LOEWS CORP
Form 10-Q
November 01, 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 September 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 October 21, 2011
Common stock, $0.01 par value	396,566,700 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)

	September 30, 2011	December 31, 2010
(Dollar amounts in millions, except per share data)		
Assets:		
Investments:		
Fixed maturities, amortized cost of $37,144 and $36,677	$ 39,680	$ 37,814
Equity securities, cost of $935 and $979	924	1,086
Limited partnership investments	2,953	2,814
Other invested assets	220	113
Short term investments	5,848	7,080
Total investments	49,625	48,907
Cash	128	120
Receivables	10,109	10,142
Property, plant and equipment	12,935	12,636
Deferred income taxes		289
Goodwill	856	856
Other assets	1,451	1,798
Deferred acquisition costs of insurance subsidiaries	783	1,079
Separate account business	418	450
Total assets	$ 76,305	$ 76,277
Liabilities and Equity:		
Insurance reserves:		
Claim and claim adjustment expense	$ 25,031	$ 25,496
Future policy benefits	9,258	8,718
Unearned premiums	3,386	3,203
Policyholders funds	176	173
Total insurance reserves	37,851	37,590
Payable to brokers	567	685
Short term debt	1,206	647
Long term debt	8,026	8,830
Deferred income taxes	802	562
Other liabilities	3,870	4,407
Separate account business	418	450
Total liabilities	52,740	53,171

Preferred stock, $0.10 par value:		
Authorized 100,000,000 shares		
Common stock, $0.01 par value:		
Authorized 1,800,000,000 shares		
Issued 415,156,538 and 414,930,507 shares	**4**	4
Additional paid-in capital	**3,658**	3,667
Retained earnings	**15,282**	14,564
Accumulated other comprehensive income	**735**	230
	19,679	18,465
Less treasury stock, at cost (17,754,138 and 384,400 shares)	**(705)**	(15)
Total shareholders equity	**18,974**	18,450
Noncontrolling interests	**4,591**	4,656
Total equity	**23,565**	23,106
Total liabilities and equity	**$ 76,305**	$ 76,277

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	**2011**	2010
(In millions, except per share data)				
Revenues:				
Insurance premiums	**$ 1,732**	$ 1,645	**$ 4,942**	$ 4,868
Net investment income	**333**	654	**1,513**	1,797
Investment gains (losses):				
Other-than-temporary impairment losses	**(75)**	(41)	**(136)**	(189)
Portion of other-than-temporary impairment losses recognized in Other comprehensive income (loss)	**(2)**	(3)	**(44)**	28
Net impairment losses recognized in earnings	**(77)**	(44)	**(180)**	(161)
Other net investment gains	**50**	106	**195**	255
Total investment gains (losses)	**(27)**	62	**15**	94
Contract drilling revenues	**861**	749	**2,520**	2,405
Other	**539**	591	**1,658**	1,736
Total	**3,438**	3,701	**10,648**	10,900
Expenses:				
Insurance claims and policyholders benefits	**1,400**	1,343	**4,131**	3,798
Amortization of deferred acquisition costs	**356**	351	**1,051**	1,038
Contract drilling expenses	**392**	351	**1,142**	1,009
Other operating expenses (Note 5)	**725**	1,271	**2,167**	2,714
Interest	**126**	127	**406**	384
Total	**2,999**	3,443	**8,897**	8,943
Income before income tax	**439**	258	**1,751**	1,957
Income tax expense	**(124)**	(84)	**(464)**	(619)
Income from continuing operations	**315**	174	**1,287**	1,338
Discontinued operations, net		(22)		(21)
Net income	**315**	152	**1,287**	1,317
Amounts attributable to noncontrolling interests	**(153)**	(116)	**(491)**	(495)
Net income attributable to Loews Corporation	**$ 162**	$ 36	**$ 796**	$ 822
Net income attributable to Loews Corporation:				

Income from continuing operations	**$ 162**	$ 56	**$ 796**	$ 841
Discontinued operations, net		(20)		(19)
Net income	**$ 162**	$ 36	**$ 796**	$ 822
Basic net income per share:				
Income from continuing operations	**$ 0.41**	$ 0.13	**$ 1.96**	$ 2.00
Discontinued operations, net		(0.04)		(0.04)
Net income	**$ 0.41**	$ 0.09	**$ 1.96**	$ 1.96
Diluted net income per share:				
Income from continuing operations	**$ 0.40**	$ 0.13	**$ 1.95**	$ 2.00
Discounted operations, net		(0.04)		(0.04)
Net income	**$ 0.40**	$ 0.09	**$ 1.95**	$ 1.96
Dividends per share	**$ 0.0625**	$ 0.0625	**$ 0.1875**	$ 0.1875
Weighted-average shares outstanding:				
Shares of common stock	**401.01**	417.67	**407.20**	419.67
Dilutive potential shares of common stock	**0.72**	0.80	**0.85**	0.80
Total weighted-average shares outstanding assuming dilution	**401.73**	418.47	**408.05**	420.47

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2011	2010	**2011**	2010
(In millions)				
Net income	**$ 315**	$ 152	**$ 1,287**	$ 1,317
Other comprehensive income (loss)				
Changes in:				
Net unrealized gains on investments with other- than-temporary impairments	**(14)**	39	**25**	81
Net other unrealized gains on investments	**219**	720	**542**	1,400
Total unrealized gains on available-for-sale investments	**205**	759	**567**	1,481
Unrealized gains (losses) on cash flow hedges	**8**	15	**(3)**	82
Foreign currency	**(54)**	38	**(23)**	44
Pension liability		(2)	**2**	2
Other comprehensive income	**159**	810	**543**	1,609
Comprehensive income	**474**	962	**1,830**	2,926
Amounts attributable to noncontrolling interests	**(158)**	(206)	**(547)**	(671)
Total comprehensive income attributable to Loews Corporation	**$ 316**	$ 756	**$ 1,283**	$ 2,255

See accompanying Notes to Consolidated Condensed Financial Statements.

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	1,317			822			495
Other comprehensive income	1,609				1,433		176
Dividends paid	(476)			(79)			(397)
Issuance of equity securities by subsidiary	279		83		1		195
Purchase of Loews treasury stock	(337)					(337)	
Issuance of Loews common stock	5		5				
Stock-based compensation	17		15				2
Other			18	(3)	2		(17)
Balance, September 30, 2010	$ 23,499	$ 4	$ 3,758	$ 14,433	$ 1,017	$ (353)	$ 4,640
Balance, January 1, 2011	**$ 23,106**	**$ 4**	**$ 3,667**	**$ 14,564**	**$ 230**	**$ (15)**	**$ 4,656**
Net income	**1,287**			**796**			**491**
Other comprehensive income	**543**				**487**		**56**
Dividends paid	**(373)**			**(76)**			**(297)**
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	**(690)**					**(690)**	
Issuance of Loews common stock	**4**		**4**				
Stock-based compensation	**16**		**14**				**2**
Other	**(5)**		**(1)**	**(2)**			**(2)**
Balance, September 30, 2011	**$ 23,565**	**$ 4**	**$ 3,658**	**$ 15,282**	**$ 735**	**$ (705)**	**$ 4,591**

See accompanying Notes to Consolidated Condensed Financial Statements.

6

Table of Contents

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

Nine Months Ended September 30	2011	2010
(In millions)		
Operating Activities:		
Net income	**$ 1,287**	$ 1,317
Adjustments to reconcile net income to net cash provided by operating activities, net	**977**	640
Changes in operating assets and liabilities, net:		
Reinsurance receivables	**405**	(545)
Other receivables	**(181)**	(38)
Deferred acquisition costs	**(28)**	12
Insurance reserves	**(5)**	(563)
Other liabilities	**(349)**	28
Trading securities	**(231)**	243
Other, net	**149**	(110)
Net cash flow operating activities continuing operations	**2,024**	984
Net cash flow operating activities discontinued operations		(89)
Net cash flow operating activities total	**2,024**	895
Investing Activities:		
Purchases of fixed maturities	**(8,854)**	(12,981)
Proceeds from sales of fixed maturities	**5,912**	9,263
Proceeds from maturities of fixed maturities	**2,434**	2,891
Purchases of equity securities	**(51)**	(92)
Proceeds from sales of equity securities	**171**	215
Purchases of property, plant and equipment	**(502)**	(670)
Deposits for construction of offshore drilling equipment	**(478)**	
Sales of property, plant and equipment	**28**	789
Change in short term investments	**1,295**	629
Change in other investments	**(314)**	(552)
Other, net	**6**	7
Net cash flow investing activities continuing operations	**(353)**	(501)
Net cash flow investing activities discontinued operations		75
Net cash flow investing activities total	**(353)**	(426)

Table of Contents

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS - (Continued)

(Unaudited)

Nine Months Ended September 30	2011	2010
(In millions)		
Financing Activities:		
Dividends paid	$ (76)	$ (79)
Dividends paid to noncontrolling interests	(297)	(397)
Acquisition of CNA Surety noncontrolling interests	(475)	
Purchases of treasury shares	(700)	(351)
Issuance of common stock	4	5
Proceeds from sale of subsidiary stock	172	337
Principal payments on debt	(1,630)	(659)
Issuance of debt	1,351	645
Other, net	(11)	(28)
Net cash flow financing activities continuing operations	(1,662)	(527)
Net cash flow financing activities discontinued operations		
Net cash flow financing activities total	(1,662)	(527)
Effect of foreign exchange rate on cash	(1)	
Net change in cash	8	(58)
Net cash transactions:		
From continuing operations to discontinued operations		(14)
To discontinued operations from continuing operations		14
Cash, beginning of period	120	190
Cash, end of period	$ 128	$ 132
Cash, end of period:		
Continuing operations	$ 128	$ 132
Discontinued operations		
Total	$ 128	$ 132

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 September 30, 2011 and December 31, 2010 and the results of operations and comprehensive income for the three and nine months ended September 30, 2011 and 2010 and changes in shareholders equity and cash flows for the nine months ended September 30, 2011 and 2010.

Net income for the third quarter and first nine months 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 3.2 million, 2.6 million, 2.1 million and 2.6 million shares were not included in the diluted weighted average shares amount for the three and nine months ended September 30, 2011 and 2010 due to the exercise price being greater than the average stock price.

First Insurance Company of Hawaii CNA owns 50% of the common stock of First Insurance Company of Hawaii (FICOH). On August 11, 2011, CNA announced the sale of its noncontrolling interest in FICOH to Tokio Marine & Nichido Fire Insurance Co., Ltd., the other 50% shareholder. The sale, which is subject to regulatory approval, is anticipated to close in the fourth quarter of 2011 and is not expected to have a material impact on the Company s results of operations. CNA previously anticipated recovering the undistributed earnings of FICOH at a dividend tax rate. As a result of the pending sale, CNA has increased income tax expense by $22 million for the three and nine months ended September 30, 2011 to reflect the statutory tax rate.

CNA Surety Corporation 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

Table of Contents

allocated to the noncontrolling shareholders. Net income attributable to the noncontrolling interests for the nine months ended September 30, 2011 and the three and nine months ended September 30, 2010 was not significant.

New accounting standards not yet adopted In October 2010, the FASB issued updated accounting guidance which limits the capitalization of costs incurred to acquire or renew insurance contracts to those that are incremental direct costs of successful contract acquisitions. The updated accounting guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011 with prospective or retrospective application allowed. The Company intends to adopt this updated accounting guidance retrospectively and is currently assessing the impact it will have on its financial condition and results of operations. The Company preliminarily estimates that amounts capitalized under the current accounting guidance as of September 30, 2011 would be approximately $75 million to $130 million less under the updated guidance. Any reduction of capitalized costs will also necessitate a change in related deferred tax balances.

2. Investments

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2011	2010	**2011**	2010
(In millions)				
Net investment income consists of:				
Fixed maturity securities	**$ 494**	$ 511	**$ 1,505**	$ 1,540
Short term investments	**4**	4	**11**	18
Limited partnerships	**(87)**	91	**69**	178
Equity securities	**4**	7	**16**	26
Income (loss) from trading portfolio (a)	**(70)**	52	**(55)**	68
Other	**3**	3	**12**	8
Total investment income	**348**	668	**1,558**	1,838
Investment expenses	**(15)**	(14)	**(45)**	(41)
Net investment income	**$ 333**	$ 654	**$ 1,513**	$ 1,797

(a) Includes net unrealized gains/(losses) related to changes in fair value on trading securities still held of $(63), $55, $(86) and $52 for the three and nine months ended September 30, 2011 and 2010.

Investment gains (losses) are as follows:				
Fixed maturity securities	**$ (29)**	$ 76	**$ 11**	$ 169
Equity securities	**(1)**	(17)	**(3)**	(42)
Derivative instruments	**1**	(1)		(32)
Short term investments		1	**3**	5
Other	**2**	3	**4**	(6)
Investment gains (losses) (a)	**$ (27)**	$ 62	**$ 15**	$ 94

(a) Includes gross realized gains of $57, $124, $240 and $359 and gross realized losses of $87, $65, $232 and $232 on available-for-sale securities for the three and nine months ended September 30, 2011 and 2010.

Table of Contents

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

(In millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Fixed maturity securities available-for-sale:				
Corporate and other bonds	**$ 49**	$ 17	**$ 73**	$ 59
States, municipalities and political subdivisions				20
Asset-backed:				
Residential mortgage-backed	**21**	18	**95**	55
Commercial mortgage-backed				2
Other asset-backed	**4**		**4**	2
Total fixed maturity securities available-for-sale	**74**	35	**172**	138
Equity securities available-for-sale:				
Common stock	**3**	5	**7**	10
Preferred stock		4	**1**	13
Total equity securities available-for-sale	**3**	9	**8**	23
Net OTTI losses recognized in earnings	**$ 77**	$ 44	**$ 180**	$ 161

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

Table of Contents

including delinquency rates, probable risk of default, loss severity upon a default, over collateralization and interest coverage triggers and credit support from lower level tranches.

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.

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

September 30, 2011	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
(In millions)					
Fixed maturity securities:					
Corporate and other bonds	$ 19,141	$ 1,918	$ 160	$ 20,899	
States, municipalities and political subdivisions	8,834	853	150	9,537	
Asset-backed:					
Residential mortgage-backed	5,812	199	161	5,850	$ 82
Commercial mortgage-backed	1,255	55	61	1,249	(8)
Other asset-backed	1,035	15	14	1,036	
Total asset-backed	8,102	269	236	8,135	74
U.S. Treasury and obligations of government-sponsored enterprises	221	16		237	
Foreign government	557	25		582	
Redeemable preferred stock	49	8		57	
Fixed maturities available- for-sale	36,904	3,089	546	39,447	74
Fixed maturities, trading	240		7	233	
Total fixed maturities	37,144	3,089	553	39,680	74
Equity securities:					
Common stock	103	19	2	120	
Preferred stock	213	2	8	207	
Equity securities available-for-sale	316	21	10	327	
Equity securities, trading	619	64	86	597	
Total equity securities	935	85	96	924	
Total	$ 38,079	$ 3,174	$ 649	$ 40,604	$ 74

Table of Contents

December 31, 2010	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
(In millions)					
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

At September 30, 2011 and December 31, 2010, net unrealized gains on investments included in Accumulated other comprehensive income (AOCI) supporting certain products within CNA s Life & Group Non-Core segment were reduced by $420 million and $135 million, net of tax and noncontrolling interests, resulting from a reduction of Deferred acquisition costs or an increase in Future policy benefit reserves.

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

	Less than 12 Months		**Greater than 12 Months**		**Total**	
September 30, 2011	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**
(In millions)						
Fixed maturity securities:						
Corporate and other bonds	**$ 3,143**	**$ 134**	**$ 142**	**$ 26**	**$ 3,285**	**$ 160**
States, municipalities and political subdivisions	**270**	**4**	**716**	**146**	**986**	**150**

Asset-backed:						
Residential mortgage-backed	**789**	**20**	**978**	**141**	**1,767**	**161**
Commercial mortgage-backed	**474**	**42**	**179**	**19**	**653**	**61**
Other asset-backed	**377**	**4**	**77**	**10**	**454**	**14**
Total asset-backed	**1,640**	**66**	**1,234**	**170**	**2,874**	**236**
Total fixed maturities available- for-sale	**5,053**	**204**	**2,092**	**342**	**7,145**	**546**
Equity securities available-for-sale:						
Common stock	**36**	**2**			**36**	**2**
Preferred stock	**129**	**7**	**19**	**1**	**148**	**8**
Total	**$ 5,218**	**$ 213**	**$ 2,111**	**$ 343**	**$ 7,329**	**$ 556**

Table of Contents

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
(In millions)						
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 (losses) on available-for-sale securities reclassified out of AOCI into earnings was $(29) million, $62 million, $12 million and $133 million for the three and nine months ended September 30, 2011 and 2010.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	**2011**	2010
(In millions)				
Beginning balance of credit losses on fixed maturity securities	**$ 82**	$ 171	**$ 141**	$ 164
Additional credit losses for securities for which an OTTI loss was previously recognized	**11**	4	**29**	26
Credit losses for securities for which an OTTI loss was not previously recognized	**10**	1	**11**	9
Reductions for securities sold during the period	**(4)**	(27)	**(50)**	(50)
Reductions for securities the Company intends to sell or more likely than not will be required to sell		(8)	**(32)**	(8)
Ending balance of credit losses on fixed maturity securities	**$ 99**	$ 141	**$ 99**	$ 141

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.

Table of Contents

Corporate and Other Bonds

The unrealized losses on the Company s investments in this category primarily relate to non-investment grade bonds and bonds within the financial industry sector. The financial industry sector holdings in this category include bonds with an aggregate fair value of $1,702 million and an aggregate amortized cost of $1,793 million as of September 30, 2011.

The corporate and other bonds in a gross unrealized loss position by ratings distribution are as follows:

September 30, 2011	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
(In millions)			
AAA	$ 58	$ 57	$ 1
AA	202	196	6
A	1,018	975	43
BBB	1,280	1,219	61
Non-investment grade	887	838	49
Total	$ 3,445	$ 3,285	$ 160

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 September 30, 2011.

States, Municipalities and Political Subdivisions

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

September 30, 2011	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
(In millions)			
AAA	$ 198	$ 190	$ 8
AA	485	378	107
A	370	340	30
BBB	67	63	4
Non-investment grade	16	15	1
Total	$ 1,136	$ 986	$ 150

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 September 30, 2011.

Table of Contents

Asset-Backed Securities

The fair value of total asset-backed holdings at September 30, 2011 was $8,135 million which was comprised of 2,055 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, 132 had underlying collateral that was 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 included 149 non-agency structured securities that had 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 7.6% of amortized cost.

Commercial mortgage-backed securities included 66 securities that had at least one trade lot in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 8.6% of amortized cost. Other asset-backed securities included 46 securities that had at least one trade lot in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 3.1% of amortized cost.

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

September 30, 2011	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
(In millions)			
U.S. Government, Government Agencies and Government-Sponsored Enterprises	$ 481	$ 465	$ 16
AAA	762	734	28
AA	441	415	26
A	213	203	10
BBB	316	278	38
Non-investment grade	897	779	118
Total	$ 3,110	$ 2,874	$ 236

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; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at September 30, 2011.

Table of Contents

Contractual Maturity

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

	September 30, 2011		December 3 1, 2010	
(In millions)	**Amortized Cost**	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
Due in one year or less	**$ 1,658**	**$ 1,662**	$ 1,515	$ 1,506
Due after one year through five years	**12,947**	**13,407**	11,198	11,653
Due after five years through ten years	**8,447**	**8,941**	10,034	10,437
Due after ten years	**13,852**	**15,437**	13,686	13,987
Total	**$ 36,904**	**$ 39,447**	$ 36,433	$ 37,583

Limited Partnerships

The carrying value of limited partnerships as of September 30, 2011 and December 31, 2010 was $3.0 billion and $2.8 billion. Limited partnerships comprising 61.8% of the total carrying value were reported on a current basis through September 30, 2011 with no reporting lag, 25.0% were reported on a one month lag and the remainder were reported on more than a one month lag. As of September 30, 2011 and December 31, 2010, the Company had 86 and 84 active limited partnership investments. The number of limited partnerships held and the strategies employed provide diversification to the limited partnership portfolio and the overall invested asset portfolio.

Of the limited partnerships held, 84.7% and 87.4% at September 30, 2011 and December 31, 2010, employ hedge fund strategies that generate returns through investing in securities that are marketable while engaging in various management techniques primarily in public fixed income and equity markets. These hedge fund strategies include both long and short positions in fixed income, equity and derivative instruments. The hedge fund strategies may seek to generate gains from mispriced or undervalued securities, price differentials between securities, distressed investments, sector rotation, or various arbitrage disciplines. Within hedge fund strategies, approximately 43.1% were equity related, 36.7% pursued a multi-strategy approach, 14.9% were focused on distressed investments and 5.3% were fixed income related at September 30, 2011. Limited partnerships representing 11.0% and 9.1% at September 30, 2011 and December 31, 2010 were invested in private debt and equity. The remaining were invested in various other partnerships including real estate.

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

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

Investment Commitments

As of September 30, 2011, the Company had committed approximately $157 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 September 30, 2011, the Company had commitments to purchase $110 million and sell $51 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:

September 30, 2011 **(In millions)**	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed maturity securities:				
Corporate and other bonds		**$ 20,280**	**$ 619**	**$ 20,899**
States, municipalities and political subdivisions		**9,355**	**182**	**9,537**
Asset-backed:				
Residential mortgage-backed		**5,219**	**631**	**5,850**
Commercial mortgage-backed		**1,090**	**159**	**1,249**
Other asset-backed		**607**	**429**	**1,036**
Total asset-backed	**$**	**6,916**	**1,219**	**8,135**
U.S. Treasury and obligations of government-sponsored enterprises	**176**	**61**		**237**
Foreign government	**92**	**490**		**582**
Redeemable preferred stock	**3**	**54**		**57**
Fixed maturities available-for-sale	**271**	**37,156**	**2,020**	**39,447**
Fixed maturities, trading		**122**	**111**	**233**
Total fixed maturities	**$ 271**	**$ 37,278**	**$ 2,131**	**$ 39,680**
Equity securities available-for-sale	**$ 179**	**$ 116**	**$ 32**	**$ 327**
Equity securities, trading	**585**		**12**	**597**
Total equity securities	**$ 764**	**$ 116**	**$ 44**	**$ 924**
Short term investments	**$ 5,276**	**$ 566**	**$ 6**	**$ 5,848**
Other invested assets		**6**	**10**	**16**
Receivables		**56**	**4**	**60**
Life settlement contracts			**125**	**125**
Separate account business	**23**	**360**	**35**	**418**
Payable to brokers	**(179)**	**(53)**	**(32)**	**(264)**

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 nine months ended September 30, 2011 and 2010:

2011 (In millions)	Balance, July 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, September 30	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at September 30
Fixed maturity securities:										
Corporate and other bonds	$ 812	$ (7)	$ (3)	$ 113	$ (107)	$ (47)	$ 12	$ (154)	$ 619	$ (10)
States, municipalities and political subdivisions	179			3					182	
Asset-backed:										
Residential mortgage-backed	687	1	(5)	73	(81)	(13)		(31)	631	
Commercial mortgage- backed	95		(7)	76				(5)	159	
Other asset-backed	491	(5)	(6)	114	(105)	(25)	2	(37)	429	(4)
Total asset-backed	1,273	(4)	(18)	263	(186)	(38)	2	(73)	1,219	(4)
Fixed maturities available-for-sale	2,264	(11)	(21)	379	(293)	(85)	14	(227)	2,020	(14)
Fixed maturities, trading	114	(3)							111	(3)
Total fixed maturities	$ 2,378	$ (14)	$ (21)	$ 379	$ (293)	$ (85)	$ 14	$ (227)	$ 2,131	$ (17)
Equity securities available-for-sale	$ 36				$ (1)			$ (3)	$ 32	
Equity securities trading	16	$ (4)							12	$ (4)
Total equity securities	$ 52	$ (4)	$	$	$ (1)	$	$	$ (3)	$ 44	$ (4)
Short term investments	$ 6								$ 6	
Other invested assets	10								10	
Life settlement contracts	129	$ 11				$ (15)			125	$ (1)
Separate account business	37				$ (2)				35	
Derivative financial instruments, net	(37)	(13)	$ 11			11			(28)	(1)

21

Table of Contents

2010 (In millions)	Balance, July 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, September 30	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at September 30
Fixed maturity securities:								
Corporate and other bonds	$ 718	$ 1	$ 18	$ (83)		$ (54)	$ 600	$ (1)
States, municipalities and political subdivisions	539		3	(84)			458	
Asset-backed:								
Residential mortgage-backed	659	1	(9)	(5)			646	
Commercial mortgage-backed	95		3			(20)	78	
Other asset-backed	306	(1)	7	(66)			246	
Total asset-backed	1,060		1	(71)	$	(20)	970	
Redeemable preferred stock	1						1	
Fixed maturities available-for-sale	2,318	1	22	(238)		(74)	2,029	(1)
Fixed maturities, trading	191	(2)		(1)			188	(2)
Total fixed maturities	$ 2,509	$ (1)	$ 22	$ (239)	$	$ (74)	$ 2,217	$ (3)
Equity securities available-for-sale	$ 4	$ (3)		$ 15	$ 6		$ 22	$ (4)
Short term investments	21			(8)		$ (11)	2	
Other invested assets		2		26			28	2
Life settlement contracts	134	8		(6)			136	4
Separate account business	37			4			41	
Derivative financial instruments, net	4	(3)	$ (15)	1			(13)	

Table of Contents

2011 (In millions)	Balance, January 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in OCI	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, September 30	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at September 30
Fixed maturity securities:										
Corporate and other bonds	$ 624	$ (5)	$ (6)	$ 459	$ (157)	$ (144)	$ 52	$ (204)	$ 619	$ (11)
States, municipalities and political subdivisions	266			3		(87)			182	
Asset-backed:										
Residential mortgage-backed	767	(11)	9	170	(164)	(54)		(86)	631	(15)
Commercial mortgage- backed	73	3	11	81	(4)			(5)	159	
Other asset-backed	359		(6)	441	(236)	(80)	2	(51)	429	(4)
Total asset-backed	1,199	(8)	14	692	(404)	(134)	2	(142)	1,219	(19)
Redeemable preferred stock	3	3	(3)		(3)					
Fixed maturities available-for-sale	2,092	(10)	5	1,154	(564)	(365)	54	(346)	2,020	(30)
Fixed maturities, trading	184	(1)			(72)				111	6
Total fixed maturities	$ 2,276	$ (11)	$ 5	$ 1,154	$ (636)	$ (365)	$ 54	$ (346)	$ 2,131	$ (24)
Equity securities available-for-sale	$ 26	$ (2)	$ (1)	$ 19	$ (12)		$ 5	$ (3)	$ 32	$ (3)
Equity securities trading	6	(9)		1			14		12	(9)
Total equity securities	$ 32	$ (11)	$ (1)	$ 20	$ (12)	$	$ 19	$ (3)	$ 44	$ (12)
Short term investments	$ 27			$ 12		$ (23)		$ (10)	$ 6	
Other invested assets	26	$ 3			$ (19)				10	$ 1
Life settlement contracts	129	20				(24)			125	2
Separate account business	41				(6)				35	
Derivative financial instruments, net	(21)	(32)	$ (5)			30			(28)	(1)

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, September 30	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at September 30
Fixed maturity securities:								
Corporate and other bonds	$ 609	$ 10	$ 56	$ 29	$ 23	$ (127)	$ 600	$ (2)
States, municipalities and political subdivisions	756		9	(307)			458	
Asset-backed:								
Residential mortgage-backed	629	(7)	20	50		(46)	646	(10)
Commercial mortgage- backed	123	(1)	1	6	7	(58)	78	(2)
Other asset-backed	348	3	29	(89)		(45)	246	(1)
Total asset-backed	1,100	(5)	50	(33)	7	(149)	970	(13)
Redeemable preferred stock	2	6		(7)			1	
Fixed maturities available-for-sale	2,467	11	115	(318)	30	(276)	2,029	(15)
Fixed maturities, trading	197	6		(15)			188	5
Total fixed maturities	$ 2,664	$ 17	$ 115	$ (333)	$ 30	$ (276)	$ 2,217	$ (10)
Equity securities available-for-sale	$ 11	$ (4)		$ 14	$ 8	$ (7)	$ 22	$ (5)
Short term investments				12	1	(11)	2	
Other invested assets		2		26			28	2
Life settlement contracts	130	25		(19)			136	11
Separate account business	38			3			41	
Discontinued operations investments	16		$ 1	(2)		(15)		
Derivative financial instruments, net	(48)	(18)	27	26			(13)	

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 nine months ended September 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

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.

	September 30, 2011		December 31, 2010	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
(In millions)				
Financial assets:				
Other invested assets	**$ 204**	**$ 214**	$ 87	$ 86
Financial liabilities:				
Premium deposits and annuity contracts	**$ 108**	**$ 110**	$ 104	$ 105
Short term debt	**1,206**	**1,210**	647	662
Long term debt	**8,026**	**8,633**	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.

Table of Contents

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.

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 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.

Table of Contents

The tables below summarize open CDS contracts where the Company sold credit protection as of September 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.

September 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)			
A-rated		$ 5	5.0
BBB-rated	$ (2)	15	5.1
BB-rated	(1)	22	4.3