LOEWS CORP
Form 10-Q
August 03, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

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 1-6541

LOEWS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**13-2646102**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

667 Madison Avenue, New York, N.Y. 10065-8087

(Address of principal executive offices) (Zip Code)

(212) 521-2000

(Registrant s telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

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 ¨ Not Applicable ¨

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. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

Class	Outstanding at July 22, 2011
Common stock, $0.01 par value	404,098,555 shares

Table of Contents

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(Dollar amounts in millions, except per share data)	June 30, 2011	December 31, 2010
Assets:		
Investments:		
Fixed maturities, amortized cost of $37,096 and $36,677	**$ 38,853**	$ 37,814
Equity securities, cost of $908 and $979	**996**	1,086
Limited partnership investments	**3,130**	2,814
Other invested assets	**213**	113
Short term investments	**5,692**	7,080
Total investments	**48,884**	48,907
Cash	**148**	120
Receivables	**10,133**	10,142
Property, plant and equipment	**12,456**	12,636
Deferred income taxes		289
Goodwill	**856**	856
Other assets	**2,036**	1,798
Deferred acquisition costs of insurance subsidiaries	**1,106**	1,079
Separate account business	**450**	450
Total assets	**$ 76,069**	$ 76,277
Liabilities and Equity:		
Insurance reserves:		
Claim and claim adjustment expense	**$ 25,196**	$ 25,496
Future policy benefits	**9,021**	8,718
Unearned premiums	**3,409**	3,203
Policyholders funds	**166**	173
Total insurance reserves	**37,792**	37,590
Payable to brokers	**558**	685
Short term debt	**6**	647
Long term debt	**9,163**	8,830
Deferred income taxes	**638**	562
Other liabilities	**3,979**	4,407
Separate account business	**450**	450
Total liabilities	**52,586**	53,171

Preferred stock, $0.10 par value:		
Authorized 100,000,000 shares		
Common stock, $0.01 par value:		
Authorized 1,800,000,000 shares		
Issued 415,152,938 and 414,930,507 shares	**4**	4
Additional paid-in capital	**3,653**	3,667
Retained earnings	**15,145**	14,564
Accumulated other comprehensive income	**581**	230
	19,383	18,465
Less treasury stock, at cost (10,266,938 and 384,400 shares)	**(430)**	(15)
Total shareholders equity	**18,953**	18,450
Noncontrolling interests	**4,530**	4,656
Total equity	**23,483**	23,106
Total liabilities and equity	**$ 76,069**	$ 76,277

See accompanying Notes to Consolidated Condensed Financial Statements.

3

Table of Contents

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

(In millions, except per share data)	**Three Months Ended June 30, 2011**	**Three Months Ended June 30, 2010**	**Six Months Ended June 30, 2011**	**Six Months Ended June 30, 2010**
Revenues:				
Insurance premiums	**$ 1,595**	$ 1,608	**$ 3,210**	$ 3,223
Net investment income	**519**	526	**1,180**	1,143
Investment gains (losses):				
Other-than-temporary impairment losses	**(41)**	(58)	**(61)**	(148)
Portion of other-than-temporary impairment losses recognized in Other comprehensive income (loss)	**(21)**	1	**(42)**	31
Net impairment losses recognized in earnings	**(62)**	(57)	**(103)**	(117)
Other net investment gains	**81**	68	**145**	149
Total investment gains	**19**	11	**42**	32
Contract drilling revenues	**870**	812	**1,659**	1,656
Other	**539**	529	**1,119**	1,145
Total	**3,542**	3,486	**7,210**	7,199
Expenses:				
Insurance claims and policyholders benefits	**1,367**	1,147	**2,731**	2,455
Amortization of deferred acquisition costs	**350**	345	**695**	687
Contract drilling expenses	**388**	352	**750**	658
Other operating expenses	**757**	712	**1,442**	1,443
Interest	**129**	127	**280**	257
Total	**2,991**	2,683	**5,898**	5,500
Income before income tax	**551**	803	**1,312**	1,699
Income tax expense	**(144)**	(262)	**(340)**	(535)
Net income	**407**	541	**972**	1,164
Amounts attributable to noncontrolling interests	**(155)**	(175)	**(338)**	(378)
Net income attributable to Loews Corporation	**$ 252**	$ 366	**$ 634**	$ 786
Basic net income per share	**$ 0.62**	$ 0.88	**$ 1.54**	$ 1.87
Diluted net income per share	**$ 0.62**	$ 0.87	**$ 1.54**	$ 1.87

Dividends per share	**$ 0.0625**	$ 0.0625	**$ 0.125**	$ 0.125
Weighted-average shares outstanding:				
Shares of common stock	**407.82**	418.64	**410.34**	420.69
Dilutive potential shares of common stock	**0.92**	0.74	**0.93**	0.79
Total weighted-average shares outstanding assuming dilution	**408.74**	419.38	**411.27**	421.48

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2011**	2010	**2011**	2010
Net income	**$ 407**	$ 541	**$ 972**	$ 1,164
Other comprehensive income (loss)				
Changes in:				
Net unrealized gains on investments with other-than-temporary impairments	**1**	17	**39**	42
Net other unrealized gains on investments	**300**	373	**323**	680
Total unrealized gains on available-for-sale investments	**301**	390	**362**	722
Unrealized gains (losses) on cash flow hedges	**6**	6	**(11)**	67
Foreign currency	**5**	16	**31**	6
Pension liability	**2**	2	**2**	4
Other comprehensive income	**314**	414	**384**	799
Comprehensive income	**721**	955	**1,356**	1,963
Amounts attributable to noncontrolling interests	**(200)**	(219)	**(389)**	(464)
Total comprehensive income attributable to Loews Corporation	**$ 521**	$ 736	**$ 967**	$ 1,499

See accompanying Notes to Consolidated Condensed Financial Statements.

5

Table of Contents

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

(Unaudited)

	Loews Corporation Shareholders						
(In millions)	**Total**	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Common Stock Held in Treasury**	**Noncontrolling Interests**
Balance, January 1, 2010	$ 21,085	$ 4	$ 3,637	$ 13,693	$ (419)	$ (16)	$ 4,186
Net income	1,164			786			378
Other comprehensive income	799				713		86
Dividends paid	(356)			(53)			(303)
Issuance of equity securities by subsidiary	279		83		1		195
Purchase of Loews treasury stock	(253)					(253)	
Issuance of Loews common stock	1		1				
Stock-based compensation	11		9				2
Other	(3)		19				(22)
Balance, June 30, 2010	$ 22,727	$ 4	$ 3,749	$ 14,426	$ 295	$ (269)	$ 4,522
Balance, January 1, 2011	**$ 23,106**	**$ 4**	**$ 3,667**	**$ 14,564**	**$ 230**	**$ (15)**	**$ 4,656**
Net income	**972**			**634**			**338**
Other comprehensive income	**384**				**333**		**51**
Dividends paid	**(247)**			**(51)**			**(196)**
Acquisition of CNA Surety noncontrolling interests	**(475)**		**(54)**		**17**		**(438)**
Issuance of equity securities by subsidiary	**152**		**28**		**1**		**123**
Purchase of Loews treasury stock	**(415)**					**(415)**	
Issuance of Loews common stock	**4**		**4**				
Stock-based compensation	**12**		**10**				**2**
Other	**(10)**		**(2)**	**(2)**			**(6)**
Balance, June 30, 2011	**$ 23,483**	**$ 4**	**$ 3,653**	**$ 15,145**	**$ 581**	**$ (430)**	**$ 4,530**

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

Six Months Ended June 30 **(In millions)**	**2011**	2010
Operating Activities:		
Net income	**$ 972**	$ 1,164
Adjustments to reconcile net income to net cash provided by operating activities, net	**445**	446
Changes in operating assets and liabilities, net:		
Reinsurance receivables	**277**	374
Other receivables	**(74)**	(40)
Deferred acquisition costs	**(27)**	13
Insurance reserves	**93**	(437)
Other liabilities	**(276)**	(27)
Trading securities	**(521)**	(589)
Other, net	**27**	(104)
Net cash flow operating activities total	**916**	800
Investing Activities:		
Purchases of fixed maturities	**(6,200)**	(9,478)
Proceeds from sales of fixed maturities	**4,124**	6,388
Proceeds from maturities of fixed maturities	**1,825**	1,866
Purchases of equity securities	**(44)**	(62)
Proceeds from sales of equity securities	**153**	128
Purchases of property, plant and equipment	**(300)**	(473)
Deposits for construction of offshore drilling equipment	**(478)**	
Sales of property, plant and equipment	**9**	591
Change in short term investments	**1,580**	1,058
Change in other investments	**(301)**	(194)
Other, net	**5**	24
Net cash flow investing activities total	**373**	(152)

7

Table of Contents

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS - (Continued)

(Unaudited)

Six Months Ended June 30 **(In millions)**	**2011**	2010
Financing Activities:		
Dividends paid	**$ (51)**	$ (53)
Dividends paid to noncontrolling interests	**(196)**	(303)
Acquisition of CNA Surety noncontrolling interests	**(426)**	
Purchases of treasury shares	**(422)**	(266)
Issuance of common stock	**4**	1
Proceeds from sale of subsidiary stock	**172**	333
Principal payments on debt	**(1,433)**	(556)
Issuance of debt	**1,101**	125
Other, net	**(12)**	(26)
Net cash flow financing activities total	**(1,263)**	(745)
Effect of foreign exchange rate on cash	**2**	(2)
Net change in cash	**28**	(99)
Cash, beginning of period	**120**	190
Cash, end of period	**$ 148**	$ 91

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

Loews Corporation and Subsidiaries

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: commercial property and casualty insurance (CNA Financial Corporation (CNA), a 90% owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. (Diamond Offshore), a 50.4% owned subsidiary); exploration, production and marketing of natural gas and natural gas liquids (HighMount Exploration & Production LLC (HighMount), a wholly owned subsidiary); the operation of interstate natural gas pipeline systems (Boardwalk Pipeline Partners, LP (Boardwalk Pipeline), a 64% owned subsidiary); and the operation of hotels (Loews Hotels Holding Corporation (Loews Hotels), a wholly owned subsidiary). In the second quarter of 2011 Boardwalk Pipeline sold 6 million common units through a public offering for $170 million, reducing the Company s ownership interest from 66% to 64%. Unless the context otherwise requires, the terms Company, Loews and Registrant as used herein mean Loews Corporation excluding its subsidiaries and the term Net income (loss) Loews as used herein means Net income (loss) attributable to Loews Corporation.

In the opinion of management, the accompanying unaudited Consolidated Condensed Financial Statements reflect all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 2011 and December 31, 2010 and the results of operations and comprehensive income for the three and six months ended June 30, 2011 and 2010 and changes in shareholders equity and cash flows for the six months ended June 30, 2011 and 2010.

Net income for the second quarter and first half of each of the years is not necessarily indicative of net income for that entire year.

Reference is made to the Notes to Consolidated Financial Statements in the 2010 Annual Report on Form 10-K which should be read in conjunction with these Consolidated Condensed Financial Statements.

The Company presents basic and diluted earnings per share on the Consolidated Condensed Statements of Income. Basic earnings per share excludes dilution and is computed by dividing net income attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Stock appreciation rights (SARs) of 1.7 million, 2.6 million, 1.8 million and 2.5 million shares were not included in the diluted weighted average shares amount for the three and six months ended June 30, 2011 and 2010 due to the exercise price being greater than the average stock price.

On June 10, 2011, CNA completed its previously announced acquisition of the noncontrolling interests of CNA Surety Corporation (CNA Surety). Previously CNA owned approximately 61% of the outstanding publicly traded common stock of CNA Surety. CNA Surety is now a wholly owned subsidiary of CNA, and, effective after the close of the stock market on June 10, 2011, trading in CNA Surety common stock ceased. The aggregate purchase price was approximately $475 million, based on the offer price of $26.55 per share and inclusive of the retirement of CNA Surety employee stock options. The amount paid to acquire the common shares of CNA Surety in excess of the closing date noncontrolling interests included in the Company s equity of $438 million was reflected as an adjustment to Additional paid-in capital of $54 million. In addition, Accumulated other comprehensive income increased by $17 million related to the portion of net unrealized gains previously allocated to the noncontrolling shareholders. Net income attributable to the noncontrolling interests for the three and six months ended June 30, 2011 and 2010 was not significant.

Table of Contents

2. Investments

(In millions)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net investment income consists of:				
Fixed maturity securities	**$ 505**	$ 519	**$ 1,011**	$ 1,029
Short term investments	**4**	7	**7**	14
Limited partnerships	**22**	7	**156**	87
Equity securities	**6**	9	**12**	19
Income (loss) from trading portfolio (a)	**(8)**	(5)	**15**	16
Other	**5**	2	**9**	5
Total investment income	**534**	539	**1,210**	1,170
Investment expenses	**(15)**	(13)	**(30)**	(27)
Net investment income	**$ 519**	$ 526	**$ 1,180**	$ 1,143

(a) Includes net unrealized gains/(losses) related to changes in fair value on trading securities still held of $(17), $21, $1 and $41 for the three and six months ended June 30, 2011 and 2010.

Investment gains (losses) are as follows:				
Fixed maturity securities	**$ 20**	$ 66	**$ 40**	$ 93
Equity securities	**(2)**	(28)	**(2)**	(25)
Derivative instruments		(18)	**(1)**	(31)
Short term investments	**1**	1	**3**	4
Other		(10)	**2**	(9)
Investment gains (a)	**$ 19**	$ 11	**$ 42**	$ 32

(a) Includes gross realized gains of $90, $133, $183 and $235 and gross realized losses of $72, $95, $145 and $167 on available-for-sale securities for the three and six months ended June 30, 2011 and 2010.

The components of other-than-temporary impairment (OTTI) losses recognized in earnings by asset type are as follows:

(In millions)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Fixed maturity securities available-for-sale:				
Corporate and other bonds	**$ 15**	$ 24	**$ 24**	$ 42
States, municipalities and political subdivisions		6		20
Asset-backed:				
Residential mortgage-backed	**46**	11	**74**	37
Commercial mortgage-backed				2

Other asset-backed		2		2
Total fixed maturities available-for-sale	**61**	43	**98**	103
Equity securities available-for-sale:				
Common stock	**1**	5	**4**	5
Preferred stock		9	**1**	9
Total equity securities available-for-sale	**1**	14	**5**	14
Net OTTI losses recognized in earnings	**$ 62**	$ 57	**$ 103**	$ 117

10

Table of Contents

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

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

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

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

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

Table of Contents

The amortized cost and fair values of securities are as follows:

June 30, 2011 (In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
Fixed maturity securities:					
Corporate and other bonds	$ 19,213	$ 1,705	$ 39	$ 20,879	
States, municipalities and political subdivisions	8,628	357	268	8,717	
Asset-backed:					
Residential mortgage-backed	6,076	103	166	6,013	$ 61
Commercial mortgage-backed	1,011	62	36	1,037	(9)
Other asset-backed	925	17	9	933	
Total asset-backed	8,012	182	211	7,983	52
U.S. Treasury and obligations of government-sponsored enterprises	231	14	1	244	
Foreign government	659	18		677	
Redeemable preferred stock	48	6		54	
Fixed maturities available-for-sale	36,791	2,282	519	38,554	52
Fixed maturities, trading	305		6	299	
Total fixed maturities	37,096	2,282	525	38,853	52
Equity securities:					
Common stock	107	26		133	
Preferred stock	213	2	2	213	
Equity securities available-for-sale	320	28	2	346	
Equity securities, trading	588	102	40	650	
Total equity securities	908	130	42	996	
Total	$ 38,004	$ 2,412	$ 567	$ 39,849	$ 52

December 31, 2010					
Fixed maturity securities:					
Corporate and other bonds	$ 19,503	$ 1,603	$ 70	$ 21,036	
States, municipalities and political subdivisions	8,157	142	410	7,889	
Asset-backed:					
Residential mortgage-backed	6,255	101	265	6,091	$ 114
Commercial mortgage-backed	994	40	41	993	(2)
Other asset-backed	753	18	8	763	
Total asset-backed	8,002	159	314	7,847	112
U.S. Treasury and obligations of government-sponsored enterprises	122	16	1	137	
Foreign government	602	18		620	
Redeemable preferred stock	47	7		54	

Fixed maturities available-for-sale	36,433	1,945	795	37,583	112
Fixed maturities, trading	244		13	231	
Total fixed maturities	36,677	1,945	808	37,814	112
Equity securities:					
Common stock	90	25		115	
Preferred stock	332	2	9	325	
Equity securities available-for-sale	422	27	9	440	
Equity securities, trading	557	123	34	646	
Total equity securities	979	150	43	1,086	
Total	$ 37,656	$ 2,095	$ 851	$ 38,900	$ 112

Table of Contents

The available-for-sale securities in a gross unrealized loss position are as follows:

June 30, 2011 (In millions)	Less than 12 Months Estimated Fair Value	Less than 12 Months Gross Unrealized Losses	Greater than 12 Months Estimated Fair Value	Greater than 12 Months Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
Fixed maturity securities:						
Corporate and other bonds	**$ 1,321**	**$ 23**	**$ 197**	**$ 16**	**$ 1,518**	**$ 39**
States, municipalities and political subdivisions	**1,331**	**62**	**663**	**206**	**1,994**	**268**
Asset-backed:						
Residential mortgage-backed	**2,131**	**42**	**1,016**	**124**	**3,147**	**166**
Commercial mortgage-backed	**317**	**15**	**194**	**21**	**511**	**36**
Other asset-backed	**168**	**4**	**61**	**5**	**229**	**9**
Total asset-backed	**2,616**	**61**	**1,271**	**150**	**3,887**	**211**
U.S. Treasury and obligations of government-sponsored enterprises	**118**	**1**			**118**	**1**
Total fixed maturities available-for-sale	**5,386**	**147**	**2,131**	**372**	**7,517**	**519**
Equity securities available-for-sale:						
Preferred stock	**90**	**1**	**19**	**1**	**109**	**2**
Total	**$ 5,476**	**$ 148**	**$ 2,150**	**$ 373**	**$ 7,626**	**$ 521**

December 31, 2010	Less than 12 Months Estimated Fair Value	Less than 12 Months Gross Unrealized Losses	Greater than 12 Months Estimated Fair Value	Greater than 12 Months Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
Fixed maturity securities:						
Corporate and other bonds	$ 1,719	$ 34	$ 405	$ 36	$ 2,124	$ 70
States, municipalities and political subdivisions	3,339	164	745	246	4,084	410
Asset-backed:						
Residential mortgage-backed	1,800	52	1,801	213	3,601	265
Commercial mortgage-backed	164	3	333	38	497	41
Other asset-backed	122	1	60	7	182	8
Total asset-backed	2,086	56	2,194	258	4,280	314
U.S. Treasury and obligations of government-sponsored enterprises	8	1			8	1
Total fixed maturities available-for-sale	7,152	255	3,344	540	10,496	795
Equity securities available-for-sale:						
Preferred stock	175	5	70	4	245	9
Total	$ 7,327	$ 260	$ 3,414	$ 544	$ 10,741	$ 804

The amount of pretax net unrealized gains on available-for-sale securities reclassified out of Accumulated other comprehensive income (AOCI) into earnings was $20 million, $39 million, $41 million and $71 million for the three and six months ended June 30, 2011 and 2010.

13

Table of Contents

The following table summarizes the activity for the three and six months ended June 30, 2011 and 2010 related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held at June 30, 2011 and 2010 for which a portion of an OTTI loss was recognized in Other comprehensive income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	**2011**	2010
(In millions)				
Beginning balance of credit losses on fixed maturity securities	**$ 113**	$ 171	**$ 141**	$ 164
Additional credit losses for which an OTTI loss was previously recognized	**8**	11	**18**	22
Credit losses for which an OTTI loss was not previously recognized		3	**1**	8
Reductions for securities sold during the period	**(21)**	(14)	**(46)**	(23)
Reductions for securities the Company intends to sell or more likely than not will be required to sell	**(18)**		**(32)**	
Ending balance of credit losses on fixed maturity securities	**$ 82**	$ 171	**$ 82**	$ 171

Based on current facts and circumstances, the Company has determined that no additional OTTI losses related to the securities in an unrealized loss position presented in the table above are required to be recorded. A discussion of some of the factors reviewed in making that determination is presented below.

The classification between investment grade and non-investment grade presented in the discussion below is based on a ratings methodology that takes into account ratings from two major providers, Standard & Poor s and Moody s Investors Service, Inc. in that order of preference. If a security is not rated by these providers, the Company formulates an internal rating. For securities with credit support from third party guarantees, the rating reflects the greater of the underlying rating of the issuer or the insured rating.

States, Municipalities and Political Subdivisions

The fair value of total states, municipalities and political subdivisions holdings at June 30, 2011 was $8,717 million. These holdings consist of both tax-exempt and taxable bonds, 72.2% of which are special revenue and assessment bonds, followed by general obligation political subdivision bonds at 19.1% and state general obligation bonds at 8.7%.

The unrealized losses on the Company s investments in this category are primarily due to market conditions for zero coupon bonds, particularly for those with maturity dates that exceed 20 years. Yields for these securities continue to be higher than historical norms relative to after-tax returns on similar fixed income securities. The holdings for all securities in this category include 304 securities that have at least one trade lot in a gross unrealized loss position. The aggregate severity of the total gross unrealized losses was approximately 11.8% of amortized cost.

Table of Contents

The states, municipalities and political subdivisions securities in a gross unrealized loss position by ratings distribution are as follows:

June 30, 2011 (In millions)	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
AAA	**$ 412**	**$ 387**	**$ 25**
AA	**1,050**	**877**	**173**
A	**713**	**650**	**63**
BBB	**71**	**65**	**6**
Non-investment grade	**16**	**15**	**1**
Total	**$ 2,262**	**$ 1,994**	**$ 268**

The largest exposures at June 30, 2011 as measured by gross unrealized losses were several separate issues of Puerto Rico sales tax revenue bonds with gross unrealized losses of $102 million and several separate issues of New Jersey transit revenue bonds with gross unrealized losses of $41 million. All of these securities are rated investment grade.

The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of principal and interest; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at June 30, 2011.

Asset-Backed Securities

The fair value of total asset-backed holdings at June 30, 2011 was $7,983 million which was comprised of 2,058 different securities. The fair value of these securities tends to be influenced by the characteristics and projected cash flows of the underlying collateral rather than the credit of the issuer. Each security has deal-specific tranche structures, credit support that results from the unique deal structure, particular collateral characteristics and other distinct security terms. As a result, seemingly common factors such as delinquency rates and collateral performance affect each security differently. Of these securities, 138 have underlying collateral that is either considered sub-prime or Alt-A in nature. The exposure to sub-prime residential mortgage collateral and Alternative A residential mortgages that have lower than normal standards of loan documentation collateral is measured by the original deal structure.

Residential mortgage-backed securities include 137 non-agency structured securities that have at least one trade lot in a gross unrealized loss position. In addition, there were 95 agency mortgage-backed securities guaranteed by agencies or sponsored enterprises of the U.S. Government that have at least one trade lot in a gross unrealized loss position. The aggregate severity of the gross unrealized loss for residential mortgage-backed securities was approximately 5.1% of amortized cost.

Commercial mortgage-backed securities include 50 securities that have at least one trade lot in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 6.5% of amortized cost. Other asset-backed securities include 21 securities that have at least one trade lot in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 3.9% of amortized cost.

Table of Contents

The asset-backed securities in a gross unrealized loss position by ratings distribution are as follows:

June 30, 2011 (In millions)	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
U.S. Government, Government Agencies and Government-Sponsored Enterprises	**$ 1,881**	**$ 1,852**	**$ 29**
AAA	**688**	**660**	**28**
AA	**318**	**295**	**23**
A	**173**	**164**	**9**
BBB	**296**	**256**	**40**
Non-investment grade and equity tranches	**742**	**660**	**82**
Total	**$ 4,098**	**$ 3,887**	**$ 211**

The Company believes the unrealized losses are primarily attributable to broader economic conditions, changes in interest rates, wider than historical bid/ask spreads, and uncertainty with regard to the timing and amount of ultimate collateral realization, but are not indicative of the ultimate collectibility of the current carrying values of securities. The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost. Generally, non-investment grade asset-backed securities consist of investments which were investment grade at the time of purchase but have subsequently been downgraded and primarily consist of holdings senior to the equity tranche. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of principal and interest, collateral shortfalls, or substantial changes in future cash flow expectations; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at June 30, 2011.

Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at June 30, 2011 and December 31, 2010. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

	June 30, 2011		December 31, 2010	
(In millions)	**Amortized Cost**	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
Due in one year or less	**$ 1,641**	**$ 1,649**	$ 1,515	$ 1,506
Due after one year through five years	**11,352**	**11,882**	11,198	11,653
Due after five years through ten years	**9,778**	**10,274**	10,034	10,437
Due after ten years	**14,020**	**14,749**	13,686	13,987
Total	**$ 36,791**	**$ 38,554**	$ 36,433	$ 37,583

Investment Commitments

As of June 30, 2011, the Company had committed approximately $154 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases and sales. The purchase and sale of these investments are recorded on the date that the legal agreements are finalized and cash settlements are made. As of June 30, 2011, the Company had commitments to purchase $104 million and sell

$96 million of such investments.

Table of Contents

3. Fair Value

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

Level 1 Quoted prices for identical instruments in active markets.

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

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

The Company attempts to establish fair value as an exit price in an orderly transaction consistent with normal settlement market conventions. The Company is responsible for the valuation process and seeks to obtain quoted market prices for all securities. When quoted market prices in active markets are not available, the Company uses a number of methodologies to establish fair value estimates, including discounted cash flow models, prices from recently executed transactions of similar securities or broker/dealer quotes, utilizing market observable information to the extent possible. In conjunction with modeling activities, the Company may use external data as inputs. The modeled inputs are consistent with observable market information, when available, or with the Company s assumptions as to what market participants would use to value the securities. The Company also uses pricing services as a significant source of data. The Company monitors all the pricing inputs to determine if the markets from which the data is gathered are active. As further validation of the Company s valuation process, the Company samples past fair value estimates and compares the valuations to actual transactions executed in the market on similar dates.

Table of Contents

The fair values of CNA s life settlement contracts are included in Other assets. Equity options purchased are included in Equity securities, and all other derivative assets are included in Receivables. Derivative liabilities are included in Payable to brokers. Assets and liabilities measured at fair value on a recurring basis are summarized in the tables below:

June 30, 2011 (In millions)	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
Corporate and other bonds		$ 20,067	$ 812	$ 20,879
States, municipalities and political subdivisions		8,538	179	8,717
Asset-backed:				
Residential mortgage-backed		5,326	687	6,013
Commercial mortgage-backed		942	95	1,037
Other asset-backed		442	491	933
Total asset-backed	$	6,710	1,273	7,983
U.S. Treasury and obligations of government- sponsored enterprises	183	61		244
Foreign government	128	549		677
Redeemable preferred stock	3	51		54
Fixed maturities available-for-sale	314	35,976	2,264	38,554
Fixed maturities, trading	20	165	114	299
Total fixed maturities	$ 334	$ 36,141	$ 2,378	$ 38,853
Equity securities available-for-sale	$ 198	$ 112	$ 36	$ 346
Equity securities, trading	634		16	650
Total equity securities	$ 832	$ 112	$ 52	$ 996
Short term investments	$ 5,009	$ 677	$ 6	$ 5,692
Other invested assets		5	10	15
Receivables		53	1	54
Life settlement contracts			129	129
Separate account business	20	393	37	450
Payable to brokers	(72)	(54)	(38)	(164)
Discontinued operations investments, included in Other liabilities	14	39		53

18

Table of Contents

December 31, 2010 (In millions)	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
Corporate and other bonds		$ 20,412	$ 624	$ 21,036
States, municipalities and political subdivisions		7,623	266	7,889
Asset-backed:				
Residential mortgage-backed		5,324	767	6,091
Commercial mortgage-backed		920	73	993
Other asset-backed		404	359	763
Total asset-backed	$	6,648	1,199	7,847
U.S. Treasury securities and obligations of government-sponsored enterprises	76	61		137
Foreign government	115	505		620
Redeemable preferred stock	3	48	3	54
Fixed maturities available-for-sale	194	35,297	2,092	37,583
Fixed maturities, trading		47	184	231
Total fixed maturities	$ 194	$ 35,344	$ 2,276	$ 37,814
Equity securities available-for-sale	$ 288	$ 126	$ 26	$ 440
Equity securities, trading	640		6	646
Total equity securities	$ 928	$ 126	$ 32	$ 1,086
Short term investments	$ 6,079	$ 974	$ 27	$ 7,080
Other invested assets			26	26
Receivables		74	2	76
Life settlement contracts			129	129
Separate account business	28	381	41	450
Payable to brokers	(328)	(79)	(23)	(430)
Discontinued operations investments, included in Other liabilities	11	60		71

Table of Contents

The tables below present reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2011 and 2010:

2011 (In millions)	Balance, April 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income	Included in OCI	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, June 30	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at June 30
Fixed maturity securities:										
Corporate and other bonds	$ 576	$ (2)	$ 2	$ 304	$ (29)	$ (70)	$ 31		$ 812	$ (3)
States, municipalities and political subdivisions	188		(1)			(8)			179	
Asset-backed:										
Residential mortgage-backed	738	(13)	12	50	(57)	(19)		$ (24)	687	(15)
Commercial mortgage- backed	88		2	5					95	
Other asset-backed	445	1		127	(44)	(24)		(14)	491	
Total asset-backed	1,271	(12)	14	182	(101)	(43)		(38)	1,273	(15)
Fixed maturities available-for-sale	2,035	(14)	15	486	(130)	(121)	31	(38)	2,264	(18)
Fixed maturities, trading	182				(68)				114	1
Total fixed maturities	$ 2,217	$ (14)	$ 15	$ 486	$ (198)	$ (121)	$ 31	$ (38)	$ 2,378	$ (17)
Equity securities available-for-sale	$ 30	$ (1)		$ 4	$ (2)		$ 5		$ 36	$ (1)
Equity securities trading	6	(5)		1			14		16	(5)
Total equity securities	$ 36	$ (6)	$	$ 5	$ (2)	$	$ 19	$	$ 52	$ (6)
Short term investments	$ 27					$ (21)			$ 6	
Other invested assets	9	$ 1							10	$ 1
Life settlement contracts	127	6				(4)			129	3
Separate account business	39				$ (2)				37	
Derivative financial instruments, net	(36)	(11)	$ (1)			11			(37)	

Table of Contents

2010 (In millions)	Balance, April 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income	Included in OCI	Purchases, Sales, Issuances and Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, June 30	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at June 30
Fixed maturity securities:								
Corporate and other bonds	$ 680	$ 7	$ 9	$ 57	$ 14	$ (49)	$ 718	$ (3)
States, municipalities and political subdivisions	737		4	(202)			539	
Asset-backed:								
Residential mortgage-backed	679	2	3	13		(38)	659	
Commercial mortgage-backed	112		2	11		(30)	95	
Other asset-backed	368		1	(18)		(45)	306	(2)
Total asset-backed	1,159	2	6	6		(113)	1,060	(2)
Redeemable preferred stock	4	6	(2)	(7)			1	
Fixed maturities available-for-sale	2,580	15	17	(146)	14	(162)	2,318	(5)
Fixed maturities, trading	216	2		(27)			191	1
Total fixed maturities	$ 2,796	$ 17	$ 17	$ (173)	$ 14	$ (162)	$ 2,509	$ (4)
Equity securities available-for-sale	$ 8	$ (1)		$ (1)		$ (2)	$ 4	$ (1)
Short term investments	1			20			21	
Life settlement contracts	131	7		(4)			134	5
Separate account business	40			(3)			37	
Discontinued operations investments	15					(15)		
Derivative financial instruments, net	(27)	(7)	$ 28	10			4	

21

Table of Contents

2011 (In millions)	Balance, January	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income	Included in OCI	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, June 30	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at June 30
Fixed maturity securities:										
Corporate and other bonds	$ 624	$ 2	$ (3)	$ 346	$ (50)	$ (97)	$ 40	$ (50)	$ 812	$ (3)
States, municipalities and political subdivisions	266					(87)			179	
Asset-backed:										
Residential mortgage-backed	767	(12)	14	97	(83)	(41)		(55)	687	(15)
Commercial mortgage- backed	73	3	18	5	(4)				95	
Other asset-backed	359	5		327	(131)	(55)		(14)	491	
Total asset-backed	1,199	(4)	32	429	(218)	(96)		(69)	1,273	(15)
Redeemable preferred stock	3	3	(3)		(3)					
Fixed maturities available-for-sale	2,092	1	26	775	(271)	(280)	40	(119)	2,264	(18)
Fixed maturities, trading	184	1			(71)				114	1
Total fixed maturities	$ 2,276	$ 2	$ 26	$ 775	$ (342)	$ (280)	$ 40	$ (119)	$ 2,378	$ (17)
Equity securities available-for-sale	$ 26	$ (2)	$ (1)	$ 19	$ (11)		$ 5		$ 36	$ (4)
Equity securities trading	6	(5)		1			14		16	(5)
Total equity securities	$ 32	$ (7)	$ (1)	$ 20	$ (11)	$	$ 19	$	$ 52	$ (9)
Short term investments	$ 27			$ 12		$ (23)		$ (10)	$ 6	
Other invested assets	26	$ 3			$ (19)				10	$ 1
Life settlement contracts	129	9				(9)			129	3
Separate account business	41				(4)				37	
Derivative financial instruments, net	(21)	(19)	$ (16)			19			(37)	

22

Table of Contents

2010 (In millions)	Balance, January 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income	Included in OCI	Purchases, Sales, Issuances and Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, June 30	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at June 30
Fixed maturity securities:								
Corporate and other bonds	$ 609	$ 9	$ 38	$ 112	$ 23	$ (73)	$ 718	$ (4)
States, municipalities and political subdivisions	756		6	(223)			539	
Asset-backed								
Residential mortgage-backed	629	(8)	29	55		(46)	659	(10)
Commercial mortgage-backed	123	(1)	(2)	6	7	(38)	95	(1)
Other asset-backed	348	4	22	(23)		(45)	306	(2)
Total asset-backed	1,100	(5)	49	38	7	(129)	1,060	(13)
Redeemable preferred stock	2	6		(7)			1	
Fixed maturities available-for-sale	2,467	10	93	(80)	30	(202)	2,318	(17)
Fixed maturities, trading	197	8		(14)			191	7
Total fixed maturities	$ 2,664	$ 18	$ 93	$ (94)	$ 30	$ (202)	$ 2,509	$ (10)
Equity securities available-for-sale	$ 11	$ (1)		$ (1)	$ 2	$ (7)	$ 4	$ (1)
Short term investments				20	1		21	
Life settlement contracts	130	17		(13)			134	7
Separate account business	38			(1)			37	
Discontinued operations investments	16		$ 1	(2)		(15)		
Derivative financial instruments, net	(48)	(15)	42	25			4	

Net realized and unrealized gains and losses are reported in Net income as follows:

Major Category of Assets and Liabilities	Consolidated Condensed Statements of Income Line Items
Fixed maturity securities available-for-sale	Investment gains (losses)
Fixed maturity securities, trading	Net investment income
Equity securities available-for-sale	Investment gains (losses)
Equity securities, trading	Net investment income
Other invested assets	Investment gains (losses)
Derivative financial instruments held in a trading portfolio	Net investment income
Derivative financial instruments, other	Investment gains (losses) and Other revenues
Life settlement contracts	Other revenues

Table of Contents

Securities shown in the Level 3 tables may be transferred in or out of Level 3 based on the availability of observable market information used to verify pricing sources or used in pricing models. The availability of observable market information varies based on market conditions and trading volume and may cause securities to move in and out of Level 3 from reporting period to reporting period. There were no significant transfers between Level 1 and Level 2 during the three or six months ended June 30, 2011. The Company s policy is to recognize transfers between levels at the beginning of quarterly reporting periods.

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

Fixed Maturity Securities

Level 1 securities include highly liquid U.S. and foreign government bonds and redeemable preferred stock valued using quoted market prices. The remaining fixed maturity securities are valued using pricing for similar securities, recently executed transactions, cash flow models with yield curves, broker/dealer quotes and other pricing models utilizing observable inputs. The valuation for most fixed maturity securities is classified as Level 2. Level 2 securities may also include securities that have firm sale commitments and prices that are not recorded until the settlement date. Securities are generally assigned to Level 3 in cases where broker/dealer quotes are significant inputs to the valuation and there is a lack of transparency as to whether these quotes are based on information that is observable in the marketplace. Level 3 securities also include tax-exempt and taxable auction rate certificates. Fair value of auction rate securities is determined utilizing a pricing model with three primary inputs. The interest rate and spread inputs are observable from like instruments while the maturity date assumption is unobservable due to the uncertain nature of the principal prepayments prior to maturity.

Equity Securities

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

Derivative Financial Instruments

Exchange traded derivatives are valued using quoted market prices and are classified within Level 1 of the fair value hierarchy. Level 2 derivatives include currency forwards valued using observable market forward rates. Over-the-counter derivatives, principally interest rate swaps, total return swaps, commodity swaps, credit default swaps, equity warrants and options, are valued using inputs including broker/dealer quotes and are classified within Level 2 or Level 3 of the valuation hierarchy, depending on the amount of transparency as to whether these quotes are based on information that is observable in the marketplace.

Short Term Investments

The valuation of securities that are actively traded or have quoted prices are classified as Level 1. These securities include money market funds and treasury bills. Level 2 primarily includes commercial paper, for which all inputs are observable. Level 3 securities include fixed maturity securities purchased within one year of maturity where broker/dealer quotes are significant inputs to the valuation and there is a lack of transparency to the market inputs used.

Life Settlement Contracts

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

Table of Contents

Discontinued Operations Investments

Assets relating to CNA s discontinued operations include fixed maturity securities and short term investments. The valuation methodologies for these asset types have been described above.

Separate Account Business

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

Financial Assets and Liabilities Not Measured at Fair Value

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

	June 30, 2011		December 31, 2010	
(In millions)	**Carrying Amount**	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Financial assets:				
Other invested assets	**$ 198**	**$ 204**	$ 87	$ 86
Financial liabilities:				
Premium deposits and annuity contracts	**$ 105**	**$ 108**	$ 104	$ 105
Short term debt	**6**	**6**	647	662
Long term debt	**9,163**	**9,704**	8,830	9,243

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

The fair values of Other invested assets were based on the present value of the expected future cash flows discounted at the current interest rate for similar financial instruments.

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

Fair value of debt was based on observable quoted market prices when available. When quoted market prices were not available, the fair value for debt was based on quoted market prices of comparable instruments adjusted for differences between the quoted instruments and the instruments being valued or is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements.

4. Derivative Financial Instruments

The Company invests in certain derivative instruments for a number of purposes, including: (i) asset and liability management activities, (ii) income enhancements for its portfolio management strategy and (iii) to benefit from anticipated future movements in the underlying markets. If such movements do not occur as anticipated, then significant losses may occur.

Monitoring procedures include senior management review of daily detailed reports of existing positions and valuation fluctuations to ensure that open positions are consistent with the Company s portfolio strategy.

The Company does not believe that any of the derivative instruments utilized by it are unusually complex, nor do these instruments contain embedded leverage features which would expose the Company to a higher degree of risk.

The Company uses derivatives in the normal course of business, primarily in an attempt to reduce its exposure to market risk (principally interest rate risk, equity price risk, commodity price risk and foreign currency risk) stemming from various assets and liabilities and credit risk (the ability of an obligor to make timely payment of principal and/or interest). The Company s principal objective under such risk strategies is to achieve the desired reduction in economic risk, even if the position does not receive hedge accounting treatment.

CNA s use of derivatives is limited by statutes and regulations promulgated by the various regulatory bodies to which it is subject, and by its own derivative policy. The derivative policy limits the authorization to initiate derivative transactions to certain personnel. Derivatives entered into for hedging, regardless of the choice to designate hedge accounting, shall have a maturity that effectively correlates to the underlying hedged asset or liability. The policy prohibits the use of derivatives containing greater than one-to-one leverage with respect to changes in the underlying price, rate or index. The policy also prohibits the use of borrowed funds, including funds obtained through securities lending, to engage in derivative transactions.

The Company has exposure to economic losses due to interest rate risk arising from changes in the level of, or volatility of, interest rates. The Company attempts to mitigate its exposure to interest rate risk in the normal course of portfolio management, which includes rebalancing its existing portfolios of assets and liabilities. In addition, various derivative financial instruments are used to modify the interest rate risk exposures of certain assets and liabilities. These strategies include the use of interest rate swaps, interest rate caps and floors, options, futures, forwards and commitments to purchase securities. These instruments are generally used to lock interest rates or market values, to shorten or lengthen durations of fixed maturity securities or to hedge (on an economic basis) interest rate risks associated with investments and variable rate debt. The Company infrequently designates these types of instruments as hedges against specific assets or liabilities.

The Company has exposure to equity price risk as a result of its investment in equity securities and equity derivatives. Equity price risk results from changes in the level or volatility of equity prices, which affect the value of equity securities, or instruments that derive their value from such securities. The Company attempts to mitigate its exposure to such risks by limiting its investment in any one security or index. The Company may also manage this risk by utilizing instruments such as options, swaps, futures and collars to protect appreciation in securities held.

The Company has exposure to credit risk arising from the uncertainty associated with a financial instrument obligor s ability to make timely principal and/or interest payments. The Company attempts to mitigate this risk by limiting credit concentrations, practicing diversification, and frequently monitoring the credit quality of issuers and counterparties. In addition, the Company may utilize credit derivatives such as credit default swaps (CDS) to modify the credit risk inherent in certain investments. CDS involve a transfer of credit risk from one party to another in exchange for periodic payments.

Foreign currency risk arises from the possibility that changes in foreign currency exchange rates will impact the fair value of financial instruments denominated in a foreign currency. The Company s foreign transactions are primarily denominated in Australian dollars, Brazilian reais, British pounds, Canadian dollars and the European Monetary Unit. The Company typically manages this risk via asset/liability currency matching and through the use of foreign currency forwards.

In addition to the derivatives used for risk management purposes described above, the Company may also use derivatives for purposes of income enhancement. Income enhancement transactions are entered into with the intention of providing additional income or yield to a particular portfolio segment or instrument. Income enhancement transactions are limited in scope and primarily involve the sale of covered options in which the Company receives a premium in exchange for selling a call or put option.

The Company will also use CDS to sell credit protection against a specified credit event. In selling credit protection, CDS are used to replicate fixed income securities when credit exposure to certain issuers is not available or when it is economically beneficial to transact in the derivative market compared to the cash market alternative. Credit risk includes both the default event risk and market value exposure due to fluctuations in credit spreads. In selling CDS protection, the Company receives a periodic premium in exchange for providing credit protection on a single name reference obligation or a credit derivative index. If there is an event of default as defined by the CDS

Table of Contents

agreement, the Company is required to pay the counterparty the referenced notional amount of the CDS contract and in exchange the Company is entitled to receive the referenced defaulted security or the cash equivalent.

The tables below summarize open CDS contracts where the Company sold credit protection as of June 30, 2011 and December 31, 2010. The fair value of the contracts represents the amounts that the Company would receive or pay at those dates to exit the derivative positions. The maximum amount of future payments assumes no residual value in the defaulted securities that the Company would receive as part of the contract terminations and is equal to the notional value of the CDS contracts.

June 30, 2011	Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps	Weighted Average Years To Maturity
(In millions of dollars)			
BBB-rated	**$ (1)**	**$ 10**	**5.2**
BB-rated	**1**	**15**	**4.0**
B-rated	**1**	**8**	**3.6**
Total	**$ 1**	**$ 33**	**4.3**
December 31, 2010			
BB-rated	$ 1	$ 5	2.5
B-rated		3	1.5
Total	$ 1	$ 8	2.1

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized fair value of the asset related to the instruments recognized on the Consolidated Condensed Balance Sheets. The Company attempts to mitigate the risk of non-performance by monitoring the creditworthiness of counterparties and diversifying derivatives to multiple counterparties. The Company generally requires that all over-the-counter derivative contracts be governed by an International Swaps and Derivatives Association (ISDA) Master Agreement, and exchanges collateral under the terms of these agreements with its derivative investment counterparties depending on the amount of the exposure and the credit rating of the counterparty. The Company does not offset its net derivative positions against the fair value of the collateral provided. The fair value of collateral provided by the Company was $17 million at June 30, 2011 and $2 million at December 31, 2010 and consisted of cash and U.S. Treasury Bills. The fair value of cash collateral received from counterparties was $1 million at June 30, 2011 and December 31, 2010.

The agreements governing HighMount s derivative instruments contain certain covenants, including a maximum debt to capitalization ratio reviewed quarterly. If HighMount does not comply with these covenants, the counterparties to the derivative instruments could terminate the agreements and request payment on those derivative instruments in net liability positions. The aggregate fair value of HighMount s derivative instruments that are in a liability position was $90 million at June 30, 2011. HighMount was not required to post any collateral under the governing agreements. At June 30, 2011, HighMount was in compliance with all of its covenants under the derivatives agreements.

See Note 3 for information regarding the fair value of derivative instruments.

Table of Contents

A summary of the aggregate contractual or notional amounts and gross estimated fair values related to derivative financial instruments follows. Equity options purchased are included in Equity securities, and all other derivative assets are reported as Receivables. Derivative liabilities are included in Payable to brokers on the Consolidated Condensed Balance Sheets. The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and may not be representative of the potential for gain or loss on these instruments.

	June 30, 2011			December 31, 2010		
	Contractual/ Notional Amount	**Estimated Fair Value Asset**	**Estimated Fair Value (Liability)**	Contractual/ Notional Amount	Estimated Fair Value Asset	Estimated Fair Value (Liability)
(In millions)						
With hedge designation:						
Interest rate risk:						
Interest rate swaps	**$ 1,095**		**$ (53)**	$ 1,095		$ (75)
Commodities:						
Forwards short	**411**	**$ 44**	**(36)**	487	$ 70	(24)
Foreign exchange:						
Currency forwards short	**122**	**8**		140	4	
Without hedge designation:						
Equity markets:						
Options purchased	**193**	**23**		207	30	
Options written	**315**		**(13)**	340		(10)
Futures short	**60**					
Interest rate risk:						
Interest rate swaps	**5**			5		(1)
Credit default swaps						
purchased protection	**45**		**(2)**	20		(2)
sold protection	**33**	**1**		8	1	

Derivatives without hedge designation For derivatives not held in a trading portfolio, new derivative transactions entered into totaled approximately $10 million and $24 million in notional value while derivative termination activity totaled approximately $10 million and $33 million during the three and six months ended June 30, 2011. This activity was primarily attributable to currency forwards. During the three and six months ended June 30, 2010, new derivative transactions entered into totaled approximately $610 million and $714 million in notional value while derivative termination activity totaled approximately $626 million and $775 million. This activity was primarily attributable to interest rate futures and forward commitments for mortgage-backed securities.

Table of Contents

A summary of the recognized gains (losses) related to derivative financial instruments without hedge designation follows. Changes in the fair value of derivatives not held in a trading portfolio are reported in Investment gains (losses) and changes in the fair value of derivatives held for trading purposes are reported in Net investment income on the Consolidated Condensed Statements of Income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	**2011**	2010
(In millions)				
Included in Net investment income:				
Equity risk:				
Equity options purchased	**$ (3)**	$ 10	**$ (9)**	$ (3)
Equity options written	**2**	(1)	**7**	5
Futures long		(4)		(3)
Futures short	**1**	1	**(1)**	(3)
Foreign exchange:				
Currency forwards long		(2)		(2)
Currency forwards short		(1)		(1)
Currency options short		(4)		(2)
Interest rate risk:				
Futures long		(21)		(18)
Futures short		(3)		
Other		(1)	**(1)**	(2)
		(26)	**(4)**	(29)
Included in Investment gains (losses):				
Interest rate swaps		(18)		(44)
Currency forwards short			**(1)**	
Commodity forwards short				13
		(18)	**(1)**	(31)
Total	**$**	$ (44)	**$ (5)**	$ (60)

Cash flow hedges A significant portion of the Company s hedge strategies represents cash flow hedges of the variable price risk associated with the purchase and sale of natural gas and other energy-related products. As of June 30, 2011, approximately 73.3 billion cubic feet of natural gas equivalents was hedged by qualifying cash flow hedges. The effective portion of these commodity hedges is reclassified from AOCI into earnings when the anticipated transaction affects earnings. Approximately 38% of these derivatives have settlement dates in 2011 and 45% have settlement dates in 2012. As of June 30, 2011, the estimated amount of net unrealized gains associated with commodity contracts that will be reclassified into earnings during the next twelve months was $10 million. However, these amounts are likely to vary materially as a result of changes in market conditions. Foreign currency forward exchange contracts are used to reduce exposure to future foreign currency expenditures. The effective portion of these hedges is reclassified from AOCI into earnings when the hedged transaction affects earnings or it is determined that the hedged transaction will not occur. As of June 30, 2011, the estimated amount of net unrealized gains associated with these contracts that will be reclassified into earnings over the next twelve months was $8 million. The Company also uses interest rate swaps to hedge its exposure to variable interest rates or risk attributable to changes in interest rates on long term debt. The effective portion of the hedges is amortized to interest expense over the term of the related notes. As of June 30, 2011, the estimated amount of net unrealized losses associated with interest rate swaps that will be reclassified into earnings during the next twelve months was $55 million. However, this is likely to vary as a result of changes in LIBOR. For the three and six months ended June 30, 2011 and 2010, the net amounts recognized due to ineffectiveness were less than $1 million.

29

As a result of the sale of certain gas producing properties in 2010, HighMount recognized losses of $14 million and $36 million in Investment gains (losses) in the Consolidated Condensed Statements of Income for the three and six months ended June 30, 2010, reflecting the reclassification of net derivative losses from AOCI to earnings.

The following table summarizes the effective portion of the net derivative gains or losses included in OCI and the amount reclassified into income for derivatives designated as cash flow hedges and for de-designated hedges:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2011	2010	**2011**	2010
(In millions)				
Amount of gain (loss) recognized in OCI:				
Commodities	**$ 1**	$ 13	**$ (18)**	$ 117
Foreign exchange	**7**	(5)	**12**	(5)
Interest rate	**(3)**	(12)	**(5)**	(34)
Total	**$ 5**	$ (4)	**$ (11)**	$ 78
Amount of gain (loss) reclassified from AOCI into income:				
Commodities	**$ 5**	$ 18	**$ 25**	$ 48
Foreign exchange	**6**	(1)	**8**	1
Interest rate	**(14)**	(33)	**(28)**	(79)
Total	**$ (3)**	$ (16)	**$ 5**	$ (30)

Location of gain (loss) reclassified from AOCI into income:

Type of cash flow hedge	Consolidated Condensed Statements of Income line items
Commodities	Other revenues and Investment gains (losses)
Foreign exchange	Contract drilling expenses
Interest rate	Interest expense and Investment gains (losses)

The Company also enters into short sales as part of its portfolio management strategy. Short sales are commitments to sell a financial instrument not owned at the time of sale, usually done in anticipation of a price decline. Short sales resulted in proceeds of $53 million and $308 million with fair value liabilities of $59 million and $317 million at June 30, 2011 and December 31, 2010. These positions are marked to market and investment gains or losses are included in Net investment income in the Consolidated Condensed Statements of Income.

5. Claim and Claim Adjustment Expense Reserves

CNA s property and casualty insurance claim and claim adjustment expense reserves represent the estimated amounts necessary to resolve all outstanding claims, including claims that are incurred but not reported (IBNR) as of the reporting date. CNA s reserve projections are based primarily on detailed analysis of the facts in each case, CNA s experience with similar cases and various historical development patterns. Consideration is given to such historical patterns as field reserving trends and claims settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions including inflation, and public attitudes. All of these factors can affect the estimation of claim and claim adjustment expense reserves.

Establishing claim and claim adjustment expense reserves, including claim and claim adjustment expense reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the cost of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part

30

Table of Contents

of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims, such as property damage claims, tend to be more reasonably estimable than long-tail claims, such as workers compensation, general liability and professional liability claims. Adjustments to prior year reserve estimates, if necessary, are reflected in the results of operations in the period that the need for such adjustments is determined. There can be no assurance that CNA s ultimate cost for insurance losses will not exceed current estimates.

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company s results of operations and/or equity. CNA reported catastrophe losses, net of reinsurance, of $100 million and $155 million for the three and six months ended June 30, 2011. Catastrophe losses in 2011 related primarily to domestic storms and the event in Japan. CNA reported catastrophe losses, net of reinsurance, of $48 million and $88 million for the three and six months ended June 30, 2010, for events occurring in those periods.

Net Prior Year Development

The following tables and discussion include the net prior year development recorded for CNA Specialty, CNA Commercial and Other Insurance:

Three Months Ended June 30, 2011 **(In millions)**	**CNA Specialty**	**CNA Commercial**	**Other Insurance**	**Total**
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	**$ (52)**	**$ (50)**	**$ (9)**	**$ (111)**
Pretax (favorable) unfavorable premium development	**(1)**	**40**		**39**
Total pretax (favorable) unfavorable net prior year development	**$ (53)**	**$ (10)**	**$ (9)**	**$ (72)**
Three Months Ended June 30, 2010				
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$ (125)	$ (175)	$ 1	$ (299)
Pretax (favorable) unfavorable premium development	1	35	(2)	34
Total pretax (favorable) unfavorable net prior year development	$ (124)	$ (140)	$ (1)	$ (265)

31

Table of Contents

Six Months Ended June 30, 2011	CNA Specialty	CNA Commercial	Other Insurance	Total
(In millions)				
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$ (67)	$ (57)	$ (6)	$ (130)
Pretax (favorable) unfavorable premium development	(8)	32	(1)	23
Total pretax (favorable) unfavorable net prior year development	$ (75)	$ (25)	$ (7)	$ (107)
Six Months Ended June 30, 2010				
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$ (150)	$ (203)	$ 3	$ (350)
Pretax (favorable) unfavorable premium development	(3)	56	(3)	50
Total pretax (favorable) unfavorable net prior year development	$ (153)	$ (147)	$	$ (300)

For the three and six months ended June 30, 2011, unfavorable premium development was recorded due to a reduction of ultimate premium estimates relating to retrospectively rated policies, partially offset by premium adjustments on auditable policies due to increased exposures.

For the three and six months ended June 30, 2010, unfavorable premium development was recorded due to a change in ultimate premium estimates relating to retrospectively rated policies and return premium on auditable policies due to reduced exposures.

CNA Specialty

The following table and discussion provides further detail of the net prior year claim and allocated claim adjustment expense reserve development recorded for the CNA Specialty segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	**2011**	2010
(In millions)				
Medical professional liability	**$ (20)**	$ (44)	**$ (34)**	$ (48)
Other professional liability	**(27)**	(65)	**(21)**	(88)
Surety	**(3)**	(9)	**(3)**	(11)
Warranty	**(2)**		**(12)**	
Other		(7)	**3**	(3)
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	**$ (52)**	$ (125)	**$ (67)**	$ (150)

Table of Contents

Three Month Comparison

2011

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

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

2010

Favorable development for medical professional liability was primarily due to lower frequency of large losses, primarily in accident years 2007 and prior.

Favorable development for other professional liability was recorded in errors & omissions and directors & officers coverages due to several factors, including reduced frequency of large claims, favorable ceded recoveries and claims closing favorable to expectations, primarily in accident years 2007 and prior.

Six Month Comparison

2011

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

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

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

2010

Favorable development for medical professional liability was primarily due to lower frequency of large losses, primarily in accident years 2007 and prior.

Favorable development for other professional liability was recorded in errors & omissions and directors & officers coverages due to several factors, including reduced frequency of large claims, favorable ceded recoveries and claims closing favorable to expectations, primarily in accident years 2007 and prior. Unfavorable development in employment practices liability was recorded in accident years 2008 and 2009, driven by the economic recession and higher unemployment.

CNA Commercial

The following table and discussion provides further detail of the net prior year claim and allocated claim adjustment expense reserve development recorded for the CNA Commercial segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	**2011**	2010
(In millions)				

Commercial auto	**$ (44)**	$ (61)	**$ (34)**	$ (70)
General liability		1	**22**	(42)
Workers compensation	**28**	(10)	**36**	
Property and other	**(34)**	(105)	**(81)**	(91)
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	**$ (50)**	$ (175)	**$ (57)**	$ (203)

Three Month Comparison

2011

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

Unfavorable development for workers compensation primarily reflected higher than expected severity on risk management claims, in accident years 2006 and prior.

Favorable development for property coverages was due to favorable loss emergence related to catastrophe claims in accident year 2008 and non-catastrophe claims in accident years 2009 and prior.

2010

Favorable development for commercial auto coverages was primarily due to decreased frequency and severity trends in accident years 2009 and prior.

Favorable development was recorded for property coverages. Favorable catastrophe development was due to favorable incurred loss emergence, primarily in accident years 2008 and 2009. Favorable non-catastrophe development was due to decreased severity in accident years 2009 and prior.

Six Month Comparison

2011

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

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

Unfavorable development for workers compensation primarily reflected higher than expected severity on risk management claims, in accident years 2006 and prior.

Favorable development for property coverages was due to lower than expected frequency in commercial multi-peril coverages primarily in accident year 2010, a favorable settlement on an individual claim in accident year 2003 in the equipment breakdown book, favorable loss emergence related to catastrophe claims in accident year 2008 and favorable loss emergence related to non-catastrophe claims in accident years 2009 and prior.

2010

Favorable development for commercial auto coverages was primarily due to decreased frequency and severity trends in accident years 2009 and prior.

Favorable development was recorded in general liability due to favorable emergence primarily in accident years 2006 and prior. Unfavorable development was recorded due to increased claim frequency in a portion of CNA s primary casualty surplus lines book in accident years 2008 and 2009.

Favorable development was recorded for property coverages. Favorable catastrophe development was due to favorable incurred loss emergence, primarily in accident years 2008 and 2009. Favorable non-catastrophe development was due to decreased severity in accident years 2009 and prior.

Table of Contents

6. Benefit Plans

Pension Plans - The Company has several non-contributory defined benefit plans for eligible employees. Benefits for certain plans are determined annually based on a specified percentage of annual earnings (based on the participant s age or years of service) and a specified interest rate (which is established annually for all participants) applied to accrued balances. The benefits for another plan which cover salaried employees are based on formulas which include, among others, years of service and average pay. The Company s funding policy is to make contributions in accordance with applicable governmental regulatory requirements.

Other Postretirement Benefit Plans - The Company has several postretirement benefit plans covering eligible employees and retirees. Participants generally become eligible after reaching age 55 with required years of service. Actual requirements for coverage vary by plan. Benefits for retirees who were covered by bargaining units vary by each unit and contract. Benefits for certain retirees are in the form of a Company health care account.

Benefits for retirees reaching age 65 are generally integrated with Medicare. Other retirees, based on plan provisions, must use Medicare as their primary coverage, with the Company reimbursing a portion of the unpaid amount; or are reimbursed for the Medicare Part B premium or have no Company coverage. The benefits provided by the Company are basically health and, for certain retirees, life insurance type benefits.

The Company funds certain of these benefit plans and accrues postretirement benefits during the active service of those employees who would become eligible for such benefits when they retire.

The components of net periodic benefit cost are as follows:

	Pension Benefits			
	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2011	2010	**2011**	2010
(In millions)				
Service cost	**$ 5**	$ 7	**$ 12**	$ 13
Interest cost	**41**	41	**82**	83
Expected return on plan assets	**(47)**	(44)	**(94)**	(88)
Amortization of unrecognized net loss	**7**	7	**14**	14
Net periodic benefit cost	**$ 6**	$ 11	**$ 14**	$ 22

Other Postretirement Benefits