CNA FINANCIAL CORP
Form 10-K
February 15, 2017

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

FORM 10-K
[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
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	36-6169860
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
333 S. Wabash Chicago, Illinois (Address of principal executive offices)	60604 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock with a par value of $2.50 per share	New York Stock Exchange Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [x] No [ ]
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [x]
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ]
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [x] No [ ]
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [x]
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer [x] Accelerated filer [ ] Non-accelerated filer (Do not check if a smaller reporting company) [ ] Smaller reporting company [ ]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [x]
As of February 10, 2017, 270,621,400 shares of common stock were outstanding. The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2016 was approximately $844 million based on the closing price of $31.42 per share of the common stock on the New York Stock Exchange on June 30, 2016.
DOCUMENTS INCORPORATED BY REFERENCE:
Portions of the CNA Financial Corporation Proxy Statement prepared for the 2017 annual meeting of shareholders, pursuant to Regulation 14A, are incorporated by reference into Part III of this report.

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PART I

ITEM 1. BUSINESS

CNA Financial Corporation (CNAF) was incorporated in 1967 and is an insurance holding company. References to "CNA," "the Company," "we," "our," "us" or like terms refer to the business of CNAF and its subsidiaries. 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, CNA Insurance Company Limited and Hardy Underwriting Bermuda Limited and its subsidiaries (Hardy). Loews Corporation (Loews) owned approximately 90% of our outstanding common stock as of December 31, 2016.

Our insurance products primarily include commercial property and casualty coverages, including surety. Our services include risk management, information services, warranty and claims administration. Our products and services are primarily marketed through independent agents, brokers and managing general underwriters to a wide variety of customers, including small, medium and large businesses, insurance companies, associations, professionals and other groups.

Our core business, commercial property and casualty insurance operations, is reported in three business segments: Specialty, Commercial and International. Our non-core businesses are reported in two business segments: Life & Group Non-Core and Corporate & Other Non-Core. Each segment is managed separately due to differences in their markets and product mix. Discussion of each segment, including the products offered, customers served and distribution channels used, are set forth in the Management's Discussion and Analysis (MD&A) included under Item 7 and in Note O to the Consolidated Financial Statements included under Item 8.

Competition

The property and casualty insurance industry is highly competitive both as to rate and service. We compete with a large number of stock and mutual insurance companies and other entities for both distributors and customers. Insurers compete on the basis of factors including products, price, services, ratings and financial strength. Accordingly, we must continuously allocate resources to refine and improve our insurance products and services.

There are approximately 2,700 individual companies that sell property and casualty insurance in the United States. Based on 2015 statutory net written premiums, we are the eighth largest commercial insurance writer and the 14^{th} largest property and casualty insurance organization in the United States.

Regulation

The insurance industry is subject to comprehensive and detailed regulation and supervision. Regulatory oversight by applicable agencies is exercised through review of submitted filings and information, examinations (both financial and market conduct), direct inquiries and interviews. Each domestic and foreign jurisdiction has established supervisory agencies with broad administrative powers relative to licensing insurers and agents, approving policy forms, establishing reserve requirements, prescribing the form and content of statutory financial reports and regulating capital adequacy and the type, quality and amount of investments permitted. Such regulatory powers also extend to premium rate regulations, which require that rates not be excessive, inadequate or unfairly discriminatory, governance requirements and risk assessment practice and disclosure. In addition to regulation of dividends by insurance subsidiaries, intercompany transfers of assets may be subject to prior notice or approval by insurance regulators, depending on the size of such transfers and payments in relation to the financial position of the insurance subsidiaries making the transfer or payment.

Domestic insurers are also required by state insurance regulators to provide coverage to certain insureds who would not otherwise be considered eligible by the insurers. Each state dictates the types of insurance and the level of coverage that must be provided to such involuntary risks. Our share of these involuntary risks is mandatory and generally a function of our respective share of the voluntary market by line of insurance in each state.

Further, domestic insurance companies are subject to state guaranty fund and other insurance-related assessments. Guaranty funds are governed by state insurance guaranty associations which levy assessments to meet the funding needs of insolvent insurer estates. Other insurance-related assessments are generally levied by state agencies to fund various organizations, including disaster relief funds, rating bureaus, insurance departments and workers'

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compensation second injury funds, or by industry organizations that assist in the statistical analysis and ratemaking process, and we have the ability to recoup certain of these assessments from policyholders.

As our insurance operations are conducted in a multitude of both domestic and foreign jurisdictions, we are subject to a number of regulatory agency requirements applicable to a portion, or all, of our operations. These include, among other things, the State of Illinois Department of Insurance (which is our global group-wide supervisor), the U.K. Prudential Regulatory Authority and Financial Conduct Authority, the Bermuda Monetary Authority and the Office of Superintendent of Financial Institutions in Canada.

Hardy, a specialized Lloyd's of London (Lloyd's) underwriter, is also supervised by the Council of Lloyd's, which is the franchisor for all Lloyd's operations. The Council of Lloyd's has wide discretionary powers to regulate Lloyd's underwriting, such as establishing the capital requirements for syndicate participation. In addition, the annual business plans of each syndicate are subject to the review and approval of the Lloyd's Franchise Board, which is responsible for business planning and monitoring for all syndicates.

Capital adequacy and risk management regulations, referred to as Solvency II, apply to our European operations and are enacted by the European Union's executive body, the European Commission. Additionally, the International Association of Insurance Supervisors (IAIS) continues to consider regulatory proposals addressing group supervision, capital requirements and enterprise risk management. The U.S. Federal Reserve, the U.S. Federal Insurance Office and the National Association of Insurance Commissioners are working with other global regulators to define such proposals. It is not currently clear to what extent the IAIS activities will impact the Company as any final proposal would ultimately need to be legislated or regulated by each individual country or state.

Although the U.S. federal government does not currently directly regulate the business of insurance, federal legislative and regulatory initiatives can impact the insurance industry. These initiatives and legislation include proposals relating to potential federal oversight of certain insurers; terrorism and natural catastrophe exposures; cybersecurity risk management; federal financial services reforms; and certain tax reforms.

The Terrorism Risk Insurance Program Reauthorization Act of 2015 provides for a federal government backstop for insured terrorism risks through 2020. The mitigating effect of such law is part of the analysis of our overall risk posture for terrorism and, accordingly, our risk positioning may change if such law were modified. We also continue to invest in the security network of our systems on an enterprise-wide basis, especially considering the implications of data and privacy breaches. This requires an investment of a significant amount of resources by us on an ongoing basis. Potential implications of possible cybersecurity legislation on such current investment, if any, are uncertain. The foregoing laws and proposals, either separately or in the aggregate, create a regulatory and legal environment that may require changes in our business plan or significant investment of resources in order to operate in an effective and compliant manner.

Additionally, various legislative and regulatory efforts to reform the tort liability system have, and will continue to, impact our industry. Although there has been some tort reform with positive impact to the insurance industry, new causes of action and theories of damages continue to be proposed in court actions and by federal and state legislatures that continue to expand liability for insurers and their policyholders.

Employee Relations

As of December 31, 2016, we had approximately 6,700 employees and have experienced satisfactory labor relations. We have never had work stoppages due to labor disputes.

We have comprehensive benefit plans for substantially all of our employees, including retirement plans, savings plans, disability programs, group life programs and group health care programs. See Note I to the Consolidated Financial Statements included under Item 8 for further discussion of our benefit plans.

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Direct Written Premiums by Geographic Concentration

Set forth below is the distribution of our direct written premiums by geographic concentration.

Years ended December 31	Percent of Total		
	2016	2015	2014
California	9.5 %	9.1 %	9.1 %
Texas	8.2	8.1	8.1
Illinois	7.6	7.5	6.7
New York	6.9	7.1	7.2
Florida	5.8	5.7	5.7
Pennsylvania	3.7	3.8	3.7
New Jersey	3.1	3.2	3.4
Canada	1.9	2.2	2.6
All other states, countries or political subdivisions	53.3	53.3	53.5
Total	100.0%	100.0%	100.0%

Approximately 7.9%, 8.0% and 8.8% of our direct written premiums were derived from outside of the United States for the years ended December 31, 2016, 2015 and 2014.

Available Information

We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 (Exchange Act). The public may read and copy any materials that we file with the SEC at the SEC's Reading Rooms at 100 F Street NE, Washington, D.C. 20549. The public may obtain information on the operation of the Reading Rooms by calling the SEC at 1-202-551-8090. The SEC also maintains an internet site that contains reports, proxy and information statements and other information regarding issuers, including CNA, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at www.sec.gov.

We also make available free of charge on or through our internet website at www.cna.com our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Copies of these reports may also be obtained, free of charge, upon written request to: CNA Financial Corporation, 333 S. Wabash Avenue, Chicago, IL 60604, Attn: Jonathan D. Kantor, Executive Vice President, General Counsel and Secretary.

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ITEM 1A. RISK FACTORS

Our business faces many risks and uncertainties. These risks and uncertainties could lead to events or circumstances that have a material adverse effect on our results of operations, equity, business and insurer financial strength and corporate debt ratings. We have described below the most significant risks facing us. There may be additional risks that we do not yet know of or that we do not currently perceive to be as significant that may also impact our business. You should carefully consider and evaluate all of the information included in this report and any subsequent reports we may file with the SEC or make available to the public before investing in any securities we issue.

If we determine that our recorded insurance reserves are insufficient to cover our estimated ultimate unpaid liability for claim and claim adjustment expenses, we may need to increase our insurance reserves which would result in a charge to our earnings.

We maintain insurance reserves to cover our estimated ultimate unpaid liability for claim and claim adjustment expenses, including the estimated cost of the claims adjudication process, for reported and unreported claims. Insurance reserves are not an exact calculation of liability but instead are complex management estimates developed utilizing a variety of actuarial reserve estimation techniques as of a given reporting date. The reserve estimation process involves a high degree of judgment and variability and is subject to a number of factors which are highly uncertain. These variables can be affected by both changes in internal processes and external events. Key variables include claims severity, frequency of claims, mortality, morbidity, discount rates, inflation, claims handling policies and procedures, case reserving approach, underwriting and pricing policies, changes in the legal and regulatory environment and the lag time between the occurrence of an insured event and the time of its ultimate settlement. Mortality is the relative incidence of death. Morbidity is the frequency and severity of injury, illness, sickness and diseases contracted.

There is generally a higher degree of variability in estimating required reserves for long-tail coverages, such as general liability and workers' compensation, as they require a relatively longer period of time for claims to be reported and settled. The impact of changes in inflation and medical costs are also more pronounced for long-tail coverages due to the longer settlement period.

We are subject to the uncertain effects of emerging or potential claims and coverage issues that arise as industry practices and legal, judicial, social, economic and other environmental conditions change. These issues have had, and may continue to have, a negative effect on our business by either extending coverage beyond the original underwriting intent or by increasing the number or size of claims, resulting in further increases in our reserves. The effects of unforeseen emerging claim and coverage issues are extremely difficult to predict.

Emerging or potential claims and coverage issues include, but are not limited to, uncertainty in future medical costs in workers' compensation. In particular, medical cost inflation could be greater than expected due to new treatments, drugs and devices; increased healthcare utilization; and/or the future costs of healthcare facilities. In addition, the relationship between workers' compensation and government and private healthcare providers could change, potentially shifting costs to workers' compensation.

In light of the many uncertainties associated with establishing the estimates and making the judgments necessary to establish reserve levels, we continually review and change our reserve estimates in a regular and ongoing process as experience develops from the actual reporting and settlement of claims and as the legal, regulatory and economic environment evolves. If our recorded reserves are insufficient for any reason, the required increase in reserves would be recorded as a charge against our earnings in the period in which reserves are determined to be insufficient. These charges could be substantial.

Our actual experience could vary from the key assumptions used to determine active life reserves for long term care policies.

Our active life reserves for long term care policies are based on our best estimate assumptions as of December 31, 2015, due to an unlocking at that date. Key assumptions include morbidity, persistency (the percentage of policies remaining in force), discount rate and future premium rate increases. These assumptions, which are critical bases for our reserve estimates, are inherently uncertain. If actual experience varies from these assumptions or the future outlook for these assumptions changes, we may be required to increase our reserves. See the Life & Group Non-

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Core Policyholder Reserves portion of Reserves - Estimates and Uncertainties section of MD&A in Item 7 for more information.

Estimating future experience for long term care policies is highly uncertain, because the required projection period is very long and there is limited historical and industry data available to us, as only a small portion of the long term care policies which have been written to date are in claims paying status. Morbidity and persistency trends can be volatile and may be negatively affected by many factors including, but not limited to, policyholder behavior, judicial decisions regarding policy terms, socioeconomic factors, cost of care inflation, changes in health trends and advances in medical care.

A prolonged period during which interest rates remain at levels lower than those anticipated in our reserving would result in shortfalls in investment income on assets supporting our obligations under long term care policies, which may require changes to our reserves. This risk is more significant for our long term care products because the long potential duration of the policy obligations exceeds the duration of the supporting investment assets. Further, changes to the corporate tax code may also impact the rate at which we discount our reserves. In addition, we may not receive regulatory approval for the level of premium rate increases we request. Any adverse deviation between the level of future premium rate increases approved and the level included in our reserving assumptions may require an increase to our reserves.

If our estimated reserves are insufficient for any reason, including changes in assumptions, the required increase in reserves would be recorded as a charge against our earnings in the period in which reserves are determined to be insufficient. These charges could be substantial.

Catastrophe losses are unpredictable and could result in material losses.

Catastrophe losses are an inevitable part of our business. Various events can cause catastrophe losses. These events can be natural or man-made, and may include hurricanes, windstorms, earthquakes, hail, severe winter weather, fires, floods, riots, strikes, civil commotion and acts of terrorism. The frequency and severity of these catastrophe events are inherently unpredictable. In addition, longer-term natural catastrophe trends may be changing and new types of catastrophe losses may be developing due to climate change, a phenomenon that has been associated with extreme weather events linked to rising temperatures and includes effects on global weather patterns, greenhouse gases, sea, land and air temperatures, sea levels, rain, hail and snow.

The extent of our losses from catastrophes is a function of the total amount of our insured exposures in the affected areas, the frequency and severity of the events themselves, the level of reinsurance assumed and ceded, reinsurance reinstatement premiums and state residual market assessments, if any. It can take a long time for the ultimate cost of any catastrophe losses to us to be finally determined, as a multitude of factors contribute to such costs, including evaluation of general liability and pollution exposures, infrastructure disruption, business interruption and reinsurance collectibility. Reinsurance coverage for terrorism events is provided only in limited circumstances, especially in regard to “unconventional” terrorism acts, such as nuclear, biological, chemical or radiological attacks. As a result of the items discussed above, catastrophe losses are particularly difficult to estimate.

Additionally, claim frequency and severity for some lines of business can be correlated to an external factor such as economic activity, financial market volatility, increasing health care costs or changes in the legal or regulatory environment. Claim frequency and severity can also be correlated to insureds' use of common business practices, equipment, vendors or software. This can result in multiple insured losses emanating out of the same underlying cause. In these instances, we may be subject to increased claim frequency and severity across multiple policies or lines of business concurrently. While we do not define such instances as catastrophes for financial reporting purposes, they are similar to catastrophes in terms of the uncertainty and potential impact on our results.

We have exposures related to asbestos and environmental pollution (A&EP) claims, which could result in material losses.

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

estimating the ultimate cost of both reported and unreported A&EP claims is subject to a higher degree of variability. On August 31, 2010, we completed a retroactive reinsurance transaction under which substantially all of our legacy A&EP liabilities were ceded to National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., subject to an aggregate limit of $4 billion (Loss Portfolio Transfer). The cumulative amount ceded under the Loss Portfolio Transfer as of December 31, 2016 is $2.8 billion. If the other parties to the Loss Portfolio Transfer do not fully perform their obligations, net losses incurred on A&EP claims covered by the Loss Portfolio Transfer exceed the aggregate limit of $4 billion, or we determine we have exposures to A&EP claims not covered by the Loss Portfolio Transfer, we may need to increase our recorded net reserves which would result in a charge against our earnings. These charges could be substantial.

We use analytical models to assist our decision making in key areas such as pricing, reserving and capital modeling and may be adversely affected if actual results differ materially from the model outputs and related analyses.

We use various modeling techniques and data analytics (e.g., scenarios, predictive, stochastic and/or forecasting) to analyze and estimate exposures, loss trends and other risks associated with our assets and liabilities. This includes both proprietary and third party modeled outputs and related analyses to assist us in decision-making related to underwriting, pricing, capital allocation, reserving, investing, reinsurance and catastrophe risk, among other things. We incorporate numerous assumptions and forecasts about the future level and variability of policyholder behavior, loss frequency and severity, interest rates, equity markets, inflation, capital requirements, and currency exchange rates, among others. The modeled outputs and related analyses from both proprietary and third parties are subject to the inherent limitations of any statistical analysis, including those arising from the use of historical internal and industry data and assumptions.

In addition, the effectiveness of any model can be degraded by operational risks including, but not limited to, the improper use of the model, including input errors, data errors and human error. As a result, actual results may differ materially from our modeled results. The profitability and financial condition of the Company substantially depends on the extent to which our actual experience is consistent with assumptions we use in our models and ultimate model outputs. If, based upon these models or other factors, we misprice our products or fail to appropriately estimate the risks we are exposed to, our business, financial condition, results of operations or liquidity may be adversely affected.

We face intense competition in our industry; we may be adversely affected by the cyclical nature of the property and casualty business, the evolving landscape of our distribution network, as well as the availability and cost of reinsurance.

All aspects of the insurance industry are highly competitive and we must continuously allocate resources to refine and improve our insurance products and services to remain competitive. We compete with a large number of stock and mutual insurance companies and other entities, some of which may be larger or have greater financial or other resources than we do, for both distributors and customers. This includes agents and brokers who may increasingly compete with us to the extent that markets continue to provide them with direct access to providers of capital seeking exposure to insurance risk. Insurers compete on the basis of many factors, including products, price, services, ratings and financial strength. The competitor insurer landscape has evolved substantially in recent years, with significant consolidation and new market entrants, resulting in increased pressures on our ability to remain competitive, particularly in implementing pricing that is both attractive to our customer base and risk-appropriate to the Company.

In addition, the property and casualty market is cyclical and has experienced periods characterized by relatively high levels of price competition, resulting in less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively lower levels of competition, more selective underwriting standards and relatively high premium rates. During periods in which price competition is high, we may lose business to competitors offering competitive insurance products at lower prices. As a result, our premium levels and expense ratio could be materially adversely impacted.

We market our insurance products worldwide primarily through independent insurance agents and insurance brokers, who also promote and distribute the products of our competitors. Any change in our relationships with our distribution network agents and brokers, including as a result of consolidation and their increased promotion

and distribution of our competitors' products, could adversely affect our ability to sell our products. As a result, our business volume and results of operations could be materially adversely impacted.

We purchase reinsurance to help manage our exposure to risk. Under our ceded reinsurance arrangements, another insurer assumes a specified portion of our exposure in exchange for a specified portion of policy premiums. Market conditions determine the availability and cost of the reinsurance protection we purchase, which affects the level of our business and profitability, as well as the level and types of risk we retain. If we are unable to obtain sufficient reinsurance at a cost we deem acceptable, we may be unwilling to bear the increased risk and would reduce the level of our underwriting commitments.

We may be adversely affected by technological changes or disruptions in the insurance marketplace.

Technological changes in the way insurance transactions are completed in the marketplace, and our ability to react effectively to such change, may present significant competitive risks. For example, more insurers are utilizing "big data" analytics to make underwriting and other decisions that impact product design and pricing. If such utilization is more effective than how we use similar data and information, we will be at a competitive disadvantage. There can be no assurance that we will continue to compete effectively with our industry peers due to technological changes; accordingly, this may have a material adverse effect on our business and results of operations.

In addition, agents and brokers, technology companies, or other third parties may create alternate distribution channels for commercial business that may adversely impact product differentiation and pricing. For example, they may create a digitally enabled distribution channel that may adversely impact our competitive position. Our efforts or the efforts of agents and brokers with respect to new products or alternate distribution channels, as well as changes in the way agents and brokers utilize greater levels of data and technology, could adversely impact our business relationship with independent agents and brokers who currently market our products, resulting in a lower volume and/or profitability of business generated from these sources.

We may not be able to collect amounts owed to us by reinsurers, which could result in higher net incurred losses.

We have significant amounts recoverable from reinsurers which are reported as receivables on our Consolidated Balance Sheets and are estimated in a manner consistent with claim and claim adjustment expense reserves or future policy benefits reserves. The ceding of insurance does not, however, discharge our primary liability for claims. As a result, we are subject to credit risk relating to our ability to recover amounts due from reinsurers. Certain of our reinsurance carriers have experienced credit downgrades by rating agencies within the term of our contractual relationship, which indicates an increase in the likelihood that we will not be able to recover amounts due. In addition, reinsurers could dispute amounts which we believe are due to us. If the amounts due from reinsurers that we are able to collect are less than the amount recorded by us with respect to such amounts due, our net incurred losses will be higher.

We may not be able to collect amounts owed to us by policyholders who hold deductible policies and/or who purchase retrospectively rated policies, which could result in higher net incurred losses.

A portion of our business is written under deductible policies. Under these policies, we are obligated to pay the related insurance claims and are reimbursed by the policyholder to the extent of the deductible, which may be significant. Moreover, certain policyholders purchase retrospectively rated workers' compensation policies (i.e., policies in which premiums are adjusted after the policy period based on the actual loss experience of the policyholder during the policy period). Retrospectively rated policies expose us to additional credit risk to the extent that the adjusted premium is greater than the original premium, which may be significant. As a result, we are exposed to policyholder credit risk. If the amounts due from policyholders that we are able to collect are less than the amounts recorded with respect to such amounts due, our incurred losses will be higher.

We may incur significant realized and unrealized investment losses and volatility in net investment income arising from changes in the financial markets.

Our investment portfolio is exposed to various risks, such as interest rate, credit spread, issuer default, equity prices and foreign currency, which are unpredictable. Financial markets are highly sensitive to changes in economic

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conditions, monetary policies, tax policies, domestic and international geopolitical issues and many other factors. Changes in financial markets including fluctuations in interest rates, credit, equity prices and foreign currency prices and many other factors beyond our control can adversely affect the value of our investments, the realization of investment income and the rate at which we discount certain liabilities.

We have significant holdings in fixed maturity investments that are sensitive to changes in interest rates. A decline in interest rates may reduce the returns earned on new fixed maturity investments, thereby reducing our net investment income, while an increase in interest rates may reduce the value of our existing fixed maturity investments. The value of our fixed maturity investments is also subject to risk that certain investments may default or become impaired due to deterioration in the financial condition of issuers of the investments we hold or in the underlying collateral of the security. Any such impairments which we deem to be other-than-temporary would result in a charge to our earnings.

In addition, we invest a portion of our assets in equity securities and limited partnerships which are subject to greater market volatility than our fixed maturity investments. Limited partnership investments generally provide a lower level of liquidity than fixed maturity or equity investments which may also limit our ability to withdraw assets.

Further, we hold a portfolio of commercial mortgage loans. We are subject to credit risk relating to our ability to recover amounts due from the borrowers as a result of the creditworthiness of the borrowers or tenants of credit tenant loan properties. If the amounts we collect from the borrowers are less than the amount recorded, it would result in a charge to our earnings.

As a result of all of these factors, we may not earn an adequate return on our investments, may be required to write down the value of our investments and may incur losses on the disposition of our investments.

Changes in tax laws of jurisdictions in which we operate could adversely impact our results of operations.

Federal, state or foreign tax legislation that would lessen or eliminate some or all of the tax attributes currently affecting us could materially and adversely impact our results of operations, in particular, changes to tax laws governing tax credits. Other potential tax law changes, including modification of the corporate tax rate and the taxation of interest from municipal bonds, could also adversely affect the value of the tax benefit received on tax exempt municipal investments and thus the rate at which we discount our long term care active life reserves.

Any significant interruption in the operation of our facilities, systems and business functions or breach in our data security infrastructure could result in a materially adverse effect on our operations.

Our business is highly dependent upon our ability to perform, in an efficient and uninterrupted manner, through our employees or vendor relationships, necessary business functions (such as internet support and 24-hour call centers), processing new and renewal business and processing and paying claims and other obligations. Our facilities and systems could become unavailable, inoperable, or otherwise impaired from a variety of causes, including, without limitation, natural events, such as hurricanes, tornadoes, windstorms, earthquakes, severe winter weather and fires, or other events, such as explosions, terrorist attacks, computer security breaches or cyber attacks, riots, hazardous material releases, medical epidemics, utility outages, interruptions of our data processing and storage systems or the systems of third-party vendors, or unavailability of communications facilities. Likewise, we could experience a significant failure or corruption of one or more of our information technology, telecommunications, or other systems for various reasons, including significant failures that might occur as existing systems are replaced or upgraded.

The shut-down or unavailability of one or more of our systems or facilities for any reason could significantly impair our ability to perform critical business functions on a timely basis. In addition, because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such service exceeds capacity or a third-party system fails or experiences an interruption. If sustained or repeated, such events could result in a deterioration of our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner, or perform other necessary business functions, including the ability to issue financial statements in a timely manner. This could result in a materially adverse effect on our business results, prospects and liquidity, as well as damage to customer goodwill.

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A significant breach of our data security infrastructure, resulting from actions by our employees, vendors, third-party administrators or by unknown third parties, that impacts our data framework or causes a failure to protect personal information of our customers, claimants or employees may result in operational impairments and financial losses, as well as significant harm to our reputation.
The foregoing risks relating to disruption of service, interruption of operations and data loss could expose us to monetary and reputational damages. In addition, potential exposures include substantially increased compliance costs and required computer system upgrades and security-related investments. The breach of confidential information also could give rise to legal liability and regulatory action under data protection and privacy laws and regulations, both in the U.S. and foreign jurisdictions. Any such legal or regulatory action could have a material adverse effect on our operations.
Inability to detect and prevent significant employee or third party service provider misconduct or inadvertent errors and omissions could result in a materially adverse effect on our operations.
We may incur losses which arise from employees or third party service providers engaging in intentional misconduct, fraud, errors and omissions, failure to comply with internal guidelines, including with respect to underwriting authority, or failure to comply with regulatory requirements. Our controls may not be able to detect all possible circumstances of employee and third party service provider non-compliant activity and the internal structures in place to prevent this activity may not be effective in all cases. Any losses relating to such non-compliant activity could adversely affect our results of operations.
Loss of key vendor relationships, issues relating to the transitioning of vendor relationships or exposure relating to functions performed by a vendor could result in a materially adverse effect on our operations.
In the event that one or more of our vendors suffers a bankruptcy, is sold to another entity, sustains a significant business interruption or otherwise becomes unable to continue to provide products or services at the requisite level, we may be adversely affected. We may suffer operational impairments and financial losses associated with transferring business to a new vendor, assisting a vendor with rectifying operational difficulties, failure by vendors to properly perform service functions or assuming previously outsourced operations ourselves. Our inability to provide for appropriate servicing if a vendor becomes unable to fulfill its contractual obligations to us, either through transitioning to another service provider temporarily or permanently or assuming servicing internally, may have a materially adverse effect on our operations.
Additionally, we rely on certain third-party claims administrators, including the administrators of our long term care claims, to perform significant claim administration and claim adjudication functions. Any failure by such administrator to properly perform service functions may result in losses as a result of over-payment of claims, legal claims against us and adverse regulatory enforcement exposure.
We face considerable competition within our industry for qualified, specialized talent and any significant inability to attract and retain talent may adversely affect the execution of our business strategies.
The successful execution of our business plan depends on our ability to attract and retain qualified talent. Due to the intense competition in our industry for qualified employees with specialized industry experience, we may encounter obstacles to our ability to attract and retain such employees, which could adversely impact our results of operations.
We are subject to capital adequacy requirements and, if we are unable to maintain or raise sufficient capital to meet these requirements, regulatory agencies may restrict or prohibit us from operating our business.
Insurance companies such as ours are subject to capital adequacy standards set by regulators to help identify companies that merit further regulatory attention. These standards apply specified risk factors to various asset, premium and reserve components of our legal entity statutory basis of accounting financial statements. Current rules, including those promulgated by insurance regulators and specialized markets, such as Lloyd's, require companies to maintain statutory capital and surplus at a specified minimum level determined using the applicable jurisdiction's regulatory capital adequacy formula. If we do not meet these minimum requirements, we may be restricted or prohibited from operating our business in the applicable jurisdictions and specialized markets. If we are required to record a material charge against earnings in connection with a change in estimated insurance reserves, the occurrence of a catastrophic event, or if we incur significant losses related to our investment portfolio, which

severely deteriorate our capital position, we may violate these minimum capital adequacy requirements unless we are able to raise sufficient additional capital. We may be limited in our ability to raise significant amounts of capital on favorable terms or at all.

Globally, insurance regulators are working cooperatively to develop a common framework for the supervision of internationally active insurance groups. Finalization and adoption of this framework could increase our minimum regulatory capital requirement as well as significantly increase our cost of regulatory compliance.

Our insurance subsidiaries, upon whom we depend for dividends in order to fund our corporate obligations, are limited by insurance regulators in their ability to pay dividends.

We are a holding company and are dependent upon dividends, loans and other sources of cash from our subsidiaries in order to meet our obligations. Ordinary dividend payments, or dividends that do not require prior approval by the insurance subsidiaries' domiciliary insurance regulator, are generally limited to amounts determined by formulas that vary by jurisdiction. If we are restricted from paying or receiving intercompany dividends, by regulatory rule or otherwise, we may not be able to fund our corporate obligations and debt service requirements from available cash. As a result, we would need to look to other sources of capital which may be more expensive or may not be available at all.

Rating agencies may downgrade their ratings of us and thereby adversely affect our ability to write insurance at competitive rates or at all.

Ratings are an important factor in establishing the competitive position of insurance companies. Our insurance company subsidiaries, as well as our public debt, are rated by rating agencies, including, A.M. Best Company (A.M. Best), Moody's Investors Service, Inc. (Moody's) and Standard & Poor's (S&P). Ratings reflect the rating agency's opinions of an insurance company's or insurance holding company's financial strength, capital adequacy, operating performance, strategic position and ability to meet its obligations to policyholders and debt holders.

The rating agencies may take action to lower our ratings in the future as a result of any significant financial loss or possible changes in the methodology or criteria applied by the rating agencies. The severity of the impact on our business is dependent on the level of downgrade and, for certain products, which rating agency takes the rating action. Among the adverse effects in the event of such downgrades would be the inability to obtain a material volume of business from certain major insurance brokers, the inability to sell a material volume of our insurance products to certain markets and the required collateralization of certain future payment obligations or reserves.

In addition, it is possible that a significant lowering of the corporate debt ratings of Loews by certain of the rating agencies could result in an adverse impact on our ratings, independent of any change in our circumstances.

We are subject to extensive existing state, local, federal and foreign governmental regulations that restrict our ability to do business and generate revenues; additional regulation or significant modification to existing regulations or failure to comply with regulatory requirements may have a materially adverse effect on our business, our operations and financial condition.

The insurance industry is subject to comprehensive and detailed regulation and supervision. Most insurance regulations are designed to protect the interests of our policyholders and third-party claimants, rather than our investors. Each jurisdiction in which we do business has established supervisory agencies that regulate the manner in which we do business. Any changes in regulation could also impose significant burdens on us. In addition, the Lloyd's marketplace sets rules under which its members, including our Hardy syndicate, operate.

These rules and regulations relate to, among other things, the standards of solvency (including risk-based capital measures), government-supported backstops for certain catastrophic events (including terrorism), investment restrictions, accounting and reporting methodology, establishment of reserves and potential assessments of funds to settle covered claims against impaired, insolvent or failed private or quasi-governmental insurers.

Regulatory powers also extend to premium rate regulations which require that rates not be excessive, inadequate or unfairly discriminatory. State jurisdictions ensure compliance with such regulations through market conduct exams, which may result in losses to the extent non-compliance is ascertained, either as a result of failure to document transactions properly or failure to comply with internal guidelines, or otherwise. The jurisdictions in which we do business may also require us to provide coverage to persons whom we would not otherwise consider

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eligible or restrict us from withdrawing from unprofitable lines of business or unprofitable market areas. Each jurisdiction dictates the types of insurance and the level of coverage that must be provided to such involuntary risks. Our share of these involuntary risks is mandatory and generally a function of our respective share of the voluntary market by line of insurance in each jurisdiction.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our Chicago location houses our principal executive offices. We lease office space in various cities throughout the United States and in other countries. The following table sets forth certain information with respect to our principal office locations.

Location	Amount (Square Feet) of Space Leased and Occupied by CNA	Principal Usage
333 S. Wabash Avenue, Chicago, Illinois	602,483	Principal executive offices of CNAF
2405 Lucien Way, Maitland, Florida	108,062	Property and casualty insurance offices
125 S. Broad Street, New York, New York	66,810	Property and casualty insurance offices
1 Meridian Boulevard, Wyomissing, Pennsylvania	59,161	Property and casualty insurance offices
101 S. Reid Street, Sioux Falls, South Dakota	58,917	Property and casualty insurance offices
4150 N. Drinkwater Boulevard, Scottsdale, Arizona	56,281	Property and casualty insurance offices
700 N. Pearl Street, Dallas, Texas	35,316	Property and casualty insurance offices
1249 S. River Road, Cranbury, New Jersey	34,666	Property and casualty insurance offices
555 Mission Street, San Francisco, California	32,892	Property and casualty insurance offices
10375 Park Meadows Drive, Littleton, Colorado	28,589	Property and casualty insurance offices

We lease all of the office space described above, including the building in Chicago, Illinois, which was sold by CCC during the first quarter of 2016. We consider our properties to be in generally good condition, well maintained and suitable and adequate to carry on our business.

ITEM 3. LEGAL PROCEEDINGS

Information on our legal proceedings is set forth in Note F to the Consolidated Financial Statements included under Item 8.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange and the Chicago Stock Exchange under the symbol CNA.

As of February 10, 2017, we had 270,621,400 shares of common stock outstanding and approximately 90% of our outstanding common stock was owned by Loews. We had 1,042 stockholders of record as of February 10, 2017 according to the records maintained by our transfer agent.

Our Board of Directors has approved an authorization to purchase, in the open market or through privately negotiated transactions, our outstanding common stock, as our management deems appropriate. No repurchases were made in 2016 or 2015.

The table below shows the high and low closing prices for our common stock based on the New York Stock Exchange Composite Transactions, as well as the dividends declared on our common stock.

	2016			2015		
Quarter:	High	Low	Dividends Declared	High	Low	Dividends Declared
First	$34.60	$28.21	$ 2.25	$43.40	$36.61	$ 2.25
Second	33.07	29.42	0.25	41.82	37.91	0.25
Third	34.86	30.37	0.25	40.43	34.29	0.25
Fourth	42.07	34.04	0.25	37.05	34.24	0.25

The following graph compares the five-year total return of our common stock, the Standard & Poor's 500 (S&P 500) Index and the S&P 500 Property & Casualty Insurance Index. The graph assumes that the value of the investment in our common stock and each index was $100 at the base period, January 1, 2012, and that dividends, if any, were reinvested.

Company / Index	Base Period	2012	2013	2014	2015	2016
CNA Financial Corporation	$100.00	$107.00	$167.58	$158.80	$155.04	$201.57
S&P 500 Index	100.00	116.00	153.57	174.60	177.01	198.18
S&P 500 Property & Casualty Insurance Index	100.00	120.11	166.10	192.25	210.57	243.65

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ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected financial data. On July 2, 2012, we acquired Hardy. The results of Hardy are included from the date of acquisition. The table should be read in conjunction with Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8 Financial Statements and Supplementary Data of this Form 10-K. The comparative period Financial Condition data through 2013 includes CAC assets and liabilities.

As of or for the years ended December 31 (In millions, except per share data)	2016	2015	2014	2013	2012
Results of Operations:					
Revenues	$9,366	$9,101	$9,692	$9,932	$9,364
Income (loss) from continuing operations, net of tax	$859	$479	$888	$915	$620
(Loss) income from discontinued operations, net of tax	—	—	(197)	22	8
Net income (loss) attributable to CNA	$859	$479	$691	$937	$628
Basic Earnings (Loss) Per Share:					
Income (loss) from continuing operations	$3.18	$1.77	$3.29	$3.39	$2.30
(Loss) income from discontinued operations	—	—	(0.73)	0.09	0.03
Basic earnings (loss) per share	$3.18	$1.77	$2.56	$3.48	$2.33
Diluted Earnings (Loss) Per Share:					
Income (loss) from continuing operations	$3.17	$1.77	$3.28	$3.39	$2.30
(Loss) income from discontinued operations	—	—	(0.73)	0.08	0.03
Diluted earnings (loss) per share	$3.17	$1.77	$2.55	$3.47	$2.33
Dividends declared per common share	$3.00	$3.00	$2.00	$0.80	$0.60
Financial Condition:					
Total investments	$45,420	$44,699	$46,262	$46,107	$47,636
Total assets	55,233	55,045	55,564	57,192	58,520
Insurance reserves	36,431	36,486	36,380	38,394	40,005
Long and short term debt	2,710	2,560	2,557	2,558	2,568
Total CNA stockholders' equity	11,969	11,756	12,794	12,651	12,314
Book value per common share	$44.25	$43.49	$47.39	$46.91	$45.71

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

Index to this MD&A

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

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OVERVIEW

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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

Insurance Reserves

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

Reinsurance and Insurance Receivables

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

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

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

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Valuation of Investments and Impairment of Securities

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

Our investment portfolio is subject to market declines below amortized cost that may be other-than-temporary and therefore result in the recognition of impairment losses in earnings. Factors considered in the determination of whether or not a decline is other-than-temporary include a current intention or need to sell the security or an indication that a credit loss exists. Significant judgment exists regarding the evaluation of the financial condition and expected near-term and long-term prospects of the issuer, the relevant industry conditions and trends and whether we expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. Further information on our process for evaluating impairments is in Note A to the Consolidated Financial Statements included under Item 8.

Long Term Care Policies

Future policy benefits reserves for our long term care policies are based on certain assumptions, including morbidity, persistency, discount rates and future premium rate increases. The adequacy of the reserves is contingent upon actual experience and our future expectations related to these key assumptions. If actual or expected future experience differs from these assumptions, the reserves may not be adequate, requiring us to add to reserves.

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

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

Pension and Postretirement Benefit Obligations

We make a significant number of assumptions in estimating the liabilities and costs related to our pension and postretirement benefit obligations. The assumptions that most affect these costs are the discount rate and the expected long term rate of return on plan assets. These assumptions are based on, among other things, current economic factors such as inflation, interest rates and broader capital market expectations. Changes in these assumptions can have a material impact on pension obligations and pension expense.

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

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

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

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Income Taxes

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

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RESERVES - ESTIMATES AND UNCERTAINTIES
The level of reserves we maintain represents our best estimate, as of a particular point in time, of what the ultimate settlement and administration of claims will cost based on our assessment of facts and circumstances known at that time. Reserves are not an exact calculation of liability but instead are complex estimates that we derive, generally utilizing a variety of actuarial reserve estimation techniques, from numerous assumptions and expectations about future events, both internal and external, many of which are highly uncertain. As noted below, we review our reserves for each segment of our business periodically, and any such review could result in the need to increase reserves in amounts which could be material and could adversely affect our results of operations, equity, business and insurer financial strength and corporate debt ratings. Further information on reserves is provided in Note E to the Consolidated Financial Statements included under Item 8.
Property and Casualty Claim and Claim Adjustment Expense Reserves
We maintain loss reserves to cover our estimated ultimate unpaid liability for claim and claim adjustment expenses, including the estimated cost of the claims adjudication process, for claims that have been reported but not yet settled (case reserves) and claims that have been incurred but not reported (IBNR). IBNR includes a provision for development on known cases as well as a provision for late reported incurred claims. Claim and claim adjustment expense reserves are reflected as liabilities and are included on the Consolidated Balance Sheets under the heading “Insurance Reserves.” Adjustments to prior year reserve estimates, if necessary, are reflected in results of operations in the period that the need for such adjustments is determined. The carried case and IBNR reserves as of each balance sheet date are provided in the Segment Results section of this MD&A and in Note E to the Consolidated Financial Statements included under Item 8.
As discussed in the Risk Factors discussion within Item 1A, there is a risk that our recorded reserves are insufficient to cover our estimated ultimate unpaid liability for claims and claim adjustment expenses. Unforeseen emerging or potential claims and coverage issues are difficult to predict and could materially adversely affect the adequacy of our claim and claim adjustment expense reserves and could lead to future reserve additions.
In addition, our property and casualty insurance subsidiaries also have actual and potential exposures related to A&EP claims, which could result in material losses. To mitigate the risks posed by our exposure to A&EP claims and claim adjustment expenses, we completed a transaction with NICO under which substantially all of our legacy A&EP liabilities were ceded to NICO effective January 1, 2010. See Note E to the Consolidated Financial Statements included under Item 8 for further discussion about the transaction with NICO, its impact on our results of operations and the deferred retroactive reinsurance gain.
Establishing Property & Casualty Reserve Estimates
In developing claim and claim adjustment expense (“loss” or “losses”) reserve estimates, our actuaries perform detailed reserve analyses that are staggered throughout the year. The data is organized at a reserve group level. A reserve group can be a line of business covering a subset of insureds such as commercial automobile liability for small or middle market customers, it can encompass several lines of business provided to a specific set of customers such as dentists, or it can be a particular type of claim such as construction defect. Every reserve group is reviewed at least once during the year. The analyses generally review losses gross of ceded reinsurance and apply the ceded reinsurance terms to the gross estimates to establish estimates net of reinsurance. In addition to the detailed analyses, we review actual loss emergence for all products each quarter.
Most of our business can be characterized as long-tail. For long-tail business, it will generally be several years between the time the business is written and the time when all claims are settled. Our long-tail exposures include commercial automobile liability, workers' compensation, general liability, medical professional liability, other professional liability and management liability coverages, assumed reinsurance run-off and products liability. Short-tail exposures include property, commercial automobile physical damage, marine, surety and warranty. Specialty, Commercial and International contain both long-tail and short-tail exposures. Corporate & Other Non-Core contains long-tail exposures.
Various methods are used to project ultimate losses for both long-tail and short-tail exposures.
The paid development method estimates ultimate losses by reviewing paid loss patterns and applying them to accident or policy years with further expected changes in paid losses. Selection of the paid loss pattern may require

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consideration of several factors, including the impact of inflation on claims costs, the rate at which claims professionals make claim payments and close claims, the impact of judicial decisions, the impact of underwriting changes, the impact of large claim payments and other factors. Claim cost inflation itself may require evaluation of changes in the cost of repairing or replacing property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors. Because this method assumes that losses are paid at a consistent rate, changes in any of these factors can impact the results. Since the method does not rely on case reserves, it is not directly influenced by changes in their adequacy.

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

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

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

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

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

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

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property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors.

Stochastic modeling produces a range of possible outcomes based on varying assumptions related to the particular reserve group being modeled. For some reserve groups, we use models which rely on historical development patterns at an aggregate level, while other reserve groups are modeled using individual claim variability assumptions supplied by the claims department. In either case, multiple simulations using varying assumptions are run and the results are analyzed to produce a range of potential outcomes. The results will typically include a mean and percentiles of the possible reserve distribution which aid in the selection of a point estimate.

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

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

Periodic Reserve Reviews

The reserve analyses performed by our actuaries result in point estimates. Each quarter, the results of the detailed reserve reviews are summarized and discussed with senior management to determine the best estimate of reserves. Senior management considers many factors in making this decision. Our recorded reserves reflect our best estimate as of a particular point in time based upon known facts and circumstances, consideration of the factors cited above and our judgment. The carried reserve may differ from the actuarial point estimate. See Note E to the Consolidated Financial Statements included under Item 8 for further discussion of the factors considered in determining management's best estimate.

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

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

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

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

The three areas for which we believe a significant deviation to our net reserves is reasonably possible are (i) professional liability, management liability and surety products; (ii) workers' compensation; and (iii) general liability.

Professional liability, management liability and surety products include professional liability coverages provided to various professional firms, including architects, real estate agents, small and mid-sized accounting firms, law firms and other professional firms. They also include directors and officers (D&O), employment practices, fiduciary, fidelity and surety coverages, as well as insurance products serving the healthcare delivery system. The most significant factor affecting reserve estimates for these liability coverages is claim severity. Claim severity is driven by the cost of medical care, the cost of wage replacement, legal fees, judicial decisions, legislative changes and other factors. Underwriting and claim handling decisions such as the classes of business written and individual claim settlement decisions can also impact claim severity. If the estimated claim severity increases by 9%, we estimate that net reserves would increase by approximately $450 million. If the estimated claim severity decreases by 3%, we estimate that net reserves would decrease by approximately $150 million. Our net reserves for these products were approximately $5.2 billion as of December 31, 2016.

For workers' compensation, since many years will pass from the time the business is written until all claim payments have been made, the most significant factor affecting workers' compensation reserve estimates is claim cost inflation on claim payments. Workers' compensation claim cost inflation is driven by the cost of medical care, the cost of wage replacement, expected claimant lifetimes, judicial decisions, legislative changes and other factors. If estimated workers' compensation claim cost inflation increases by 100 basis points for the entire period over which claim payments will be made, we estimate that our net reserves would increase by approximately $400 million. If estimated workers' compensation claim cost inflation decreases by 100 basis points for the entire period over which claim payments will be made, we estimate that our net reserves would decrease by approximately $350 million. Our net reserves for workers' compensation were approximately $4.3 billion as of December 31, 2016.

For general liability, the most significant factor affecting reserve estimates is claim severity. Claim severity is driven by changes in the cost of repairing or replacing property, the cost of medical care, the cost of wage replacement, judicial decisions, legislation and other factors. If the estimated claim severity for general liability increases by 6%, we estimate that our net reserves would increase by approximately $200 million. If the estimated claim severity for general liability decreases by 3%, we estimate that our net reserves would decrease by approximately $100 million. Our net reserves for general liability were approximately $3.4 billion as of December 31, 2016.

Given the factors described above, it is not possible to quantify precisely the ultimate exposure represented by claims and related litigation. As a result, we regularly review the adequacy of our reserves and reassess our reserve estimates as historical loss experience develops, additional claims are reported and settled and additional information becomes available in subsequent periods. In reviewing our reserve estimates, we make adjustments in the period that the need for such adjustments is determined. These reviews have resulted in our identification of information and trends that have caused us to change our reserves in prior periods and could lead to our identification of a need for additional material increases or decreases in claim and claim adjustment expense reserves, which could materially affect our results of operations, equity, business and insurer financial strength and corporate debt ratings positively or negatively. See discussion within Note E to the Consolidated Financial Statements included under Item 8 for additional information about reserve development and the Ratings section of this MD&A for further information regarding our financial strength and corporate debt ratings.

Life & Group Non-Core Policyholder Reserves

Our Life and Group Non-Core segment includes our run-off long term care business as well as structured settlement obligations related to certain property and casualty claimants not funded by annuities. Long term care policies provide benefits for nursing homes, assisted living and home health care subject to various daily and lifetime caps. Policyholders must continue to make periodic premium payments to keep the policy in force. Generally we have the ability to increase policy premiums, subject to state regulatory approval.

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We maintain both claim and claim adjustment expense reserves as well as future policy benefits reserves for policyholder benefits for our Life & Group Non-Core segment. Claim and claim adjustment expense reserves consist of estimated reserves for long term care policyholders that are currently receiving benefits, including claims that have been incurred but are not yet reported. In developing the claim and claim adjustment expense reserve estimates for our long term care policies, our actuaries perform a detailed claim experience study on an annual basis. The study reviews the sufficiency of existing reserves for policyholders currently on claim and includes an evaluation of expected benefit utilization and claim duration. Our recorded claim and claim adjustment expense reserves reflect management's best estimate after incorporating the results of the most recent study. In addition, claim and claim adjustment expense reserves are also maintained for the structured settlement obligations. Future policy benefits reserves represent the active life reserves related to our long term care policies and are the present value of expected future benefit payments and expenses less expected future premium. The determination of these reserves is fundamental to our financial results and requires management to make estimates and assumptions about expected investment and policyholder experience over the life of the contract. Since many of these contracts may be in force for several decades, these assumptions are subject to significant estimation risk.

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

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

The December 31, 2016 GPV indicated carried reserves included a margin of approximately $255 million. A summary of the changes in the GPV results is presented in the table below:

Long Term Care Active Life Reserve - Change in GPV (In millions)	
December 31, 2015 Margin	$—
Changes in underlying morbidity assumptions	(130)
Changes in underlying persistency assumptions	25
Changes in underlying discount rate assumptions	(45)
Changes in underlying premium rate action assumptions	350
Changes in underlying expense and other assumptions	55
December 31, 2016 Margin	$255

The increase in the margin in 2016 was driven by expected rate increases from near-term future rate filings on segments of our individual long term care block of business as well as higher than expected premium rate increase achievement on rate filings related to our group long term care block. This improvement from rate actions was partially offset by minor changes in morbidity assumptions. The effects of persistency and discount rates were relatively small and largely offset one another. Additionally, in 2016 our annual experience study of long term care claim reserves resulted in a release of $30 million due to favorable severity relative to expectations.

The December 31, 2015 GPV indicated a premium deficiency of $296 million resulting in the unlocking of reserves and the resetting of actuarial assumptions to best estimate assumptions at that date. The indicated premium deficiency necessitated a charge to income of $296 million. In addition to the premium deficiency, our annual

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experience study of claim reserves resulted in reserve strengthening of $9 million. The total after-tax impact of the premium deficiency and claim reserve strengthening was $198 million.

The table below summarizes the estimated pretax impact on our results of operations from various hypothetical revisions to our active life reserve assumptions. We have assumed that revisions to such assumptions would occur in each policy type, age and duration within each policy group and would occur absent any changes, mitigating or otherwise, in the other assumptions. Although such hypothetical revisions are not currently required or anticipated, we believe they could occur based on past variances in experience and our expectations of the ranges of future experience that could reasonably occur. Any required increase in the net GAAP reserves resulting from the hypothetical revision in the table below would first reduce the margin in our carried reserves before it would affect results of operations. The estimated impacts to results of operations in the table below are after consideration of the existing margin.

December 31, 2016

Hypothetical revisions (In millions)	Estimated reduction to pretax income
Morbidity:	
5% increase in morbidity	$ 372
10% increase in morbidity	999
Persistency:	
5% decrease in active life mortality and lapse	$ —
10% decrease in active life mortality and lapse	163
Discount Rates:	
50 basis point decline in future interest rates	$ 156
100 basis point decline in future interest rates	664
Premium Rate Actions:	
25% decrease in anticipated future rate increases premium	$ —
50% decrease in anticipated future rate increases premium	142

As referenced in Item 1A Risk Factors, modification of the corporate tax rate could adversely affect the value of the tax benefit received on tax exempt municipal investments and thus the rate at which we discount our long term care active life reserves. For illustrative reference, absent a change in investment strategy, a reduction in the corporate tax rate to 20% would require an increase to our existing net GAAP reserves for the LTC business and an estimated reduction to pretax income of approximately $700 million.

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

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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. For further discussion of Net investment income and Net realized investment results, see the Investments section of this MD&A.

Years ended December 31			
(In millions)	2016	2015	2014
Operating Revenues			
Net earned premiums	$6,924	$6,921	$7,212
Net investment income	1,988	1,840	2,067
Other revenues	404	407	356
Total operating revenues	9,316	9,168	9,635
Claims, Benefits and Expenses			
Net incurred claims and benefits	5,270	5,372	5,577
Policyholders' dividends	13	12	14
Amortization of deferred acquisition costs	1,235	1,540	1,317
Other insurance related expenses	1,122	1,093	1,029
Other expenses	589	535	548
Total claims, benefits and expenses	8,229	8,552	8,485
Operating income before income tax	1,087	616	1,150
Income tax expense on operating income	(263)	(101)	(301)
Net operating income	824	515	849
Net realized investment gains (losses)	50	(67)	57
Income tax (expense) benefit on net realized investment gains (losses)	(15)	31	(18)
Net realized investment gains (losses), after tax	35	(36)	39
Income from continuing operations	859	479	888
Loss from discontinued operations, net of tax	—	—	(197)
Net income	$859	$479	$691

2016 Compared with 2015

Net operating income increased $309 million in 2016 as compared with 2015. Net operating results increased $293 million for our non-core segments primarily as a result of a $198 million after-tax charge in 2015 related to increasing long term care active life and claim reserves. As our active life reserve assumptions were unlocked in 2015, long term care results in 2016 improved significantly. Net operating income increased $16 million for our core segments due to higher favorable net prior year reserve development and net investment income, partially offset by an increase in the current accident year loss ratio and higher underwriting expenses. Catastrophe losses were $111 million after tax in 2016 as compared to $95 million after tax in 2015.

Favorable net prior year development of $314 million and $218 million was recorded in 2016 and 2015 related to our Specialty, Commercial, International and Corporate & Other Non-Core segments. Further information on net prior year development is in Note E to the Consolidated Financial Statements included under Item 8.

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2015 Compared with 2014

Net operating income decreased $334 million in 2015 as compared with 2014. Net operating income decreased $44 million for our core segments due to a decrease in net investment income driven by lower limited partnership returns, partially offset by improved underwriting results. Catastrophe losses were $95 million after tax in 2015 as compared to $102 million after tax in 2014. Net operating results decreased $290 million for our non-core segments driven by a $198 million after-tax charge related to recognition of a premium deficiency and a small deficiency in claim reserves in our long term care business, as further discussed in Reserves-Estimates and Uncertainties within this MD&A, as well as in Note A to the Consolidated Financial Statements included under Item 8. Additionally, results in 2015 decreased $51 million as compared to 2014 as a result of the application of retroactive reinsurance accounting to adverse reserve development ceded under the 2010 A&EP Loss Portfolio Transfer, as further discussed at Note E to the Consolidated Financial Statements included under Item 8.

Favorable net prior year development of $218 million and $53 million was recorded in 2015 and 2014 related to our Specialty, Commercial, International and Corporate & Other Non-Core segments. Further information on net prior year development is in Note E to the Consolidated Financial Statements included under Item 8.

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SEGMENT RESULTS

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

Our core property and casualty commercial insurance operations are managed and reported in three business segments: Specialty, Commercial and International. Specialty provides a broad array of professional, financial and specialty property and casualty products and services through a network of independent agents, brokers and managing general underwriters. Commercial includes property and casualty coverages sold to small businesses and middle market entities and organizations primarily through an independent agency distribution system. Commercial also includes commercial insurance and risk management products sold to large corporations primarily through insurance brokers. International provides management and professional liability coverages as well as a broad range of other property and casualty insurance products and services abroad through a network of brokers, independent agencies and managing general underwriters, as well as the Lloyd’s marketplace.

Our non-core operations are managed and reported in two segments: Life & Group Non-Core and Corporate & Other Non-Core. Life & Group Non-Core primarily includes the results of our long term care business that is in run-off. Corporate & Other Non-Core primarily includes certain corporate expenses, including interest on corporate debt, and the results of certain property and casualty business in run-off, including CNA Re and A&EP. Intersegment eliminations are also included in this segment.

Our property and casualty field structure consists of 49 underwriting locations across the United States. In addition, there are five centralized processing operations which handle policy processing, billing and collection activities and also act as call centers to optimize service. The claims structure consists of a national claim center designed to efficiently handle the high volume of low severity claims, including property damage, liability and workers' compensation medical only claims, and 16 principal claim offices handling the more complex claims. We also have a presence in Canada, Europe, China and Singapore consisting of 17 branch operations and access to business placed at Lloyd's of London through Hardy Syndicate 382.

We utilize the net operating income (loss) financial measure to monitor our operations. Net operating income (loss) is calculated by excluding from net income (loss) the after-tax effects of 1) net realized investment gains or losses, 2) income or loss from discontinued operations and 3) any cumulative effects of changes in accounting guidance. The calculation of net operating income (loss) excludes net realized investment gains or losses because net realized investment gains or losses are largely discretionary, except for some losses related to other-than-temporary impairment (OTTI) losses, 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. Management monitors net operating income (loss) for each business segment to assess segment performance. Presentation of consolidated net operating income (loss) is deemed to be a non-GAAP financial measure. See further discussion regarding how we manage our business and reconciliations of non-GAAP measures to the most comparable GAAP measures and other information in Note O to the Consolidated Financial Statements included under Item 8.

In evaluating the results of our Specialty, Commercial and International segments, we utilize the loss ratio, the expense ratio, the dividend ratio and the combined ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of insurance underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of policyholders' dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios. In addition we also utilize rate, retention and new business in evaluating operating trends. Rate represents the average change in price on policies that renew excluding exposure change. Retention represents the percentage of premium dollars renewed in comparison to the expiring premium dollars from policies available to renew. New business represents premiums from policies written with new customers and additional policies written with existing customers.

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 E to the Consolidated Financial Statements included under Item 8.

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Specialty

Specialty provides management and professional liability and other coverages through property and casualty products and services using a network of brokers, independent agencies and managing general underwriters. Specialty includes the following business groups:

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

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

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

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The following table details the results of operations for Specialty.

Years ended December 31 (In millions, except ratios, rate and retention)	2016	2015	2014
Net written premiums	$2,780	$2,781	$2,839
Net earned premiums	2,779	2,782	2,838
Net investment income	516	474	560
Net operating income	650	560	634
Net realized investment gains (losses), after tax	3	(22)	10
Net income	653	538	644
Other performance metrics:			
Loss and loss adjustment expense ratio	52.8 %	57.4 %	57.3 %
Expense ratio	32.0	31.1	30.1
Dividend ratio	0.2	0.2	0.2
Combined ratio	85.0 %	88.7 %	87.6 %
Rate	1 %	1 %	3 %
Retention	87 %	87 %	87 %
New Business	$252	$279	$309

2016 Compared with 2015

Net written premiums for Specialty in 2016 were consistent with 2015 as growth in warranty was offset by a decrease in management and professional liability and healthcare due to underwriting actions undertaken in certain business lines. The trend in net earned premiums was consistent with net written premiums.

Net operating income increased $90 million in 2016 as compared with 2015, primarily due to higher favorable net prior year reserve development and net investment income partially offset by higher underwriting expenses and current accident year net loss and loss adjustment expenses.

The combined ratio decreased 3.7 points in 2016 as compared with 2015. The loss ratio decreased 4.6 points due to higher favorable net prior year reserve development partially offset by a higher current accident year loss ratio. Catastrophe losses were $18 million, or 0.6 points of the loss ratio, for 2016, as compared to $13 million, or 0.4 points of the loss ratio, for 2015. The expense ratio increased 0.9 points in 2016 as compared with 2015, due to higher employee costs and higher IT spending primarily related to new underwriting platforms.

Favorable net prior year development of $305 million and $152 million was recorded in 2016 and 2015. Further information on net prior year development is in Note E to the Consolidated Financial Statements included under Item 8.

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The following table summarizes the gross and net carried reserves for Specialty.

December 31 (In millions)	2016	2015
Gross case reserves	$1,871	$2,011
Gross IBNR reserves	4,278	4,258
Total gross carried claim and claim adjustment expense reserves	$6,149	$6,269
Net case reserves	$1,681	$1,810
Net IBNR reserves	3,723	3,758
Total net carried claim and claim adjustment expense reserves	$5,404	$5,568

2015 Compared with 2014

Net written premiums for Specialty decreased $58 million in 2015 as compared with 2014, driven by lower new business. The decrease in net earned premiums was consistent with the trend in net written premiums.

Net operating income decreased $74 million in 2015 as compared with 2014, primarily due to lower net investment income.

The combined ratio increased 1.1 points in 2015 as compared with 2014. The loss ratio increased 0.1 points due to deterioration in the current accident year loss ratio, primarily offset by higher net favorable prior year development. Catastrophe losses were $13 million, or 0.4 points of the loss ratio, for 2015 as compared to $21 million, or 0.7 points of the loss ratio, for 2014. The expense ratio increased 1.0 point in 2015 as compared with 2014, driven by increased underwriting expenses and the unfavorable effect of lower net earned premiums.

Favorable net prior year development of $152 million and $149 million was recorded in 2015 and 2014. Further information on net prior year development is in Note E to the Consolidated Financial Statements included under Item 8.

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Commercial

Commercial works with a network of brokers and independent agents to market a broad range of property and casualty insurance products and services to small, middle-market and large businesses. Property products include standard and excess property, marine and boiler and machinery coverages. Casualty products include standard casualty insurance products such as workers' compensation, general and product liability, commercial auto and umbrella coverages. Most insurance programs are provided on a guaranteed cost basis; however, we also offer specialized loss-sensitive insurance programs and total risk management services relating to claim and information services to the large commercial insurance marketplace through a wholly-owned subsidiary, CNA ClaimPlus, Inc., a third-party administrator.

These property and casualty products are offered through our Middle Market, Small Business and Other Commercial insurance groups.

The following table details the results of operations for Commercial.

Years ended December 31			
(In millions, except ratios, rate and retention)	2016	2015	2014
Net written premiums	$2,841	$2,818	$2,817
Net earned premiums	2,804	2,788	2,906
Net investment income	638	593	723
Net operating income	311	369	307
Net realized investment gains (losses), after tax	2	(31)	10
Net income	313	338	317
Other performance metrics:			
Loss and loss adjustment expense ratio	68.7 %	65.1 %	75.3 %
Expense ratio	36.8	36.1	33.7
Dividend ratio	0.3	0.3	0.3
Combined ratio	105.8		