entire lease obligation, the Company would have the right to pursue reimbursement from the other shareholders and the right to all sublease revenues.

The Company has entered into a limited number of contracts with minimum payments, primarily related to outsourced services and software. Estimated future minimum payments under these contracts, which amounted to approximately \$13 million at September 30, 2012, were \$6 million in 2012, \$2 million in 2013 and \$5 million thereafter.

Guarantees

In the course of selling business entities and assets to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging from nine months following the applicable closing date to the expiration of the relevant statutes of limitation. As of September 30, 2012, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was \$758 million.

In addition, the Company has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of September 30, 2012, the Company had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser's ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire, or until the agreed-upon contract terms expire.

As of September 30, 2012 and December 31, 2011, the Company had recorded liabilities of approximately \$14 million and \$15 million related to indemnification agreements and management believes that it is not likely that any future indemnity claims will be significantly greater than the amounts recorded.

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Note K. Business Segments

The Company's core property and casualty commercial insurance operations are reported in three business segments: CNA Specialty, CNA Commercial and Hardy. The Company acquired Hardy on July 2, 2012. Further information on Hardy is set forth in Note B. The Company's non-core operations are managed in two segments: Life & Group Non-Core and Corporate & Other Non-Core.

The accounting policies of the segments are the same as those described in Note A of the Consolidated Financial Statements within CNAF's Annual Report on Form 10-K for the year ended December 31, 2011, other than the accounting for deferred acquisition costs, as further discussed in Note A herein. The Company manages most of its assets on a legal entity basis, while segment operations are conducted across legal entities. As such, only insurance and reinsurance receivables, insurance reserves and deferred acquisition costs are readily identifiable by individual segment. Distinct investment portfolios are not maintained for each individual segment; accordingly, allocation of assets to each segment is not performed. Therefore, net investment income and realized investment gains or losses are allocated primarily based on each segment's net carried insurance reserves, as adjusted. All significant intersegment income and expense has been eliminated. Income taxes have been allocated on the basis of the taxable income of the segments.

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

Net operating income (loss) is calculated by excluding from net income (loss) attributable to CNA the after-tax effects of 1) net realized investment gains or losses, 2) income or loss from discontinued operations and 3) any cumulative effects of changes in accounting guidance. The calculation of net operating income excludes net realized investment gains or losses because net realized investment gains or losses are largely discretionary, except for some losses related to OTTI, and are generally driven by economic factors that are not necessarily consistent with key drivers of underwriting performance, and are therefore not considered an indication of trends in insurance operations.

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

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Three months ended

September 30, 2012

(In millions)

	CNA Specialty	CNA Commercial	Hardy	Life & Group Non-Core	Corporate & Other Non-Core	Elimination	Total
Operating revenues							
Net earned premiums	\$ 738	\$ 840	\$64	\$ 141	\$ (2)	\$ —	\$1,781
Net investment income	159	230	2	201	9	—	601
Other revenues	58	11	—	1	7	(1)	76
Total operating revenues	955	1,081	66	343	14	(1)	2,458
Claims, Benefits and Expenses							
Net incurred claims and benefits	460	591	21	350	8	—	1,430
Policyholders' dividends	1	3	—	1	—	—	5
Amortization of deferred acquisition costs	156	151	20	6	—	—	333
Other insurance related expenses	73	146	13	35	1	—	268
Other expenses	53	7	7	8	42	(1)	116
Total claims, benefits and expenses	743	898	61	400	51	(1)	2,152
Operating income (loss) from continuing operations before income tax	212	183	5	(57)	(37)	—	306
Income tax (expense) benefit on operating income (loss)	(76)	(58)	(2)	35	11	—	(90)
Net operating income (loss) from continuing operations attributable to CNA	136	125	3	(22)	(26)	—	216
Net realized investment gains (losses), net of participating policyholders' interests	2	10	(1)	(3)	—	—	8
Income tax (expense) benefit on net realized investment gains (losses)	(2)	(3)	—	1	1	—	(3)
Net realized investment gains (losses) attributable to CNA	—	7	(1)	(2)	1	—	5
Net income (loss) from continuing operations attributable to CNA	\$ 136	\$ 132	\$2	\$ (24)	\$ (25)	\$ —	\$221

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Three months ended

September 30, 2011

(In millions)

	CNA Specialty	CNA Commercial	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Operating revenues						
Net earned premiums	\$ 741	\$ 848	\$ 142	\$ 2	\$ (1)	\$ 1,732
Net investment income	85	115	190	4	—	394
Other revenues	56	14	6	—	—	76
Total operating revenues	882	977	338	6	(1)	2,202
Claims, Benefits and Expenses						
Net incurred claims and benefits	485	583	332	(1)	—	1,399
Policyholders' dividends	(4)	3	2	—	—	1
Amortization of deferred acquisition costs	147	145	5	—	—	297
Other insurance related expenses	75	141	36	1	(1)	252
Other expenses	48	10	2	42	—	102
Total claims, benefits and expenses	751	882	377	42	(1)	2,051
Operating income (loss) from continuing operations before income tax	131	95	(39)	(36)	—	151
Income tax (expense) benefit on operating income (loss)	(48)	(46)	25	11	—	(58)
Net operating (income) loss, after-tax, attributable to noncontrolling interests	—	(2)	—	—	—	(2)
Net operating income (loss) from continuing operations attributable to CNA	83	47	(14)	(25)	—	91
Net realized investment gains (losses), net of participating policyholders' interests	(8)	(15)	(4)	—	—	(27)
Income tax (expense) benefit on net realized investment gains (losses)	3	5	1	1	—	10
Net realized investment (gains) losses, after-tax, attributable to noncontrolling interests	—	1	—	—	—	1
Net realized investment gains (losses) attributable to CNA	(5)	(9)	(3)	1	—	(16)
Net income (loss) from continuing operations attributable to CNA	\$ 78	\$ 38	\$ (17)	\$ (24)	\$ —	\$ 75

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Nine months ended
September 30, 2012

(In millions)	CNA Specialty	CNA Commercial	Hardy (a)	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Operating revenues							
Net earned premiums	\$ 2,163	\$ 2,452	\$64	\$ 421	\$ (1)	\$ (1)	\$ 5,098
Net investment income	446	646	2	600	25	—	1,719
Other revenues	171	31	—	15	14	(1)	230
Total operating revenues	2,780	3,129	66	1,036	38	(2)	7,047
Claims, Benefits and Expenses							
Net incurred claims and benefits	1,376	1,749	21	1,009	(5)	—	4,150
Policyholders' dividends	—	9	—	5	—	—	14
Amortization of deferred acquisition costs	458	437	20	22	—	—	937
Other insurance related expenses	222	425	13	106	1	(1)	766
Other expenses	153	24	7	18	137	(1)	338
Total claims, benefits and expenses	2,209	2,644	61	1,160	133	(2)	6,205
Operating income (loss) from continuing operations before income tax	571	485	5	(124)	(95)	—	842
Income tax (expense) benefit on operating income (loss)	(197)	(164)	(2)	86	29	—	(248)
Net operating income (loss) from continuing operations attributable to CNA	374	321	3	(38)	(66)	—	594
Net realized investment gains (losses), net of participating policyholders' interests	18	34	(1)	14	1	—	66
Income tax (expense) benefit on net realized investment gains (losses)	(6)	(12)	—	(5)	—	—	(23)
Net realized investment gains (losses) attributable to CNA	12	22	(1)	9	1	—	43
Net income (loss) from continuing operations attributable to CNA	\$ 386	\$ 343	\$ 2	\$ (29)	\$ (65)	\$ —	\$ 637
September 30, 2012							
(In millions)							
Reinsurance receivables	\$750	\$1,131	\$238	\$1,297	\$2,498	\$—	\$5,914
Insurance receivables	\$676	\$1,108	\$206	\$10	\$4	\$—	\$2,004
Deferred acquisition costs	\$306	\$278	\$19	\$—	\$—	\$—	\$603
Insurance reserves							
Claim and claim adjustment expenses	\$6,853	\$11,226	\$466	\$2,956	\$2,830	\$—	\$24,331
Unearned premiums	1,698	1,604	243	137	—	(1)	3,681
Future policy benefits	—	—	—	10,974	—	—	10,974
Policyholders' funds	13	13	—	139	—	—	165

(a) Included from date of acquisition.

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Nine months ended

September 30, 2011

(In millions)

	CNA Specialty	CNA Commercial	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Operating revenues						
Net earned premiums	\$ 2,098	\$ 2,418	\$ 427	\$ 1	\$ (2)	\$ 4,942
Net investment income	371	569	567	24	—	1,531
Other revenues	164	40	6	4	—	214
Total operating revenues	2,633	3,027	1,000	29	(2)	6,687
Claims, Benefits and Expenses						
Net incurred claims and benefits	1,333	1,807	985	—	—	4,125
Policyholders' dividends	(4)	5	5	—	—	6
Amortization of deferred acquisition costs	428	435	17	—	—	880
Other insurance related expenses	216	400	108	4	(2)	726
Other expenses	140	37	14	129	—	320
Total claims, benefits and expenses	2,113	2,684	1,129	133	(2)	6,057
Operating income (loss) from continuing operations before income tax	520	343	(129)	(104)	—	630
Income tax (expense) benefit on operating income (loss)	(182)	(127)	78	34	—	(197)
Net operating (income) loss, after-tax, attributable to noncontrolling interests	(12)	(3)	—	—	—	(15)
Net operating income (loss) from continuing operations attributable to CNA	326	213	(51)	(70)	—	418
Net realized investment gains (losses), net of participating policyholders' interests	7	13	(7)	(12)	—	1
Income tax (expense) benefit on net realized investment gains (losses)	(2)	(4)	2	5	—	1
Net realized investment (gains) losses, after-tax, attributable to noncontrolling interests	—	—	—	—	—	—
Net realized investment gains (losses) attributable to CNA	5	9	(5)	(7)	—	2
Net income (loss) from continuing operations attributable to CNA	\$ 331	\$ 222	\$ (56)	\$ (77)	\$ —	\$ 420

December 31, 2011

(In millions)

Reinsurance receivables	\$852	\$1,188	\$1,375	\$2,677	\$—	\$6,092
Insurance receivables	\$670	\$1,047	\$8	\$1	\$—	\$1,726
Deferred acquisition costs	\$300	\$252	\$—	\$—	\$—	\$552
Insurance reserves						
Claim and claim adjustment expenses	\$6,840	\$11,509	\$2,825	\$3,129	\$—	\$24,303
Unearned premiums	1,629	1,480	141	—	—	3,250
Future policy benefits	—	—	9,810	—	—	9,810
Policyholders' funds	15	10	166	—	—	191

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

Revenues by Line of Business

Periods ended September 30 (In millions)	Three Months		Nine Months	
	2012	2011	2012	2011
CNA Specialty				
International	\$53	\$54	\$163	\$159
Professional & Management Liability	700	623	2,039	1,909
Surety	124	123	364	353
Warranty & Alternative Risks	80	74	232	219
CNA Specialty revenues	957	874	2,798	2,640
CNA Commercial				
CNA Select Risk	70	65	208	203
Commercial Insurance	756	622	2,188	2,015
International	93	133	274	390
Small Business	172	142	493	432
CNA Commercial revenues	1,091	962	3,163	3,040
Hardy revenues	65		65	
Life & Group Non-Core				
Health	274	274	852	818
Life & Annuity	64	55	181	170
Other	2	5	17	5
Life & Group Non-Core revenues	340	334	1,050	993
Corporate & Other Non-Core revenues	14	6	39	17
Eliminations	(1) (1) (2) (2
Total revenues	\$2,466	\$2,175	\$7,113	\$6,688

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

Overview

The following discussion highlights significant factors affecting the Company. References to “we,” “our,” “us” or like terms refer to the business of CNA. Based on 2011 statutory net written premiums, we are the seventh largest commercial insurance writer and the 13th largest property and casualty insurance organization in the United States of America. References to net operating income (loss), net realized investment gains (losses) and net income (loss) used in this MD&A reflect amounts attributable to CNA, unless otherwise noted.

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements included under Part I, Item 1 of this Form 10-Q and Item 1A Risk Factors and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2011.

We utilize the net operating income financial measure to monitor our operations. Net operating income is calculated by excluding from net income (loss) attributable to CNA the after-tax effects of 1) net realized investment gains or losses, 2) income or loss from discontinued operations and 3) any cumulative effects of changes in accounting guidance. See further discussion regarding how we manage our business in Note K to the Condensed Consolidated Financial Statements included under Part I, Item 1. In evaluating the results of our CNA Specialty, CNA Commercial and Hardy segments, we utilize the loss ratio, the expense ratio, the dividend ratio and the combined ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of insurance underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of policyholders' dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios.

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

Acquisition of Hardy

On July 2, 2012, we acquired Hardy Underwriting Bermuda Limited and its subsidiaries (Hardy), a specialized Lloyd's underwriter. Hardy has business operations in the United Kingdom, Bermuda, Bahrain, Guernsey and Singapore. The acquisition of Hardy aligns with our specialized underwriting focus and will be a key platform for expanding our global business through the Lloyd's marketplace. The Lloyd's market provides access to international licenses, sophisticated excess and surplus insurance business and other syndicated risks. Hardy continues to operate under its own brand and its existing leadership team.

Further information on the acquisition of Hardy is set forth in Note B to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

We have adjusted our previously reported financial information included herein, to reflect the change in accounting guidance for costs associated with acquiring or renewing insurance contracts. This MD&A gives effect to the adjustment of the Condensed Consolidated Financial Statements. See Note A to the Condensed Consolidated Financial Statements included under Part I, Item 1 for additional information.

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CONSOLIDATED OPERATIONS

Results of Operations

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

Periods ended September 30 (In millions)	Three Months		Nine Months	
	2012	2011	2012	2011
Operating Revenues				
Net earned premiums	\$1,781	\$1,732	\$5,098	\$4,942
Net investment income	601	394	1,719	1,531
Other revenues	76	76	230	214
Total operating revenues	2,458	2,202	7,047	6,687
Claims, Benefits and Expenses				
Net incurred claims and benefits	1,430	1,399	4,150	4,125
Policyholders' dividends	5	1	14	6
Amortization of deferred acquisition costs	333	297	937	880
Other insurance related expenses	268	252	766	726
Other expenses	116	102	338	320
Total claims, benefits and expenses	2,152	2,051	6,205	6,057
Operating income (loss) from continuing operations before income tax	306	151	842	630
Income tax (expense) benefit on operating income (loss)	(90	) (58	) (248	) (197
Net operating (income) loss, after-tax, attributable to noncontrolling interests	—	(2	) —	(15
Net operating income (loss) from continuing operations attributable to CNA	216	91	594	418
Net realized investment gains (losses), net of participating policyholders' interests	8	(27	) 66	1
Income tax (expense) benefit on net realized investment gains (losses)	(3	) 10	(23	) 1
Net realized investment (gains) losses, after-tax, attributable to noncontrolling interests	—	1	—	—
Net realized investment gains (losses) attributable to CNA	5	(16	) 43	2
Income (loss) from continuing operations attributable to CNA	221	75	637	420
Loss from discontinued operations attributable to CNA	—	—	—	(1
Net income (loss) attributable to CNA	\$221	\$75	\$637	\$419

Three Month Comparison

Net income increased \$146 million for the three months ended September 30, 2012 as compared with the same period in 2011, primarily driven by improved net operating income.

Net realized investment results improved \$21 million for the three months ended September 30, 2012 as compared with the same period in 2011. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income increased \$125 million for the three months ended September 30, 2012 as compared with the same period in 2011. Net operating income increased \$134 million for our core segments, CNA Specialty, CNA Commercial and Hardy. This increase was primarily due to higher net investment income, driven by significantly favorable limited partnership results, and lower catastrophe losses, partially offset by decreased favorable net prior year development. Catastrophe losses were \$18 million after-tax for the three months ended September 30, 2012 as compared to \$32 million after-tax for the same period in 2011. Net operating results decreased \$9 million for our non-core segments, primarily due to unfavorable morbidity in our long term care business.

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Favorable net prior year development of \$47 million and \$72 million was recorded for the three months ended September 30, 2012 and 2011 related to our CNA Specialty, CNA Commercial, Hardy and Corporate & Other Non-Core segments. Further information on net prior year development for the three months ended September 30, 2012 and 2011 is included in Note G to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Net earned premiums increased \$49 million for the three months ended September 30, 2012 as compared with the same period in 2011, primarily driven by the acquisition of Hardy. See the Segment Results section of this MD&A for further discussion.

Nine Month Comparison

Net income increased \$218 million for the nine months ended September 30, 2012 as compared with the same period in 2011. This increase was due to improved net operating income and increased net realized investment gains.

Net realized investment gains increased \$41 million for the nine months ended September 30, 2012 as compared with the same period in 2011. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income increased \$176 million for the nine months ended September 30, 2012 as compared with the same period in 2011. Net operating income increased \$159 million for our core segments, CNA Specialty, CNA Commercial and Hardy. This increase was primarily due to higher net investment income, driven by favorable limited partnership income, and lower catastrophe losses. Catastrophe losses were \$80 million after-tax for the nine months ended September 30, 2012 as compared to \$133 million after-tax for the same period in 2011. Net operating results improved \$17 million for our non-core segments, driven by results in our Life and Group Non-Core segment.

Favorable net prior year development of \$165 million and \$179 million was recorded for the nine months ended September 30, 2012 and 2011 related to our CNA Specialty, CNA Commercial, Hardy and Corporate & Other Non-Core segments. Further information on net prior year development for the nine months ended September 30, 2012 and 2011 is included in Note G to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Net earned premiums increased \$156 million for the nine months ended September 30, 2012 as compared with the same period in 2011, driven by increases in CNA Commercial and CNA Specialty, and the acquisition of Hardy. See the Segment Results section of this MD&A for further discussion.

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CRITICAL ACCOUNTING ESTIMATES

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

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

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

Insurance Reserves

Reinsurance and Insurance Receivables

Valuation of Investments and Impairment of Securities

Long Term Care Products and Payout Annuity Contracts

Pension and Postretirement Benefit Obligations

Income Taxes

Due to the inherent uncertainties involved with these types of judgments, actual results could differ significantly from estimates and may have a material adverse impact on our results of operations or equity. See the Critical Accounting Estimates section of our Management's Discussion and Analysis of Financial Condition and Results of Operations included under Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2011 for further information.

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SEGMENT RESULTS

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

CNA Specialty

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

Results of Operations

Periods ended September 30 (In millions, except ratios)	Three Months		Nine Months		
	2012	2011	2012	2011	
Net written premiums	\$723	\$750	\$2,206	\$2,172	
Net earned premiums	738	741	2,163	2,098	
Net investment income	159	85	446	371	
Net operating income (loss)	136	83	374	326	
Net realized investment gains (losses), after-tax	—	(5)	12	5	
Net income (loss)	136	78	386	331	
Ratios					
Loss and loss adjustment expense	62.5	% 65.5	% 63.6	% 63.6	%
Expense	31.0	29.8	31.5	30.6	
Dividend	0.2	(0.6)	—	(0.2))
Combined	93.7	% 94.7	% 95.1	% 94.0	%

Three Month Comparison

Net written premiums for CNA Specialty decreased \$27 million for the three months ended September 30, 2012 as compared with the same period in 2011. This decrease was primarily due to lower new business levels in certain lines, partially offset by continued positive rate achievement. Net earned premiums decreased \$3 million as compared with the same period in 2011. This decrease was primarily due to favorable premium development recorded in 2011, partially offset by the impact of increased net written premiums over recent quarters. Further information on premium development is included in Note G to the Condensed Consolidated Financial Statements included under Part I, Item 1. CNA Specialty's average rate increased 5% for the three months ended September 30, 2012, as compared with flat average rate for the three months ended September 30, 2011 for the policies that renewed in each period. Retention of 86% and 87% was achieved in each respective period.

Net income increased \$58 million for the three months ended September 30, 2012 as compared with the same period in 2011. This increase was driven by higher net operating income.

Net operating income increased \$53 million for the three months ended September 30, 2012 as compared with the same period in 2011, primarily due to higher net investment income.

The combined ratio decreased 1.0 point for the three months ended September 30, 2012 as compared with the same period in 2011. The loss ratio decreased 3.0 points, due to the impact of increased favorable net prior year development and an improved current accident year loss ratio. The expense ratio increased 1.2 points for the three months ended September 30, 2012 as compared with the same period in 2011, primarily due to the impact of favorable premium development in 2011.

Favorable net prior year development of \$40 million and \$31 million was recorded for the three months ended September 30, 2012 and 2011. Further information on CNA Specialty's net prior year development for the three months ended September 30, 2012 and 2011 is included in Note G to the Condensed Consolidated Financial Statements included under Part I, Item 1.

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Nine Month Comparison

Net written premiums for CNA Specialty increased \$34 million for the nine months ended September 30, 2012 as compared with the same period in 2011, driven by increased rate, partially offset by lower new business levels in certain lines. Net earned premiums increased \$65 million as compared with the same period in 2011, consistent with increased net written premiums over recent quarters.

CNA Specialty's average rate increased 4% for the nine months ended September 30, 2012, as compared with flat average rate for the nine months ended September 30, 2011 for the policies that renewed in each period. Retention of 86% was achieved in each respective period.

Net income increased \$55 million for the nine months ended September 30, 2012 as compared with the same period in 2011, primarily due to the same reason discussed above in the three month comparison.

Net operating income increased \$48 million for the nine months ended September 30, 2012 as compared with the same period in 2011, primarily due to higher net investment income and the inclusion of our Surety business on a wholly-owned basis in 2012. These favorable impacts were partially offset by decreased favorable net prior year development and decreased current accident year underwriting results.

The combined ratio increased 1.1 points for the nine months ended September 30, 2012 as compared with the same period in 2011. The loss ratio remained unchanged as the impact of an improved current accident year loss ratio was offset by decreased favorable net prior year development. The expense ratio increased 0.9 points for the nine months ended September 30, 2012 as compared with the same period in 2011, primarily due to increased underwriting expenses and the impact of favorable premium development in 2011.

Favorable net prior year development of \$95 million and \$106 million was recorded for the nine months ended September 30, 2012 and 2011. Further information on CNA Specialty's net prior year development for the nine months ended September 30, 2012 and 2011 is included in Note G to the Condensed Consolidated Financial Statements included under Part I, Item 1.

The following table summarizes the gross and net carried reserves as of September 30, 2012 and December 31, 2011 for CNA Specialty.

Gross and Net Carried Claim and Claim Adjustment Expense Reserves

(In millions)	September 30, 2012	December 31, 2011
Gross Case Reserves	\$2,435	\$2,441
Gross IBNR Reserves	4,418	4,399
Total Gross Carried Claim and Claim Adjustment Expense Reserves	\$6,853	\$6,840
Net Case Reserves	\$2,112	\$2,086
Net IBNR Reserves	4,010	3,937
Total Net Carried Claim and Claim Adjustment Expense Reserves	\$6,122	\$6,023

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CNA Commercial

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

Results of Operations

Periods ended September 30 (In millions, except ratios)	Three Months		Nine Months		
	2012	2011	2012	2011	
Net written premiums	\$811	\$836	\$2,543	\$2,544	
Net earned premiums	840	848	2,452	2,418	
Net investment income	230	115	646	569	
Net operating income (loss)	125	47	321	213	
Net realized investment gains (losses), after-tax	7	(9)	22	9	
Net income (loss)	132	38	343	222	
Ratios					
Loss and loss adjustment expense	70.5	% 68.7	% 71.3	% 74.7	%
Expense	35.2	33.8	35.2	34.6	
Dividend	0.3	0.4	0.3	0.2	
Combined	106.0	% 102.9	% 106.8	% 109.5	%

Three Month Comparison

Net written premiums for CNA Commercial decreased \$25 million for the three months ended September 30, 2012 as compared with the same period in 2011. Net written premiums for the three months ended September 30, 2011 included \$38 million related to FICOH, which was sold in the fourth quarter of 2011. Excluding FICOH, the increase in net written premiums was primarily driven by continued positive rate achievement. Net earned premiums decreased \$8 million for the three months ended September 30, 2012 as compared with the same period in 2011. Net earned premiums for the three months ended September 30, 2011 included \$35 million related to FICOH. Excluding FICOH, the increase in net earned premiums was driven by the increase in net written premiums over recent quarters.

CNA Commercial's average rate increased 8% for the three months ended September 30, 2012, as compared with an increase of 2% for the three months ended September 30, 2011 for the policies that renewed in each period. Retention of 79% was achieved in each respective period.

Net income increased \$94 million for the three months ended September 30, 2012 as compared with the same period in 2011. This increase was due to increased net operating income and improved net realized investment results.

Net operating income increased \$78 million for the three months ended September 30, 2012 as compared with the same period in 2011. This increase was primarily due to higher net investment income and lower catastrophe losses. These favorable impacts were partially offset by decreased favorable net prior year development. Furthermore, income tax expense of \$22 million was recorded in 2011 due to an increase in the tax rate applicable to the undistributed earnings of FICOH, which was under contract for sale.

The combined ratio increased 3.1 points for the three months ended September 30, 2012 as compared with the same period in 2011. The loss ratio increased 1.8 points, primarily due to the impacts of less favorable net prior year development, partially offset by lower catastrophe losses and an improved current accident year non-catastrophe loss ratio. Catastrophe losses were \$24 million, or 2.8 points of the loss ratio, for the three months ended September 30, 2012, as compared to \$46 million, or 5.5 points of the loss ratio, for the three months ended September 30, 2011.

The expense ratio increased 1.4 points for the three months ended September 30, 2012 as compared with the same period in 2011, primarily due to higher underwriting expenses and the favorable impact of recoveries in 2011 on insurance receivables written off in prior years.

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Favorable net prior year development of \$3 million and \$53 million was recorded for the three months ended September 30, 2012 and 2011. Further information on CNA Commercial net prior year development for the three months ended September 30, 2012 and 2011 is included in Note G to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Nine Month Comparison

Net written premiums and net earned premiums for CNA Commercial decreased \$1 million and increased \$34 million for the nine months ended September 30, 2012 as compared with the same period in 2011. Net written premiums and net earned premiums for the nine months ended September 30, 2011 included \$110 million and \$103 million related to FICOH. Excluding FICOH, the increase in net written premiums was due to the same reason discussed above in the three month comparison. Excluding FICOH, the increase in net earned premiums was driven by the increase in net written premiums over recent quarters and favorable premium development recorded in 2012. Further information on premium development is included in Note G to the Condensed Consolidated Financial Statements included under Part I, Item 1.

CNA Commercial's average rate increased 6% for the nine months ended September 30, 2012 as compared with an increase of 2% for the nine months ended September 30, 2011 for the policies that renewed in each period. Retention of 78% and 79% was achieved in each respective period.

Net income increased \$121 million for the nine months ended September 30, 2012 as compared with the same period in 2011, primarily due to increased net operating income.

Net operating income increased \$108 million for the nine months ended September 30, 2012 as compared with the same period in 2011. This increase was primarily due to lower catastrophe losses and higher net investment income, as well as the tax expense item in 2011 discussed above in the three month comparison. These favorable impacts were partially offset by decreased favorable net prior year development.

The combined ratio improved 2.7 points for the nine months ended September 30, 2012 as compared with the same period in 2011. The loss ratio improved 3.4 points, primarily due to the impacts of lower catastrophe losses and an improved current accident year non-catastrophe loss ratio, partially offset by decreased favorable net prior year development. Catastrophe losses were \$115 million, or 4.7 points of the loss ratio, for the nine months ended September 30, 2012, as compared to \$195 million, or 8.1 points of the loss ratio, for the nine months ended September 30, 2011.

The expense ratio increased 0.6 points for the nine months ended September 30, 2012 as compared with the same period in 2011, primarily due to the favorable impact of recoveries in 2011 on insurance receivables written off in prior years.

Favorable net prior year development of \$66 million and \$78 million was recorded for the nine months ended September 30, 2012 and 2011. Further information on CNA Commercial net prior year development for the nine months ended September 30, 2012 and 2011 is included in Note G to the Condensed Consolidated Financial Statements included under Part I, Item 1.

The following table summarizes the gross and net carried reserves as of September 30, 2012 and December 31, 2011 for CNA Commercial.

Gross and Net Carried Claim and Claim Adjustment Expense Reserves

(In millions)	September 30, 2012	December 31, 2011
Gross Case Reserves	\$6,129	\$6,266
Gross IBNR Reserves	5,097	5,243
Total Gross Carried Claim and Claim Adjustment Expense Reserves	\$11,226	\$11,509
Net Case Reserves	\$5,604	\$5,720
Net IBNR Reserves	4,536	4,670
Total Net Carried Claim and Claim Adjustment Expense Reserves	\$10,140	\$10,390

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Hardy

The following table details the results of operations for Hardy. On July 2, 2012, we completed the acquisition of Hardy, a specialized Lloyd's underwriter. Through Lloyd's Syndicate 382, Hardy underwrites primarily short-tail exposures in marine and aviation, non-marine property, specialty lines and property treaty reinsurance. Syndicate 382 has £330 million of underwriting capacity for the 2012 year of account. The results below only reflect Hardy's share of Syndicate 382's results. Third party capital providers provided 25% of Syndicate 382's capital for the 2012 year of account and 7.5% for the 2011 year of account. We will provide 100% of the capital for the 2013 year of account.

Results of Operations

Period ended September 30 (In millions, except ratios)	Three Months 2012	
Net written premiums	\$56	
Net earned premiums	64	
Net investment income	2	
Net operating income (loss)	3	
Net realized investment gains (losses), after-tax	(1)
Net income (loss)	2	
Ratios		
Loss and loss adjustment expense	33.3	%
Expense	52.5	
Dividend	—	
Combined	85.8	%

Results

The composition of net earned premiums for Hardy was \$26 million for marine and aviation, \$18 million for non-marine property, \$11 million for property treaty reinsurance and \$9 million for specialty lines.

Hardy's average rate increased 1% for the three months ended September 30, 2012 for the policies that renewed in the period. Retention of 72% was achieved in the period.

Net operating income included pretax amortization expense of \$24 million related to intangible assets and favorable net prior year development of \$6 million. No catastrophe losses were incurred in the period. Further information on Hardy's amortization expense is included in Note B to the Condensed Consolidated Financial Statements included under Part I, Item 1.

Gross and Net Carried Claim and Claim Adjustment Expense Reserves

(In millions)	September 30, 2012
Gross Case Reserves	\$341
Gross IBNR Reserves	125
Total Gross Carried Claim and Claim Adjustment Expense Reserves	\$466
Net Case Reserves	\$188
Net IBNR Reserves	77
Total Net Carried Claim and Claim Adjustment Expense Reserves	\$265

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Life & Group Non-Core

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

Results of Operations

Periods ended September 30 (In millions)	Three Months		Nine Months		
	2012	2011	2012	2011	
Net earned premiums	\$ 141	\$ 142	\$ 421	\$ 427	
Net investment income	201	190	600	567	
Net operating income (loss)	(22) (14) (38) (51)
Net realized investment gains (losses), after-tax	(2) (3) 9	(5)
Net income (loss)					