CNA FINANCIAL CORP
Form 10-Q
May 03, 2010

Table of Contents

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

FORM 10-Q

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from __________ to __________
Commission File Number 1-5823

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

Delaware	**36-6169860**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
333 S. Wabash Chicago, Illinois	**60604**
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

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 o No o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

(Do not check if a 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 o No þ

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

Class	**Outstanding at April 29, 2010**
Common Stock, Par value $2.50	269,074,878

CNA Financial Corporation
Index

Item Number		Page Number
	PART I. Financial Information	
1.	Condensed Consolidated Financial Statements (Unaudited):	
	Condensed Consolidated Statements of Operations for the Three months ended March 31, 2010 and 2009	3
	Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three months ended March 31, 2010 and 2009	5
	Condensed Consolidated Balance Sheets at March 31, 2010 and December 31, 2009	6
	Condensed Consolidated Statements of Cash Flows for the Three months ended March 31, 2010 and 2009	7
	Condensed Consolidated Statements of Equity for the Three months ended March 31, 2010 and 2009	9
	Notes to Condensed Consolidated Financial Statements	10
2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	42
3.	Quantitative and Qualitative Disclosures About Market Risk	58
4.	Controls and Procedures	59
	PART II. Other Information	
1.	Legal Proceedings	60
6.	Exhibits	60

EX-10.1
EX-31.1
EX-31.2
EX-32.1
EX-32.2

CNA Financial Corporation
Part I. Financial Information
Item 1. Condensed Consolidated Financial Statements
Condensed Consolidated Statements of Operations (Unaudited)

Three months ended March 31	**2010**	**2009**
(In millions, except per share data)		
Revenues		
Net earned premiums	$ 1,615	$ 1,672
Net investment income	590	420
Net realized investment gains (losses), net of participating policyholders interests:		
Other-than-temporary impairment losses	(90)	(614)
Portion of other-than-temporary impairment losses recognized in Other comprehensive income	30	
Net other-than-temporary impairment losses recognized in earnings	(60)	(614)
Other net realized investment gains	94	82
Net realized investment gains (losses), net of participating policyholders interests	34	(532)
Other revenues	76	78
Total revenues	2,315	1,638
Claims, Benefits and Expenses		
Insurance claims and policyholders benefits	1,308	1,342
Amortization of deferred acquisition costs	342	349
Other operating expenses	272	251
Interest	36	31
Total claims, benefits and expenses	1,958	1,973
Income (loss) from continuing operations before income tax	357	(335)
Income tax (expense) benefit	(102)	150
Income (loss) from continuing operations	255	(185)
Income (loss) from discontinued operations, net of income tax (expense) benefit of $0 and $0		
Net income (loss)	255	(185)
Net income attributable to noncontrolling interests	(10)	(10)
Net income (loss) attributable to CNA	$ 245	$ (195)

Income (Loss) Attributable to CNA Common Stockholders		
Income (loss) from continuing operations attributable to CNA	$ 245	$ (195)
Dividends on 2008 Senior Preferred	(25)	(31)
Income (loss) from continuing operations attributable to CNA common stockholders	220	(226)
Income (loss) from discontinued operations attributable to CNA common stockholders		
Income (loss) attributable to CNA common stockholders	$ 220	$ (226)

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

Table of Contents

Three months ended March 31 (In millions, except per share data)	**2010**	**2009**
Basic and Diluted Earnings (Loss) Per Share Attributable to CNA Common Stockholders		
Income (loss) from continuing operations attributable to CNA common stockholders	$ 0.82	$ (0.84)
Income (loss) from discontinued operations attributable to CNA common stockholders		
Basic and diluted earnings (loss) per share attributable to CNA common stockholders	$ 0.82	$ (0.84)
Weighted Average Outstanding Common Stock and Common Stock Equivalents		
Basic	269.1	269.0
Diluted	269.2	269.0

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

4

Table of Contents

CNA Financial Corporation

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Three months ended March 31 (In millions)	**2010**	**2009**
Other Comprehensive Income (Loss), Net of Tax		
Changes in:		
Net unrealized gains (losses) on investments with other-than-temporary impairments	$ 25	$
Net unrealized gains (losses) on other investments	323	401
Net unrealized gains (losses) on investments	348	401
Net unrealized gains (losses) on discontinued operations and other	7	(2)
Foreign currency translation adjustment	(10)	(8)
Pension and postretirement benefits	1	2
Allocation to participating policyholders	(23)	
Other comprehensive income, net of tax	323	393
Net income (loss)	255	(185)
Comprehensive income	578	208
Changes in:		
Net unrealized (gains) losses on investments attributable to noncontrolling interests	(6)	(5)
Pension and postretirement benefits attributable to noncontrolling interests	(3)	
Other comprehensive income attributable to noncontrolling interests	(9)	(5)
Net income attributable to noncontrolling interests	(10)	(10)
Comprehensive income attributable to noncontrolling interests	(19)	(15)
Total comprehensive income attributable to CNA	$ 559	$ 193

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

Table of Contents

CNA Financial Corporation

Condensed Consolidated Balance Sheets (Unaudited)

(In millions, except share data)	March 31, 2010	December 31, 2009
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of $37,185 and $35,602)	$ 37,711	$ 35,612
Equity securities at fair value (cost of $651 and $633)	681	644
Limited partnership investments	1,947	1,787
Other invested assets	3	4
Short term investments	2,484	3,949
Total investments	42,826	41,996
Cash	95	140
Reinsurance receivables (less allowance for uncollectible receivables of $350 and $351)	6,328	6,581
Insurance receivables (less allowance for doubtful accounts of $197 and $202)	1,645	1,656
Accrued investment income	457	416
Deferred acquisition costs	1,109	1,108
Deferred income taxes	1,098	1,333
Property and equipment at cost (less accumulated depreciation of $511 and $498)	350	360
Goodwill and other intangible assets	141	141
Other assets	1,188	1,144
Separate account business	442	423
Total assets	$ 55,679	$ 55,298
Liabilities and Equity		
Liabilities:		
Insurance reserves:		
Claim and claim adjustment expenses	$ 26,559	$ 26,816
Unearned premiums	3,283	3,274
Future policy benefits	8,090	7,981
Policyholders funds	177	192
Participating policyholders funds	54	56
Long term debt	2,304	2,303
Other liabilities	3,046	3,087
Separate account business	442	423
Total liabilities	43,955	44,132

Commitments and contingencies (Notes D, E, G, H, and J)

Equity:		
Preferred stock (12,500,000 shares authorized) 2008 Senior Preferred (no par value; $100,000 stated value; 10,000 shares issued and outstanding held by Loews Corporation)	1,000	1,000
Common stock ($2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; and 269,074,878 and 269,026,759 shares outstanding)	683	683
Additional paid-in capital	2,198	2,177
Retained earnings	7,484	7,264
Accumulated other comprehensive loss	(11)	(325)
Treasury stock (3,965,365 and 4,013,484 shares), at cost	(107)	(109)
Notes receivable for the issuance of common stock	(30)	(30)
Total CNA stockholders equity	11,217	10,660
Noncontrolling interests	507	506
Total equity	11,724	11,166
Total liabilities and equity	$ 55,679	$ 55,298

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

CNA Financial Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)

Three months ended March 31 (In millions)	**2010**	**2009**
Cash Flows from Operating Activities		
Net income (loss)	$ 255	$ (185)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Deferred income tax expense (benefit)	45	(139)
Trading portfolio activity	99	(3)
Net realized investment (gains) losses, net of participating policyholders interests	(34)	532
Equity method investees	13	104
Amortization of investments	(33)	(58)
Depreciation	21	21
Changes in:		
Receivables, net	264	223
Accrued investment income	(41)	(31)
Deferred acquisition costs	(1)	(7)
Insurance reserves	(135)	(139)
Other assets	(7)	(31)
Other liabilities	(74)	(97)
Other, net	(3)	6
Total adjustments	114	381
Net cash flows provided by operating activities-continuing operations	$ 369	$ 196
Net cash flows used by operating activities-discontinued operations	$ (5)	$ (9)
Net cash flows provided by operating activities-total	$ 364	$ 187
Cash Flows from Investing Activities		
Purchases of fixed maturity securities	$ (5,351)	$ (7,079)
Proceeds from fixed maturity securities:		
Sales	2,737	7,046
Maturities, calls and redemptions	846	827
Purchases of equity securities	(42)	(134)
Proceeds from sales of equity securities	25	146
Change in short term investments	1,474	(1,041)
Change in other investments	(51)	55
Purchases of property and equipment	(12)	(17)
Other, net		38
Net cash flows used by investing activities-continuing operations	$ (374)	$ (159)
Net cash flows provided by investing activities-discontinued operations	$ 5	$ 9

Net cash flows used by investing activities-total	$ (369)	$ (150)

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

7

Three months ended March 31 (In millions)	**2010**	**2009**
Cash Flows from Financing Activities		
Dividends paid to Loews Corporation for 2008 Senior Preferred	$ (25)	$ (31)
Policyholders investment contract net deposits (withdrawals)	(2)	(7)
Other, net	(11)	12
Net cash flows used by financing activities-continuing operations	$ (38)	$ (26)
Net cash flows provided (used) by financing activities-discontinued operations	$	$
Net cash flows used by financing activities-total	$ (38)	$ (26)
Effect of foreign exchange rate changes on cash-continuing operations	(2)	(2)
Net change in cash	(45)	9
Cash, beginning of year	140	85
Cash, end of period	$ 95	$ 94
Cash-continuing operations	$ 95	$ 94
Cash-discontinued operations		
Cash-total	$ 95	$ 94

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

Table of Contents

CNA Financial Corporation
Condensed Consolidated Statements of Equity (Unaudited)

Three months ended March 31 (In millions)	2010	2009
Preferred Stock		
Balance, beginning and end of period	$ 1,000	$ 1,250
Common Stock		
Balance, beginning and end of period	683	683
Additional Paid-in Capital		
Balance, beginning of period	2,177	2,174
Stock-based compensation	(1)	1
Other	22	
Balance, end of period	2,198	2,175
Retained Earnings		
Balance, beginning of period	7,264	6,845
Dividends paid to Loews Corporation for 2008 Senior Preferred	(25)	(31)
Net income (loss) attributable to CNA	245	(195)
Balance, end of period	7,484	6,619
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	(325)	(3,924)
Other comprehensive income attributable to CNA	314	388
Balance, end of period	(11)	(3,536)
Treasury Stock		
Balance, beginning of period	(109)	(109)
Stock based compensation	2	
Balance, end of period	(107)	(109)
Notes Receivable for the Issuance of Common Stock		
Balance, beginning of period	(30)	(42)
Decrease in notes receivable for the issuance of common stock		12
Balance, end of period	(30)	(30)

Total CNA Stockholders Equity	11,217	7,052
Noncontrolling Interests		
Balance, beginning of period	506	420
Net income	10	10
Other comprehensive income	9	5
Other	(18)	2
Balance, end of period	507	437
Total Equity	$ 11,724	$ 7,489

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

Table of Contents

CNA Financial Corporation

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note A. Basis of Presentation

The Condensed Consolidated Financial Statements (Unaudited) include the accounts of CNA Financial Corporation (CNAF) and its controlled subsidiaries. Collectively, CNAF and its subsidiaries are referred to as CNA or the Company. CNA s property and casualty and remaining life and group insurance operations are primarily conducted by Continental Casualty Company (CCC), The Continental Insurance Company (CIC), Continental Assurance Company (CAC) and CNA Surety Corporation (CNA Surety). The Company owned approximately 62% of the outstanding common stock of CNA Surety as of March 31, 2010. Loews Corporation (Loews) owned approximately 90% of the outstanding common stock of CNAF as of March 31, 2010.

The accompanying Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Certain financial information that is normally included in annual financial statements, including certain financial statement notes, prepared in accordance with GAAP, is not required for interim reporting purposes and has been condensed or omitted. These statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in CNAF s Form 10-K filed with the Securities and Exchange Commission (SEC) for the year ended December 31, 2009. The preparation of Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

The interim financial data as of March 31, 2010 and for the three months ended March 31, 2010 and 2009 is unaudited. However, in the opinion of management, the interim data includes all adjustments, consisting of normal recurring accruals, necessary for a fair statement of the Company s results for the interim periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. All significant intercompany amounts have been eliminated.

Note B. Accounting Standards Updates

Adopted

Variable Interest Entities

In June 2009, the Financial Accounting Standards Board (FASB) issued updated accounting guidance which amended the requirements for determination of the primary beneficiary of a variable interest entity, required an ongoing assessment of whether an entity is the primary beneficiary and required enhanced interim and annual disclosures. The updated accounting guidance was effective for annual reporting periods beginning after November 15, 2009, except for investment company type entities for which the requirements under this guidance have been deferred indefinitely. The adoption of this updated accounting guidance as of January 1, 2010 had no impact on the Company s financial condition or results of operations.

Recognition and Presentation of Other-Than-Temporary Impairments

In April 2009, the FASB issued updated accounting guidance, which amended the other-than-temporary impairment (OTTI) loss model for fixed maturity securities. A fixed maturity security is impaired if the fair value of the security is less than its amortized cost basis, which is its cost adjusted for accretion, amortization and previously recorded OTTI losses. The updated accounting guidance requires an OTTI loss equal to the difference between fair value and amortized cost to be recognized in earnings if the Company intends to sell the fixed maturity security or if it is more likely than not the Company will be required to sell the fixed maturity security before recovery of its amortized cost basis.

The remaining fixed maturity securities in an unrealized loss position are evaluated to determine if a credit loss exists. If the Company does not expect to recover the entire amortized cost basis of a fixed maturity security, the security is deemed to be other-than-temporarily impaired for credit reasons. For these securities, the bifurcation of OTTI losses into a credit component and a non-credit component is required by the updated accounting guidance. The credit component is recognized in earnings and represents the difference between the present value of the future cash flows that the Company expects to collect and a fixed maturity security s amortized cost basis. The non-credit component is recognized in other comprehensive income and represents the difference between fair value and the present value of the future cash flows that the Company expects to collect.

Prior to the adoption of the updated accounting guidance, OTTI losses were not bifurcated between credit and non-credit components. The difference between fair value and amortized cost was recognized in earnings for all securities for which the Company did not expect to recover the amortized cost basis, or for which the Company did not have the ability and intent to hold until recovery of fair value to amortized cost.

Recently issued accounting standards to be adopted

Scope Exception Related To Credit Derivatives

In March 2009, the FASB issued updated accounting guidance which amends the accounting and reporting requirements related to derivatives to provide clarifying language regarding when embedded credit derivative features, including those in collateralized debt obligations (CDOs) and synthetic CDOs, are considered embedded derivatives subject to potential bifurcation. The updated accounting guidance is effective for the first quarter beginning after June 15, 2010. The Company is currently assessing the impact this updated accounting guidance will have on its financial condition and results of operations.

Note C. Earnings (Loss) Per Share

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

For the three months ended March 31, 2010, approximately 170 thousand potential shares attributable to exercises under stock-based employee compensation plans were included in the calculation of diluted earnings per share. For that same period, approximately 1.3 million potential shares attributable to exercises under stock-based employee compensation plans were not included in the calculation of diluted earnings per share because the effect would have been antidilutive.

For the three months ended March 31, 2009, as a result of the net loss, none of the 2.0 million potential shares attributable to exercises under stock-based employee compensation plans were included in the calculation of loss per share as the effect would have been antidilutive.

The 2008 Senior Preferred Stock (2008 Senior Preferred) was issued in November 2008 and accrues cumulative dividends at an initial rate of 10% per year. If declared, dividends are payable quarterly and any dividends not declared or paid when due will be compounded quarterly.

Note D. Investments

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

Net Investment Income

Three months ended March 31	**2010**	**2009**
(In millions)		
Fixed maturity securities	$ 510	$ 475
Short term investments	6	10
Limited partnerships	72	(70)
Equity securities	10	14
Trading portfolio (a)	4	
Other	2	3
Gross investment income	604	432
Investment expense	(14)	(12)
Net investment income	$ 590	$ 420

(a) There were no net unrealized gains (losses) on trading securities still held included in net investment income for the three months ended March 31, 2010. As of March 31, 2009, the Company did not have a trading portfolio.

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

Net Realized Investment Gains (Losses)

Three months ended March 31	**2010**	**2009**
(In millions)		
Net realized investment gains (losses):		
Fixed maturity securities:		
Gross realized gains	$ 98	$ 104
Gross realized losses	(71)	(462)

Net realized investment gains (losses) on fixed maturity securities		27		(358)
Equity securities:				
Gross realized gains		4		4
Gross realized losses		(1)		(220)
Net realized investment gains (losses) on equity securities		3		(216)
Derivatives				31
Short term investments and other		4		11
Net realized investment gains (losses), net of participating policyholders interests	$	34	$	(532)

Table of Contents

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

Three months ended March 31	**2010**	**2009**
(In millions)		
Fixed maturity securities available-for-sale:		
Asset-backed securities:		
Residential mortgage-backed securities	$ 26	$ 149
Commercial mortgage-backed securities	2	16
Other asset-backed securities		31
Total asset-backed securities	28	196
States, municipalities and political subdivisions tax-exempt securities	14	
Corporate and other taxable bonds	18	190
Redeemable preferred stock		9
Total fixed maturity securities available-for-sale	60	395
Equity securities available-for-sale:		
Common stock		3
Preferred stock		216
Total equity securities available-for-sale		219
Net OTTI losses recognized in earnings	$ 60	$ 614

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

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

The Impairment Committee s assessment of whether an OTTI loss has occurred incorporates both quantitative and qualitative information. Fixed maturity securities that the Company intends to sell, or it more likely than not will be required to sell before recovery of amortized cost, are considered to be other-than-temporarily impaired and the entire difference between the amortized cost basis and fair value of the security is recognized as an OTTI loss in earnings. The remaining fixed maturity securities in an unrealized loss position are evaluated to determine if a credit loss exists. In order to determine if a credit loss exists, the factors considered by the Impairment Committee include (a) the financial condition and near term prospects of the issuer, (b) whether the debtor is current on interest and principal payments, (c) credit ratings of the securities and (d) general market conditions and industry or sector specific outlook. The Company also considers results and analysis of cash flow modeling for asset-backed securities, and when appropriate, other fixed maturity securities. The focus of the analysis for asset-backed securities is on assessing the

sufficiency and quality of underlying collateral and timing of cash flows based on scenario tests. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss is judged to exist and the asset-backed security is deemed to be temporarily impaired. If the present value of the expected cash flows is less than amortized cost, the security is judged to be other-than-temporarily impaired for credit reasons and that shortfall, referred to as the credit component, is recognized as an OTTI loss in earnings. The difference between the adjusted amortized cost basis and fair value, referred to as the non-credit component, is recognized as an OTTI loss in Other comprehensive income.

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

Table of Contents

agency downgrades. The discount rate utilized is either the yield at acquisition or, for lower rated structured securities, the current yield.

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

Prior to the adoption of the updated accounting guidance related to OTTI in the second quarter of 2009 as further discussed in Note B, the Company applied the impairment model described in the paragraph above to both fixed maturity and equity securities.

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

Summary of Fixed Maturity and Equity Securities

March 31, 2010	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses: Less than 12 Months	Gross Unrealized Losses: 12 Months or Greater	Estimated Fair Value	Unrealized OTTI Losses
(In millions)						
Fixed maturity securities available-for-sale:						
U.S. Treasury securities and obligations of government agencies	$ 165	$ 16	$ 1	$	$ 180	$
Asset-backed securities:						
Residential mortgage-backed securities	7,303	83	43	406	6,937	265
Commercial mortgage-backed securities	820	13	3	101	729	
Other asset-backed securities	811	17	1	18	809	
Total asset-backed securities	8,934	113	47	525	8,475	265
States, municipalities and political subdivisions tax-exempt securities	6,458	191	24	316	6,309	
Corporate and other taxable bonds	21,518	1,276	35	131	22,628	26
Redeemable preferred stock	51	9			60	
	37,126	1,605	107	972	37,652	$ 291

Total fixed maturity securities available-for-sale					
Total fixed maturity securities trading	59				59
Equity securities available-for-sale:					
Common stock	79	15		2	92
Preferred stock	572	49		32	589
Total equity securities available-for-sale	651	64		34	681
Total	$ 37,836	$ 1,669	$ 107	$ 1,006	$ 38,392

Table of Contents

Summary of Fixed Maturity and Equity Securities

December 31, 2009	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	Gross Unrealized Losses 12 Months or Greater	Estimated Fair Value	Unrealized OTTI Losses
(In millions)						
Fixed maturity securities available-for-sale:						
U.S. Treasury securities and obligations of government agencies	$ 184	$ 16	$ 1	$	$ 199	$
Asset-backed securities:						
Residential mortgage-backed securities	7,469	72	43	561	6,937	246
Commercial mortgage-backed securities	709	10	1	134	584	3
Other asset-backed securities	858	14	1	39	832	
Total asset-backed securities	9,036	96	45	734	8,353	249
States, municipalities and political subdivisions tax-exempt securities	7,142	201	25	325	6,993	
Corporate and other taxable bonds	19,015	1,123	50	249	19,839	26
Redeemable preferred stock	51	4		1	54	
Total fixed maturity securities available-for-sale	35,428	1,440	121	1,309	35,438	$ 275
Total fixed maturity securities trading	174				174	
Equity securities available-for-sale:						
Common stock	61	14	1	1	73	
Preferred stock	572	40		41	571	
	633	54	1	42	644	

Total equity securities available-for-sale					
Total	$ 36,235	$ 1,494	$ 122	$ 1,351	$ 36,256

The amount of pretax net unrealized gains on available-for-sale securities reclassified out of Accumulated other comprehensive income (AOCI) into earnings was $32 million for the three months ended March 31, 2010.
Activity for the three months ended March 31, 2010 related to the pretax fixed maturity credit loss component reflected within Retained earnings for securities still held at March 31, 2010 was as follows.

(In millions)	**Three Months ended March 31, 2010**
Beginning balance of credit losses on fixed maturity securities	$ 164
Additional credit losses for which an OTTI loss was previously recognized	11
Additional credit losses for which an OTTI loss was not previously recognized	5
Reductions for securities sold during the period	(9)
Ending balance of credit losses on fixed maturity securities	$ 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 March 31, 2010 Summary of Fixed Maturity and Equity Securities 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 the three major providers, Standard & Poor s (S&P), Moody s Investors Service, Inc. (Moody s) and Fitch Ratings (Fitch) in that order of preference. If a security is not rated by any of the three, 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

Asset-Backed Securities

The fair value of total asset-backed holdings at March 31, 2010 was $8,475 million which was comprised of 2,141 different asset-backed structured securities. The fair value of these securities does not tend to be influenced by the credit of the issuer but rather the characteristics and projected cash flows of the underlying collateral. 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, 202 have underlying collateral that is either considered sub-prime or Alt-A in nature. The exposure to sub-prime residential mortgage (sub-prime) collateral and Alternative A residential mortgages that have lower than normal standards of loan documentation (Alt-A) collateral is measured by the original deal structure.

Residential mortgage-backed securities include 270 structured securities in a gross unrealized loss position. In addition, there were 60 agency mortgage-backed pass-through securities which are guaranteed by agencies of the U.S. Government in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 9% of amortized cost.

Commercial mortgage-backed securities include 35 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 16% of amortized cost.

Other asset-backed securities include 40 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 6% of amortized cost.

The following table summarizes asset-backed securities in a gross unrealized loss position by ratings distribution at March 31, 2010.

Gross Unrealized Losses by Ratings Distribution
March 31, 2010
(In millions)

Rating	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
U.S. Government Agencies	$ 1,568	$ 1,549	$ 19
AAA	1,933	1,752	181
AA	485	420	65
A	302	243	59
BBB	436	392	44
Non-investment grade and equity tranches	1,330	1,126	204
Total	$ 6,054	$ 5,482	$ 572

The Company believes the unrealized losses are primarily attributable to broader economic conditions, liquidity concerns and wider than historical bid/ask spreads, and are not indicative of the quality of the underlying collateral. 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 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 March 31, 2010.

States, Municipalities and Political Subdivisions   Tax-Exempt Securities

The tax-exempt portfolio consists primarily of special revenue and assessment bonds, representing 83% of the overall portfolio, followed by general obligation political subdivision bonds at 13% and state general obligation bonds at 4%. The unrealized losses on the Company s investments in tax-exempt municipal securities are due to market conditions in certain sectors or states that continued to lag behind the broader municipal market recovery. Market conditions in the tax-exempt sector continued to improve in the first quarter of 2010. However, yields for certain issuers and types of securities, such as zero coupon bonds, auction rate and tobacco securitizations, continue to be higher than historical norms relative to after-tax returns on other fixed income alternatives. The holdings for all tax-exempt securities in this category include 313 securities in a gross unrealized loss position. The aggregate severity of the total gross unrealized losses was approximately 12% of amortized cost.

The following table summarizes the ratings distribution of tax-exempt securities in a gross unrealized loss position at March 31, 2010.

Gross Unrealized Losses by Ratings Distribution
March 31, 2010
(In millions)

Rating	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
AAA	$ 1,195	$ 1,130	$ 65
AA	801	666	135
A	424	402	22
BBB	480	363	117
Non-investment grade	21	20	1
Total	$ 2,921	$ 2,581	$ 340

The largest exposures at March 31, 2010 as measured by gross unrealized losses were special revenue bonds issued by several states backed by tobacco settlement funds with gross unrealized losses of $105 million, and several separate issues of Puerto Rico sales tax revenue bonds with gross unrealized losses of $79 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 March 31, 2010.

Table of Contents

Corporate and Other Taxable Bonds

The holdings in this category include 489 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized losses was approximately 3% of amortized cost.

The following table summarizes corporate and other taxable bonds in a gross unrealized loss position by ratings distribution at March 31, 2010.

Gross Unrealized Losses by Ratings Distribution
March 31, 2010
(In millions)

Rating	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
AAA	$ 322	$ 316	$ 6
AA	791	785	6
A	1,368	1,332	36
BBB	1,691	1,617	74
Non-investment grade	680	636	44
Total	$ 4,852	$ 4,686	$ 166

The unrealized losses on corporate and other taxable bonds are attributable to lingering impacts of the broader credit market deterioration primarily in the financial sector of the portfolio. Overall conditions in the corporate bond market have continued to improve in the first quarter of 2010, resulting in improvement in the Company s unrealized position. 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 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 March 31, 2010.

The Company has invested in securities with characteristics of both debt and equity investments, often referred to as hybrid debt securities. Such securities are typically debt instruments issued with long or extendable maturity dates, may provide for the ability to defer interest payments without defaulting and are usually lower in the capital structure of the issuer than traditional bonds. The data in the table above includes financial industry sector hybrid debt securities with an aggregate fair value of $670 million and an aggregate amortized cost of $700 million.

Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at March 31, 2010 and December 31, 2009. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

Contractual Maturity	**March 31, 2010**		**December 31, 2009**	
(In millions)	**Cost or Amortized Cost**	**Estimated Fair Value**	**Cost or Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$ 1,333	$ 1,325	$ 1,240	$ 1,219
Due after one year through five years	11,371	11,679	10,046	10,244
Due after five years through ten years	10,469	10,567	10,646	10,538
Due after ten years	13,953	14,081	13,496	13,437

Total	$ 37,126	$ 37,652	$ 35,428	$ 35,438

Investment Commitments

As of March 31, 2010, the Company had committed approximately $243 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 multiple 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 March 31, 2010, the Company had commitments to purchase $337 million and sell $110 million of various bank loans.

Note E. Derivative Financial Instruments

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 stock 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.

The Company 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 investment contracts, or to hedge (on an economic basis) interest rate risks associated with investments and variable rate debt.

The Company is exposed 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. Credit default swaps involve a transfer of credit risk from one party to another in exchange for periodic payments.

Foreign exchange rate 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 British pounds, Euros and Canadian dollars. 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 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.

20

The tables below summarize CDS contracts where the Company sold credit protection as of March 31, 2010 and December 31, 2009. The fair value of the contracts represents the amount that the Company would receive 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.

Credit Ratings of Underlying Reference Obligations
March 31, 2010
(In millions)

	Fair Value of Credit Default Swaps		Maximum Amount of Future Payments under Credit Default Swaps		Weighted Average Years to Maturity
B	$	1	$	8	2.9
Total	$	1	$	8	2.9

Credit Ratings of Underlying Reference Obligations
December 31, 2009
(In millions)

	Fair Value of Credit Default Swaps		Maximum Amount of Future Payments under Credit Default Swaps		Weighted Average Years to Maturity
B	$		$	8	3.1
Total	$		$	8	3.1

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 Condensed Consolidated 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 cash collateral provided by the Company was $3 million and $7 million at March 31, 2010 and December 31, 2009. The fair value of cash collateral received from counterparties was $1 million and $1 million at March 31, 2010 and December 31, 2009.

Derivative securities are recorded at fair value. See Note F for information regarding the fair value of derivatives securities. Changes in the fair value of derivatives not held in a trading portfolio are reported in Net realized investment gains (losses) on the Condensed Consolidated Statements of Operations. Changes in the fair value of derivatives held for trading purposes are reported in Net investment income on the Condensed Consolidated Statements of Operations.

21

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

Recognized Gains (Losses)

Three months ended March 31	**2010**	**2009**
(In millions)		
Without hedge designation		
Interest rate swaps	$	$ 21
Credit default swaps purchased protection		(9)
Credit default swaps sold protection		(6)
Futures sold, not yet purchased		14
Options written		11
Total without hedge designation		31
Trading activities		
Futures sold, not yet purchased	(3)	
Total	$ (3)	$ 31

A summary of the aggregate contractual or notional amounts and gross estimated fair values related to derivative financial instruments reported as Other invested assets or Other liabilities on the Condensed Consolidated Balance Sheets follows. The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and may not be representative of the potential for gain or loss on these instruments.

Derivative Financial Instruments

March 31, 2010	**Contractual/ Notional**	**Estimated Fair Value**	
(In millions)	**Amount**	**Asset**	**(Liability)**
Without hedge designation			
Credit default swaps purchased protection	$ 70	$	$ (5)
Credit default swaps sold protection	8	1	
Currency forwards	3		
Equity warrants	5		
Total without hedge designation	86	1	(5)
Trading activities			
Futures sold, not yet purchased	52		
Total	$ 138	$ 1	$ (5)

Derivative Financial Instruments

December 31, 2009	**Contractual/ Notional**	**Estimated Fair Value**	
(In millions)	**Amount**	**Asset**	**(Liability)**
Without hedge designation			

Credit default swaps purchased protection	$ 116	$	$	(11)
Credit default swaps sold protection	8			
Equity warrants	2			
Total without hedge designation	126			(11)
Trading activities				
Futures sold, not yet purchased	132			
Total	$ 258	$	$	(11)

During the three months ended March 31, 2010, the notional value of new derivative transactions entered into and terminated totaled approximately $203 million and $323 million. This activity was primarily attributable to interest rate futures, credit default swaps and forward commitments for mortgage-backed securities. During the

three months ended March 31, 2009, the notional value of new derivative transactions entered into and terminated totaled approximately $6.1 billion and $5.9 billion. This activity was primarily attributable to interest rate swaps, interest rate futures and interest rate options.

Note F. Fair Value

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

Level 1 Quoted prices for identical instruments in active markets.

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

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

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

Assets and Liabilities Measured at Fair Value

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

March 31, 2010	**Level 1**	**Level 2**	**Level 3**	**Total Assets/(Liabilities) at Fair Value**
(In millions)				
Assets				
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	$ 179	$ 50	$	$ 229
Asset-backed securities:				
Residential mortgage-backed securities		6,258	679	6,937
Commercial mortgage-backed securities		617	112	729
Other asset-backed securities		441	368	809
Total asset-backed securities		7,316	1,159	8,475
States, municipalities and political subdivisions - tax-exempt securities		5,572	737	6,309
Corporate and other taxable bonds	118	21,836	684	22,638
Redeemable preferred stock	3	53	4	60
Total fixed maturity securities	300	34,827	2,584	37,711
Equity securities	526	147	8	681
Derivative financial instruments, included in Other invested assets			1	1
Short term investments	1,973	510	1	2,484
Life settlement contracts, included in Other assets			131	131
Discontinued operations investments, included in Other assets	14	110	15	139
Separate account business	44	358	40	442
Total assets	$ 2,857	$ 35,952	$ 2,780	$ 41,589
Liabilities				
Derivative financial instruments, included in Other liabilities	$	$	$ (5)	$ (5)
Total liabilities	$	$	$ (5)	$ (5)

December 31, 2009	Level 1	Level 2	Level 3	Total Assets/(Liabilities) at Fair Value
(In millions)				
Assets				
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	$ 247	$ 54	$	$ 301
Asset-backed securities:				
Residential mortgage-backed securities		6,308	629	6,937
Commercial mortgage-backed securities		461	123	584
Other asset-backed securities		484	348	832
Total asset-backed securities		7,253	1,100	8,353
States, municipalities and political subdivisions - tax-exempt securities		6,273	756	7,029
Corporate and other taxable bonds	139	19,127	609	19,875
Redeemable preferred stock	3	49	2	54
Total fixed maturity securities	389	32,756	2,467	35,612
Equity securities	503	130	11	644
Short term investments	3,552	397		3,949
Life settlement contracts, included in Other assets			130	130
Discontinued operations investments, included in Other liabilities	19	106	16	141
Separate account business	43	342	38	423
Total assets	$ 4,506	$ 33,731	$ 2,662	$ 40,899
Liabilities				
Derivative financial instruments, included in Other liabilities	$	$	$ (11)	$ (11)
Total liabilities	$	$	$ (11)	$ (11)

Table of Contents

The tables below present a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2010 and 2009.

Level 3	Balance at January 1, 2010	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income*	Net change in unrealized appreciation (depreciation) included in other comprehensive income	Purchases, sales, issuances and settlements	Transfers into Level 3	Transfers out of Level 3	Balance at March 31, 2010	Unrealized gains (losses) on Level 3 assets and liabilities held at March 31, 2010 recognized in net income*
(In millions)								
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	$ 629	$ (10)	$ 26	$ 42	$	$ (8)	$ 679	$ (11)
Commercial mortgage-backed securities	123	(1)	(4)	(5)	7	(8)	112	(2)
Other asset-backed securities	348	4	21	(5)			368	
Total asset-backed securities	1,100	(7)	43	32	7	(16)	1,159	(13)
States, municipalities and political subdivisions tax-exempt securities	756		2	(21)			737	
Corporate and other taxable bonds	609	2	29	59	9	(24)	684	
Redeemable preferred stock	2		2				4	
	2,467	(5)	76	70	16	(40)	2,584	(13)

Total fixed maturity securities								
Equity securities	11				2	(5)	8	
Derivative financial instruments, net	(11)			7			(4)	
Short term investments					1		1	
Life settlement contracts	130	10		(9)			131	3
Discontinued operations investments	16		1	(2)			15	
Separate account business	38			2			40	
Total	$ 2,651	$ 5	$ 77	$ 68	$ 19	$ (45)	$ 2,775	$ (10)

Table of Contents

Level 3	Balance at January 1, 2009	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net loss*	Net change in unrealized appreciation (depreciation) included in other comprehensive income	Purchases, sales, issuances and settlements	Transfers into Level 3	Transfers out of Level 3	Balance at March 31, 2009	Unrealized gains (losses) on Level 3 assets and liabilities held at March 31, 2009 recognized in net loss*
(In millions)								
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	$ 782	$ (17)	$ 1	$ (23)	$	$	$ 743	$ (19)
Commercial mortgage-backed securities	186	(10)	(13)	(5)			158	(9)
Other asset-backed securities	139	(30)	30	(40)	153		252	(32)
Total asset-backed securities	1,107	(57)	18	(68)	153		1,153	(60)
States, municipalities and political subdivisions tax-exempt securities	750		37	(3)			784	
Corporate and other taxable bonds	622	(5)	(1)	204	2	(13)	809	(6)
Redeemable preferred stock	13	(9)	8	7			19	(9)

Total fixed maturity securities	2,492	(71)	62	140	155	(13)	2,765	(75)
Equity securities	210						210	
Derivative financial instruments, net	(87)	6		18			(63)	24
Life settlement contracts	129	11		(13)			127	2
Discontinued operations investments	15		(1)	(1)			13	
Separate account business	38		1	(1)			38	
Total	$ 2,797	$ (54)	$ 62	$ 143	$ 155	$ (13)	$ 3,090	$ (49)

27

* *Net realized and unrealized gains and losses shown above are reported in Net income (loss) as follows:*

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

Securities shown in the Level 3 tables on the previous pages may be transferred in or out 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. The Company s policy is to recognize transfers between levels at the beginning of the reporting period.

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 instrument is generally classified.

Fixed Maturity Securities

Level 1 securities include highly liquid government bonds within the U.S. Treasury securities category and debt securities issued by foreign governments, which are included in the corporate and other taxable bond category, for which quoted market prices are available. 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. Securities within Level 2 include certain corporate bonds, municipal bonds, asset-backed securities, mortgage-backed pass-through securities and redeemable preferred stock. 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. These securities include certain corporate bonds, asset-backed securities, municipal bonds and redeemable preferred stock. Within corporate bonds and municipal bonds, Level 3 securities also include tax-exempt 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 include equity securities that are priced using internal models with inputs that are not market observable.

Derivative Financial Instruments

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

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 includes commercial paper, for which all inputs are observable. Level 3 securities include bank debt 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 the Company s own assumptions for mortality, premium expense, and the rate of return that a buyer would require on the contracts, as no comparable market pricing data is available.

Discontinued Operations Investments

Assets relating to the Company 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 Condensed Consolidated Balance Sheets are listed in the table below.

	March 31, 2010		**December 31, 2009**	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
(In millions)				
Financial assets				
Notes receivable for the issuance of common stock	$ 30	$ 29	$ 30	$ 29
Financial liabilities				
Premium deposits and annuity contracts	$ 104	$ 105	$ 105	$ 106
Long term debt	2,304	2,369	2,303	2,290

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

The fair values of notes receivable for the issuance of common stock were estimated using discounted cash flows utilizing interest rates currently offered for obligations securitized with similar collateral.

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.

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

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

Note G. Claim and Claim Adjustment Expense Reserves

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

Establishing claim and claim adjustment expense reserves, including claim and claim adjustment expense reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the cost of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims, such as property damage claims, tend to be more reasonably estimable than long-tail claims, such as 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.

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company s results of operations and/or equity. The Company reported catastrophe losses, net of reinsurance, of $40 million and $13 million for the three months ended March 31, 2010 and 2009 for events occurring in those periods. Catastrophe losses in the first quarter of 2010 related primarily to winter storms and the Chilean earthquake. There can be no assurance that the Company s ultimate cost for catastrophes will not exceed current estimates.

The following provides discussion of the Company s Asbestos and Environmental Pollution (A&E) reserves.

A&E Reserves

The Company s property and casualty insurance subsidiaries have actual and potential exposures related to A&E claims.

The following table provides data related to the Company s A&E claim and claim adjustment expense reserves.

A&E Reserves

	March 31, 2010		December 31, 2009	
(In millions)	Asbestos	Environmental Pollution	Asbestos	Environmental Pollution
Gross reserves	$ 1,991	$ 467	$ 2,046	$ 482
Ceded reserves	(895)	(195)	(909)	(196)
Net reserves	$ 1,096	$ 272	$ 1,137	$ 286

30

Table of Contents

Asbestos

The table below provides a reconciliation between the Company s beginning and ending net reserves for asbestos.

Asbestos Reserves

Three months ended March 31	**2010**	**2009**
(In millions)		
Beginning net reserves	$ 1,137	$ 1,202
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development		
Paid claims, net of reinsurance recoveries	(41)	(51)
Ending net reserves	$ 1,096	$ 1,151

The ultimate cost of reported claims, and in particular A&E claims, is subject to a great many uncertainties, including future developments of various kinds that the Company does not control and that are difficult or impossible to foresee accurately. With respect to the litigation identified, pending rulings are critical to the evaluation of the ultimate cost to the Company. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

Some asbestos-related defendants have asserted that their insurance policies are not subject to aggregate limits on coverage. The Company has such claims from a number of insureds. Some of these claims involve insureds facing exhaustion of products liability aggregate limits in their policies, who have asserted that their asbestos-related claims fall within so-called non-products liability coverage contained within their policies rather than products liability coverage, and that the claimed non-products coverage is not subject to any aggregate limit. It is difficult to predict the ultimate size of any of the claims for coverage purportedly not subject to aggregate limits or predict to what extent, if any, the attempts to assert non-products claims outside the products liability aggregate will succeed. The Company s policies also contain other limits applicable to these claims and the Company has additional coverage defenses to certain claims. The Company has attempted to manage its asbestos exposure by aggressively seeking to settle claims on acceptable terms. There can be no assurance that any of these settlement efforts will be successful, or that any such claims can be settled on terms acceptable to the Company. Where the Company cannot settle a claim on acceptable terms, the Company aggressively litigates the claim. However, adverse developments with respect to such matters could have a material adverse effect on the Company s results of operations and/or equity.

Certain asbestos claim litigation in which the Company is currently engaged is described below:

A.P. Green: In February 2003, the Company announced it had resolved asbestos-related coverage litigation and claims involving A.P. Green Industries, A.P. Green Services and Bigelow Liptak Corporation. Under the agreement, the Company is required to pay $70 million, net of reinsurance recoveries, over a ten year period commencing after the final approval of a bankruptcy plan of reorganization. The settlement received initial bankruptcy court approval in August 2003. The debtor s plan of reorganization includes an injunction to protect the Company from any future claims. The bankruptcy court issued an opinion in September 2007 recommending confirmation of that plan. In July 2008, the District Court affirmed the Bankruptcy Court s ruling. Several insurers have appealed that ruling to the Third Circuit Court of Appeals; that appeal was argued in May 2009 and the parties are awaiting the court s decision.

Direct Action Case Montana: In March 2002, a direct action was filed in Montana (Pennock, et al. v. Maryland Casualty, et al. First Judicial District Court of Lewis & Clark County, Montana) by eight individual plaintiffs (all employees of W.R. Grace & Co. (W.R. Grace)) and their spouses against the Company, Maryland Casualty and the State of Montana. This action alleges that the carriers failed to warn of or otherwise protect W.R. Grace employees from the dangers of asbestos at a W.R. Grace vermiculite mining facility in Libby, Montana. The Montana direct action is currently stayed because of W.R. Grace s pending bankruptcy. In April 2008, W.R. Grace announced a settlement in principle with the asbestos personal injury claimants committee subject to confirmation of a plan of reorganization by the bankruptcy court. The confirmation hearing was held in two phases. The first phase was held in

June 2009. The second phase concluded in January 2010 and the

Table of Contents

bankruptcy court has taken the matter under advisement. The settlement in principle with the asbestos claimants has no present impact on the stay currently imposed on the Montana direct action and with respect to such claims, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include: (a) the unclear nature and scope of any alleged duties owed to people exposed to asbestos and the resulting uncertainty as to the potential pool of potential claimants; (b) the potential application of Statutes of Limitation to many of the claims which may be made depending on the nature and scope of the alleged duties; (c) the unclear nature of the required nexus between the acts of the defendants and the right of any particular claimant to recovery; (d) the diseases and damages claimed by such claimants; (e) the extent that such liability would be shared with other potentially responsible parties; and (f) the impact of bankruptcy proceedings on claims resolution. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

The Company is vigorously defending these and other cases and believes that it has meritorious defenses to the claims asserted. However, there are numerous factual and legal issues to be resolved in connection with these claims, and it is extremely difficult to predict the outcome or ultimate financial exposure represented by these matters. Adverse developments with respect to any of these matters could have a material adverse effect on the Company s business, insurer financial strength and debt ratings, results of operations and/or equity.

Environmental Pollution

The table below provides a reconciliation between the Company s beginning and ending net reserves for environmental pollution.

Environmental Pollution Reserves

Three months ended March 31	**2010**	**2009**
(In millions)		
Beginning net reserves	$ 286	$ 262
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development		
Paid claims, net of reinsurance recoveries	(14)	(14)
Ending net reserves	$ 272	$ 248

32

Table of Contents

Net Prior Year Development

The following tables and discussion include the net prior year development recorded for CNA Specialty, CNA Commercial and Corporate & Other Non-Core. Favorable net prior year development of $9 million was recorded in the Life & Group Non-Core segment for the three months ended March 31, 2010. Included in this amount is favorable reserve development of $24 million arising from a commutation of an assumed reinsurance agreement. For the three months ended March 31, 2009 for the Life & Group Non-Core segment, unfavorable net prior year development of $11 million was recorded.

Net Prior Year Development
Three months ended March 31, 2010

(In millions)	CNA Specialty	CNA Commercial	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	$ (25)	$ (28)	$ 2	$ (51)
A&E				
Pretax (favorable) unfavorable net prior year development before impact of premium development	(25)	(28)	2	(51)
Pretax (favorable) unfavorable premium development	(4)	21	(1)	16
Total pretax (favorable) unfavorable net prior year development	$ (29)	$ (7)	$ 1	$ (35)

Net Prior Year Development
Three months ended March 31, 2009

(In millions)	CNA Specialty	CNA Commercial	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	$ (29)	$ (42)	$ 1	$ (70)
A&E				

Pretax (favorable) unfavorable net prior year development before impact of premium development		(29)		(42)		1		(70)
Pretax (favorable) unfavorable premium development		(5)		20		(1)		14
Total pretax (favorable) unfavorable net prior year development	$	(34)	$	(22)	$		$	(56)

33

2010 Net Prior Year Development

CNA Specialty

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable incurred loss emergence in several professional liability lines of business primarily in accident years 2007 and prior. This favorability was partially offset by unfavorable development in the employee practices liability line driven by higher unemployment, primarily in accident years 2008 and 2009.

CNA Commercial

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in non-catastrophe related property coverages in accident years 2007 and prior.

2009 Net Prior Year Development

CNA Specialty

The favorable claim and allocated claim adjustment expense reserve development was primarily due to experience in liability coverages. This favorable development was the result of decreased frequency of large claims in accident years 2007 and prior.

An additional $7 million of favorable claim and allocated claim adjustment expense reserve development was a result of favorable outcomes on claims relating to catastrophes in accident years 2005 and 2008.

CNA Commercial

The favorable claim and allocated claim adjustment expense reserve development was primarily due to experience in property coverages, including $31 million resulting from favorable frequency and severity on claims relating to catastrophes in accident year 2008.

Note H. Legal Proceedings and Contingent Liabilities

Insurance Brokerage Antitrust Litigation

In August 2005, CNAF and certain insurance subsidiaries were joined as defendants, along with other insurers and brokers, in multidistrict litigation pending in the United States District Court for the District of New Jersey, In re Insurance Brokerage Antitrust Litigation, Civil No. 04-5184 (FSH). The plaintiffs allege bid rigging and improprieties in the payment of contingent commissions in connection with the sale of insurance that violated federal and state antitrust laws, the federal Racketeer Influenced and Corrupt Organizations (RICO) Act and state common law. After discovery, the District Court dismissed the federal antitrust claims and the RICO claims, and declined to exercise supplemental jurisdiction over the state law claims. The plaintiffs have appealed the dismissal of their complaint to the Third Circuit Court of Appeals. The parties have filed their briefs on the appeal. Oral argument was held in April 2009, and the Court took the matter under advisement. The Company believes it has meritorious defenses to this action and intends to defend the case vigorously.

The extent of losses beyond any amounts that may be accrued are not readily determinable at this time. However, based on facts and circumstances presently known, in the opinion of management, an unfavorable outcome will not materially affect the equity of the Company, although results of operations may be adversely affected.

Asbestos and Environmental Pollution (A&E) Reserves

The Company is also a party to litigation and claims related to A&E cases arising in the ordinary course of business. See Note G for further discussion.

Other Litigation

The Company is also a party to other litigation arising in the ordinary course of business. Based on the facts and circumstances currently known, such other litigation will not, in the opinion of management, materially affect the equity or results of operations of the Company.

Note I. Benefit Plans

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

Net Periodic Cost (Benefit)

Three months ended March 31	**2010**	**2009**
(In millions)		
Pension cost		
Service cost	$ 4	$ 5
Interest cost on projected benefit obligation	38	38
Expected return on plan assets	(41)	(36)
Actuarial loss amortization	6	6
Net periodic pension cost	$ 7	$ 13
Postretirement benefit		
Service cost	$ 1	$ 1
Interest cost on projected benefit obligation	2	2
Prior service cost amortization	(4)	(4)
Net periodic postretirement benefit	$ (1)	$ (1)

Table of Contents

Note J. Commitments, Contingencies, and Guarantees

Commitments and Contingencies

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

In the event that the other parties to the joint venture are unable to meet their commitments in funding the operations of this joint venture, the Company would be required to assume the obligation for the entire office building operating lease. The Company does not believe it is likely that it will be required to do so. However, the maximum potential future lease payments at March 31, 2010 that the Company could be required to pay under this guarantee are approximately $116 million. If the Company were required to assume the entire lease obligation, the Company would have the right to pursue reimbursement from the other shareholders and the right to all sublease revenues.

The Company has entered into a limited number of contracts that guarantee minimum payments, primarily related to outsourced services, software and telecommunication services. Estimated future minimum payments under these contracts, which amounted to approximately $15 million at March 31, 2010, are $11 million in 2010, $3 million in 2011 and $1 million in 2012.

Guarantees

In the course of selling business entities and assets to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging from nine months following the applicable closing date to the expiration of the relevant statutes of limitation. As of March 31, 2010, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was $819 million.

In addition, the Company has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of March 31, 2010, the Company had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser s ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire, or until the agreed upon contract terms expire.

As of March 31, 2010 and December 31, 2009, the Company has recorded liabilities of approximately $16 million related to indemnification agreements and management believes that it is not likely that any future indemnity claims will be significantly greater than the amounts recorded.

Table of Contents

Note K. Business Segments

The Company s core property and casualty commercial insurance operations are reported in two business segments: CNA Specialty and CNA Commercial. The Company s non-core operations are managed in two segments: Life & Group Non-Core and Corporate & Other Non-Core.

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

In the following tables, certain financial measures are presented to provide information used by management to monitor the Company s operating performance. Management utilizes these financial measures to monitor the Company s insurance operations and investment portfolio. Net operating income, which is derived from certain income statement amounts, is used by management to monitor performance of the Company s insurance operations. The Company s investment portfolio is monitored through analysis of various quantitative and qualitative factors and certain decisions related to the sale or other-than-temporary impairment of investments that produce realized gains and losses.

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

The Company s investment portfolio is monitored by management through analyses of various factors including unrealized gains and losses on securities, portfolio duration and exposure to interest rate, market and credit risk. Based on such analyses, the Company may recognize an OTTI loss on an investment security in accordance with its policy, or sell a security. Such activities will produce realized gains and losses.

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

Three months ended March 31, 2010 (In millions)	**CNA Specialty**	**CNA Commercial**	**Life & Group Non-Core**	**Corporate & Other Non-Core**	**Eliminations**	**Total**
Revenues						
Net earned premiums	$ 654	$ 816	$ 145	$ 1	$ (1)	$ 1,615
Net investment income	147	218	175	50		590
Other revenues	52	18	4	2		76
Total operating revenues	853	1,052	324	53	(1)	2,281
Claims, benefits and expenses						
Net incurred claims and benefits	402	602	281	21		1,306
Policyholders dividends	1	1				2
Amortization of deferred acquisition costs	155	183	4			342
Other insurance related expenses	47	107	51	2	(1)	206
Other expenses	44	17	6	35		102
Total claims, benefits and expenses	649	910	342	58	(1)	1,958
Operating income (loss) from continuing operations before income tax	204	142	(18)	(5)		323
Income tax (expense) benefit on operating income (loss)	(68)	(43)	19	2		(90)
Net operating income, after-tax, attributable to noncontrolling interests	(8)	(2)				(10)
Net operating income (loss) from continuing operations attributable to CNA	128	97	1	(3)		223
Net realized investment gains (losses), net of participating policyholders interests	13	21	(4)	4		34
Income tax expense on net realized investment gains	(4)	(7)		(1)		(12)

(losses) Net realized investment (gains) losses, after-tax, attributable to noncontrolling interests						
Net realized investment gains (losses) attributable to CNA	9	14	(4)	3		22
Net income (loss) from continuing operations attributable to CNA	$ 137	$ 111	$ (3)	$	$	$ 245
March 31, 2010 (In millions)						
Reinsurance receivables	$ 1,084	$ 2,200	$ 1,602	$ 1,792	$	$ 6,678
Insurance receivables	$ 626	$ 1,204	$ 10	$ 2	$	$ 1,842
Deferred acquisition costs	$ 324	$ 335	$ 450	$	$	$ 1,109
Insurance reserves						
Claim and claim adjustment expenses	$ 6,993	$ 12,980	$ 2,729	$ 3,857	$	$ 26,559
Unearned premiums	1,534	1,599	150	2	(2)	3,283
Future policy benefits			8,090			8,090
Policyholders funds	11	10	156			177

38

Three months ended March 31, 2009 (In millions)	CNA Specialty	CNA Commercial	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Revenues						
Net earned premiums	$ 659	$ 863	$ 150	$ 1	$ (1)	$ 1,672
Net investment income	85	143	159	33		420
Other revenues	55	15	6	2		78
Total operating revenues	799	1,021	315	36	(1)	2,170
Claims, benefits and expenses						
Net incurred claims and benefits	395	614	305	21		1,335
Policyholders dividends	3	3	1			7
Amortization of deferred acquisition costs	148	195	6			349
Other insurance related expenses	41	94	46	1	(1)	181
Other expenses	49	16	6	30		101
Total claims, benefits and expenses	636	922	364	52	(1)	1,973
Operating income (loss) from continuing operations before income tax	163	99	(49)	(16)		197
Income tax (expense) benefit on operating income (loss)	(46)	(25)	27	7		(37)
Net operating income, after-tax, attributable to noncontrolling interests	(8)	(3)				(11)
Net operating income (loss) from continuing operations attributable to CNA	109	71	(22)	(9)		149
Net realized investment losses, net of participating policyholders interests	(109)	(186)	(190)	(47)		(532)
Income tax benefit on net realized investment losses	38	65	66	18		187
		1				1

Net realized investment losses, after-tax, attributable to noncontrolling interests						
Net realized investment losses attributable to CNA	(71)	(120)	(124)	(29)		(344)
Net income (loss) from continuing operations attributable to CNA	$ 38	$ (49)	$ (146)	$ (38)	$	$ (195)
December 31, 2009						
(In millions)						
Reinsurance receivables	$ 1,077	$ 2,234	$ 1,744	$ 1,877	$	$ 6,932
Insurance receivables	$ 613	$ 1,234	$ 9	$ 2	$	$ 1,858
Deferred acquisition costs	$ 318	$ 336	$ 454	$	$	$ 1,108
Insurance reserves						
Claim and claim adjustment expenses	$ 6,922	$ 13,005	$ 2,883	$ 4,006	$	$ 26,816
Unearned premiums	1,528	1,603	140	3		3,274
Future policy benefits			7,981			7,981
Policyholders funds	11	11	170			192

39

Table of Contents

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

Revenues by Line of Business

Three months ended March 31	**2010**	**2009**
(In millions)		
CNA Specialty		
Professional & Management Liability	$ 631	$ 488
International	51	37
Surety	114	113
Warranty & Alternative Risks	70	52
CNA Specialty revenues	866	690
CNA Commercial		
Commercial Insurance	713	525
Business Insurance	141	130
International	155	142
CNA Select Risk	64	38
CNA Commercial revenues	1,073	835
Life & Group Non-Core		
Life & Annuity	64	24
Health	254	97
Other	2	4
Life & Group Non-Core revenues	320	125
Corporate & Other Non-Core revenues	57	(11)
Eliminations	(1)	(1)
Total revenues	$ 2,315	$ 1,638

Table of Contents

Note L. IT Transformation

The Company has commenced a program involving several initiatives that are intended to significantly transform its Information Technology (IT) organization and delivery model. A key initiative is moving to a managed services model which involves outsourcing the Company s infrastructure and application development functions to selected vendors that have proven skills and scale. The IT Transformation is expected to improve both the efficiency and effectiveness of IT delivery in support of the Company s businesses. The costs of the IT Transformation include estimated employee termination benefits, employee retention benefits, and legal, consulting and other vendor transition services costs. The Company anticipates that the total costs for the IT Transformation will be approximately $41 million, of which $25 million was incurred during the first quarter of 2010. The costs recognized in the first quarter include the majority of estimated employee termination benefits and consulting and legal costs primarily associated with the managed services initiative. Vendor transition service costs represent the largest cost going forward, and these costs will be recognized as the related services are provided. The Company anticipates the program will be completed by December 2011, with the majority of the remaining costs recognized during 2010.

The costs incurred to date are included in Total claims, benefits and expenses on the Condensed Consolidated Statements of Operations and have been allocated to the Company s reportable segments in a manner consistent with the Company s current allocation of IT expenses, which is primarily based on estimated consumption. The costs by reportable segment for the three months ended March 31, 2010 are as follows.

IT Transformation Costs by Segment

Three months ended March 31	**2010**
(In millions)	
CNA Specialty	$ 5
CNA Commercial	11
Life & Group Non-Core	7
Corporate & Other Non-Core	2
Total IT Transformation Costs	$ 25

CNA Financial Corporation

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

Overview

The following discussion highlights significant factors impacting the consolidated operations and financial condition of CNA Financial Corporation (CNAF) and its controlled subsidiaries (collectively CNA or the Company). References to CNA, the Company, we, our, us or like terms refer to the business of CNA and its subsidiaries. on 2008 statutory net written premiums, we are the seventh largest commercial insurance writer and the 13th largest property and casualty insurance organization in the United States of America. References to net operating income (loss), net realized investment gains (losses) and net income (loss) used in this MD&A reflect amounts attributable to CNA, unless otherwise noted.

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements in Item 1 of Part I of this Form 10-Q and Item 1A Risk Factors and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, which are included in our Form 10-K filed with the Securities and Exchange Commission (SEC) for the year ended December 31, 2009.

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

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

Table of Contents

CONSOLIDATED OPERATIONS

Results of Operations

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

Three months ended March 31	**2010**	**2009**
(In millions)		
Revenues		
Net earned premiums	$ 1,615	$ 1,672
Net investment income	590	420
Other revenues	76	78
Total operating revenues	2,281	2,170
Claims, benefits and expenses		
Net incurred claims and benefits	1,306	1,335
Policyholders dividends	2	7
Amortization of deferred acquisition costs	342	349
Other insurance related expenses	206	181
Other expenses	102	101
Total claims, benefits and expenses	1,958	1,973
Operating income from continuing operations before income tax	323	197
Income tax expense on operating income	(90)	(37)
Net operating income, after-tax, attributable to noncontrolling interests	(10)	(11)
Net operating income from continuing operations attributable to CNA	223	149
Net realized investment gains (losses), net of participating policyholders interests	34	(532)
Income tax (expense) benefit on net realized investment gains (losses)	(12)	187
Net realized investment (gains) losses, after-tax, attributable to noncontrolling interests		1
Net realized investment gains (losses) attributable to CNA	22	(344)
Income (loss) from continuing operations attributable to CNA	245	(195)
Income (loss) from discontinued operations attributable to CNA, net of income tax (expense) benefit of $0 and $0		
Net income (loss) attributable to CNA	$ 245	$ (195)

Net results improved $440 million for the three months ended March 31, 2010 as compared with the same period in 2009. This improvement was driven by significantly improved net realized investment results and increased net operating income.

Net realized investment results improved $366 million for the three months ended March 31, 2010 as compared with the same period in 2009. See the Investments section of this MD&A for further discussion of net realized investment results and net investment income.

Net operating income improved $74 million for the three months ended March 31, 2010 as compared with the same period in 2009. Net operating income improved $45 million for our core segments, CNA Specialty and CNA Commercial, and net operating results improved $29 million for our non-core segments. This overall improvement was primarily due to higher net investment income, partially offset by costs associated with our Information Technology (IT) Transformation as discussed below. Our core segments were also unfavorably impacted by higher catastrophe losses and decreased favorable net prior year development. Catastrophe losses were $26 million after-tax in the first quarter of 2010, as compared to catastrophe losses of $8 million after-tax in the first quarter of 2009. Our non-core segments were impacted by the favorable performance of investments

supporting our pension deposit business and favorable reserve development arising from the commutation of an assumed reinsurance agreement, partially offset by unfavorable results in our long term care business.

As further discussed in Note L of the Condensed Consolidated Financial Statements included under Item 1, we have commenced a program to significantly transform our IT organization and delivery model. We anticipate that the total costs for this program will be approximately $41 million, of which $25 million was incurred during the first quarter of 2010. When the results of this program are fully operational, we anticipate significant annual savings based on our current annual level of IT spending. A significant portion of the annual savings is anticipated to be achieved in 2011 with full annual savings in 2012. Some or all of these estimated savings may be invested in IT or other enhancements necessary to support our business strategies.

Favorable net prior year development of $35 million and $56 million was recorded for the three months ended March 31, 2010 and 2009 related to our CNA Specialty, CNA Commercial and Corporate & Other Non-Core segments. Further information on net prior year development for the three months ended March 31, 2010 and 2009 is included in Note G of the Condensed Consolidated Financial Statements included under Item 1.

Net earned premiums decreased $57 million for the three months ended March 31, 2010 as compared with the same period in 2009, which includes a $47 million decrease related to CNA Commercial. See the Segment Results section of this MD&A for further discussion.

Critical Accounting Estimates

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

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

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

- Insurance Reserves
- Reinsurance
- Valuation of Investments and Impairment of Securities
- Long Term Care Products
- Payout Annuity Contracts
- Pension and Postretirement Benefit Obligations
- Legal Proceedings
- Income Taxes

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

Table of Contents

SEGMENT RESULTS

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

CNA SPECIALTY

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

Results of Operations

Three months ended March 31	**2010**	**2009**
(In millions)		
Net written premiums	$ 656	$ 672
Net earned premiums	654	659
Net investment income	147	85
Net operating income	128	109
Net realized investment gains (losses), after-tax	9	(71)
Net income	137	38
Ratios		
Loss and loss adjustment expense	61.5%	60.0%
Expense	30.8	28.7
Dividend	0.2	0.4
Combined	92.5%	89.1%

Net written premiums for CNA Specialty decreased $16 million for the three months ended March 31, 2010 as compared with the same period in 2009. The decrease in net written premiums was driven by our architects & engineers, realtors and CNA HealthPro lines of business, as current economic and competitive market conditions have led to decreased insured exposures and lower rates. These conditions may continue to put ongoing pressure on premium and income levels and the expense ratio. Net earned premiums decreased $5 million as compared with the same period in 2009, consistent with the trend of lower net written premiums.

CNA Specialty s average rate decreased 1% for the three months ended March 31, 2010 as compared to a decrease of 3% for the three months ended March 31, 2009 for the policies that renewed during those periods. Retention rates of 86% and 85% were achieved for those policies that were available for renewal in each period.

Net income improved $99 million for the three months ended March 31, 2010 as compared with the same period in 2009. This improvement was primarily due to improved net realized investment results and improved net operating income. See the Investments section of this MD&A for further discussion of the net realized investment results and net investment income.

Net operating income improved $19 million for the three months ended March 31, 2010 as compared with the same period in 2009. This improvement was primarily due to higher net investment income, partially offset by increased expenses.

The combined ratio increased 3.4 points for the three months ended March 31, 2010 as compared with the same period in 2009. The loss ratio increased 1.5 points primarily due to decreased favorable net prior year development. The expense ratio increased 2.1 points, primarily related to higher underwriting expenses and higher commission rates. Underwriting expenses increased primarily due to IT Transformation costs. See the Consolidated Operations section of this MD&A for further discussion of IT Transformation costs.

Favorable net prior year development of $29 million was recorded for the three months ended March 31, 2010, compared to favorable net prior year development of $34 million for the same period in 2009. Further information on CNA Specialty net prior year development for the three months ended March 31, 2010 and 2009 is included in Note G of the Condensed Consolidated Financial Statements included under Item 1.

The following table summarizes the gross and net carried reserves as of March 31, 2010 and December 31, 2009 for CNA Specialty.

Gross and Net Carried
Claim and Claim Adjustment Expense Reserves

(In millions)	March 31, 2010	December 31, 2009
Gross Case Reserves	$ 2,248	$ 2,208
Gross IBNR Reserves	4,745	4,714
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$ 6,993	$ 6,922
Net Case Reserves	$ 1,818	$ 1,781
Net IBNR Reserves	4,113	4,085
Total Net Carried Claim and Claim Adjustment Expense Reserves	$ 5,931	$ 5,866

Table of Contents

CNA COMMERCIAL

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

Results of Operations

Three months ended March 31		
(In millions)	**2010**	**2009**
Net written premiums	$ 829	$ 920
Net earned premiums	816	863
Net investment income	218	143
Net operating income	97	71
Net realized investment gains (losses), after-tax	14	(120)
Net income (loss)	111	(49)
Ratios		
Loss and loss adjustment expense	73.8%	71.1%
Expense	35.6	33.5
Dividend	0.1	0.4
Combined	109.5%	105.0%

Net written premiums for CNA Commercial decreased $91 million for the three months ended March 31, 2010 as compared with the same period in 2009. Premiums written were unfavorably impacted by decreased new business and lower retention as a result of competitive market conditions. Current economic conditions have also led to decreased insured exposures, such as in the construction industry due to smaller payrolls and reduced project volume. These conditions may continue to put ongoing pressure on premium and income levels and the expense ratio. Net earned premiums decreased $47 million for the three months ended March 31, 2010 as compared with the same period in 2009, consistent with the trend of lower net written premiums.

CNA Commercial s average rate increased 1% for the three months ended March 31, 2010, as compared to a decrease of 1% for the three months ended March 31, 2009 for policies that renewed in each period. Retention rates of 79% and 83% were achieved for those policies that were available for renewal in each period.

Net results improved $160 million for the three months ended March 31, 2010 as compared with the same period in 2009. This improvement was due to improved net realized investment results and improved net operating income. See the Investments section of this MD&A for further discussion of net realized investment results and net investment income.

Net operating income improved $26 million for the three months ended March 31, 2010 as compared with the same period in 2009. This improvement was primarily driven by higher net investment income, partially offset by higher catastrophe losses.

The combined ratio increased 4.5 points for the three months ended March 31, 2010 as compared with the same period in 2009. The loss ratio increased 2.7 points primarily due to increased catastrophe losses, partially offset by the impact of an improved current accident year non-catastrophe loss ratio. Catastrophe losses were $38 million, or 4.7 points of the loss ratio, for the three months ended March 31, 2010, as compared to $12 million, or 1.4 points of the loss ratio, for the same period in 2009. The 2009 accident year loss ratio excluding catastrophe losses for the three months ended March 31, 2009 was unfavorably impacted by several significant property losses.

The expense ratio increased 2.1 points for the three months ended March 31, 2010 as compared with the same period in 2009, primarily related to the lower net earned premium base. Underwriting expenses were unfavorably impacted by IT Transformation costs. See the Consolidated Operations section of this MD&A for further discussion of IT Transformation costs.

Favorable net prior year development of $7 million was recorded for the three months ended March 31, 2010, compared to favorable net prior year development of $22 million for the same period in 2009. Further information on CNA Commercial net prior year development for the three months ended March 31, 2010 and 2009 is included in Note G of the Condensed Consolidated Financial Statements included under Item 1.

Table of Contents

The following table summarizes the gross and net carried reserves as of March 31, 2010 and December 31, 2009 for CNA Commercial.

Gross and Net Carried
Claim and Claim Adjustment Expense Reserves

(In millions)	March 31, 2010	December 31, 2009
Gross Case Reserves	$ 6,635	$ 6,510
Gross IBNR Reserves	6,345	6,495
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$ 12,980	$ 13,005
Net Case Reserves	$ 5,398	$ 5,269
Net IBNR Reserves	5,468	5,580
Total Net Carried Claim and Claim Adjustment Expense Reserves	$ 10,866	$ 10,849

LIFE & GROUP NON-CORE

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

Results of Operations

Three months ended March 31 (In millions)	2010	2009
Net earned premiums	$ 145	$ 150
Net investment income	175	159
Net operating income (loss)	1	(22)
Net realized investment losses, after-tax	(4)	(124)
Net loss	(3)	(146)

Net earned premiums for Life & Group Non-Core decreased $5 million for the three months ended March 31, 2010 as compared with the same period in 2009. Net earned premiums relate primarily to the individual and group long term care businesses.

Net loss decreased by $143 million for the three months ended March 31, 2010 as compared with the same period in 2009. This improvement was primarily due to improved net realized investment results. See the Investments section of this MD&A for further discussion of net realized investment results. In addition, favorable performance on our remaining pension deposit business and favorable reserve development arising from a commutation of an assumed reinsurance agreement also contributed to the improvement. Partially offsetting these favorable impacts were unfavorable results in our long term care business.

Certain of the separate account investment contracts related to our pension deposit business guarantee principal and an annual minimum rate of interest, for which we recorded an additional pretax liability in Policyholders Funds during 2008 based on the results of the investments supporting this business at that time. During the first quarter of 2009 we further increased this pretax liability by $13 million. During the first quarter of 2010, based on improved results from these investments, we decreased this pretax liability by $13 million.

Table of Contents

CORPORATE & OTHER NON-CORE

The following table summarizes the results of operations for the Corporate & Other Non-Core segment, including Asbestos and Environmental Pollution (A&E) and intrasegment eliminations.

Results of Operations

Three months ended March 31 (In millions)	**2010**	**2009**
Net investment income	$ 50	$ 33
Net operating loss	(3)	(9)
Net realized investment gains (losses), after-tax	3	(29)
Net income (loss)		(38)

Net results improved $38 million for the three months ended March 31, 2010 as compared with the same period in 2009 primarily due to improved net realized investment results and higher net investment income. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Unfavorable net prior year development of $1 million was recorded for the three months ended March 31, 2010. No net prior year development was recorded for the three months ended March 31, 2009. Further information on Corporate & Other Non-Core net prior year development for the three months ended March 31, 2010 and 2009 is included in Note G of the Condensed Consolidated Financial Statements included under Item 1.

The following table summarizes the gross and net carried reserves as of March 31, 2010 and December 31, 2009 for Corporate & Other Non-Core.

Gross and Net Carried Claim and Claim Adjustment Expense Reserves

(In millions)	**March 31, 2010**	**December 31, 2009**
Gross Case Reserves	$ 1,479	$ 1,548
Gross IBNR Reserves	2,378	2,458
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$ 3,857	$ 4,006
Net Case Reserves	$ 952	$ 972
Net IBNR Reserves	1,457	1,515
Total Net Carried Claim and Claim Adjustment Expense Reserves	$ 2,409	$ 2,487

Table of Contents

INVESTMENTS

Net Investment Income

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

Net Investment Income

Three months ended March 31 (In millions)	**2010**	**2009**
Fixed maturity securities	$ 510	$ 475
Short term investments	6	10
Limited partnerships	72	(70)
Equity securities	10	14
Trading portfolio	4	
Other	2	3
Gross investment income	604	432
Investment expense	(14)	(12)
Net investment income	$ 590	$ 420

Net investment income for the three months ended March 31, 2010 increased $170 million as compared with the same period in 2009. The increase was primarily driven by improved results from limited partnership investments. Limited partnership investments generally present greater volatility, higher illiquidity and greater risk than fixed income investments.

The fixed maturity investment portfolio and short term investments provided a pretax effective income yield of 5.2% for the three months ended March 31, 2010 and 2009.

Net Realized Investment Gains (Losses)

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

Net Realized Investment Gains (Losses)

Three months ended March 31 (In millions)	**2010**	**2009**
Fixed maturity securities:		
U.S. Treasury securities and obligations of government agencies	$	$ (21)
Corporate and other taxable bonds	35	(173)
States, municipalities and political subdivisions tax-exempt securities	(3)	37
Asset-backed securities	(5)	(192)
Redeemable preferred stock		(9)
Total fixed maturity securities	27	(358)
Equity securities	3	(216)
Derivative securities		31
Short term investments and other	4	11
Net realized investment gains (losses), net of participating policyholders interests	34	(532)
Income tax (expense) benefit on net realized investment gains (losses)	(12)	187

Net realized investment (gains) losses, after-tax, attributable to noncontrolling interests		1
Net realized investment gains (losses) attributable to CNA	$ 22	$ (344)

Net realized investment results improved $366 million for the three months ended March 31, 2010 compared with the same period in 2009, driven by significantly lower other-than-temporary impairment (OTTI) losses recognized in earnings. Further information on our realized gains and losses, including our OTTI losses and impairment decision process, is set forth in Note D of the Condensed Consolidated Financial Statements included under Item 1. During the second quarter of 2009, the Company adopted updated accounting guidance,

which amended the OTTI loss model for fixed maturity securities, as discussed in Note B of the Condensed Consolidated Financial Statements included under Item 1.

Our fixed maturity portfolio consists primarily of high quality bonds, 90% of which were rated as investment grade (rated BBB- or higher) at March 31, 2010 and December 31, 2009. The classification between investment grade and non-investment grade is based on a ratings methodology that takes into account ratings from the three major providers, Standard & Poor s (S&P), Moody s Investors Service, Inc. (Moody s) and Fitch Ratings (Fitch) in that order of preference. If a security is not rated by any of the three, we formulate 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.

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

Fixed Maturity Ratings

(In millions)	March 31, 2010	%	December 31, 2009	%
U.S. Government and Agencies	$ 3,799	10%	$ 3,705	10%
AAA rated	5,514	15	5,855	17
AA and A rated	13,655	36	12,464	35
BBB rated	10,976	29	10,122	28
Non-investment grade	3,767	10	3,466	10
Total	$ 37,711	100%	$ 35,612	100%

Non-investment grade fixed maturity securities, as presented in the table below, include high-yield securities rated below BBB- by bond rating agencies and other unrated securities that, according to our analysis, are below investment grade. Non-investment grade securities generally involve a greater degree of risk than investment grade securities. The amortized cost of our non-investment grade fixed maturity bond portfolio was $3,859 million and $3,637 million at March 31, 2010 and December 31, 2009. The following table summarizes the ratings of this portfolio at carrying value.

Non-investment Grade

Rating (In millions)	March 31, 2010	%	December 31, 2009	%
BB	$ 1,332	35%	$ 1,352	39%
B	1,223	33	1,255	36
CCC C	1,082	29	761	22
D	130	3	98	3
Total	$ 3,767	100%	$ 3,466	100%

Included within the fixed maturity portfolio are securities that contain credit support from third party guarantees from mono-line insurers. At March 31, 2010, $540 million of the carrying value of the fixed maturity portfolio had a third party guarantee that increased the underlying average rating of those securities from A+ to AA+. Of this amount, over 98% was within the tax-exempt bond segment.

At March 31, 2010 and December 31, 2009, approximately 99% of the fixed maturity portfolio was issued by the U.S. Government and Agencies or was rated by S&P or Moody s. The remaining bonds were rated by other rating agencies

or internally.

The carrying value of fixed maturity and equity securities that are either subject to trading restrictions or trade in illiquid private placement markets at March 31, 2010 was $181 million, which represents less than 0.5% of our total investment portfolio. These securities were in a net unrealized gain position of $8 million at March 31, 2010.

Table of Contents

The following table provides the composition of available-for-sale fixed maturity securities in a gross unrealized loss position at March 31, 2010 by maturity profile. Securities not due at a single date are allocated based on weighted average life.

Maturity Profile

	Percent of Fair Value	Percent of Unrealized Loss
Due in one year or less	4%	3%
Due after one year through five years	23	13
Due after five years through ten years	32	33
Due after ten years	41	51
Total	100%	100%

Duration

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

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

The effective durations of fixed maturity securities, short term investments, non-redeemable preferred stocks and interest rate derivatives are presented in the table below. Short term investments are net of securities lending collateral, if any, and accounts payable and receivable amounts for securities purchased and sold, but not yet settled.

Effective Durations

	March 31, 2010		December 31, 2009	
(In millions)	Fair Value	Effective Duration (In years)	Fair Value	Effective Duration (In years)
Segregated investments	$ 10,830	11.0	$ 10,376	11.2
Other interest sensitive investments	29,855	4.4	29,665	4.0
Total Fair Value	$ 40,685	6.1	$ 40,041	5.8

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

Quantitative and Qualitative Disclosures About Market Risk in Item 7A of our 2009 Form 10-K.

Table of Contents

Asset-Backed Exposure

Asset-Backed Distribution

March 31, 2010	**Security Type**			
	RMBS	**CMBS**	**Other ABS**	
(In millions)	**(a)**	**(b)**	**(c)**	**Total**
U.S. Government Agencies	$ 3,536	$ 34	$	$ 3,570
AAA	1,416	284	610	2,310
AA	249	183	90	522
A	157	121	26	304
BBB	351	91	71	513
Non-investment grade and equity tranches	1,228	16	12	1,256
Total Fair Value	$ 6,937	$ 729	$ 809	$ 8,475
Total Amortized Cost	$ 7,303	$ 820	$ 811	$ 8,934
Sub-prime (included above)				
Fair Value	$ 624	$	$	$ 624
Amortized Cost	$ 706	$	$	$ 706
Alt-A (included above)				
Fair Value	$ 668	$	$	$ 668
Amortized Cost	$ 762	$	$	$ 762

(a) Residential mortgage-backed securities (RMBS)

(b) Commercial mortgage-backed securities (CMBS)

(c) Other asset-backed securities (Other ABS)

The exposure to sub-prime residential mortgage (sub-prime) collateral and Alternative A residential mortgages that have lower than normal standards of loan documentation (Alt-A) collateral is measured by the original deal structure. Of the securities with sub-prime exposure, approximately 64% were rated investment grade, while 82% of the Alt-A securities were rated investment grade. At March 31, 2010, $7 million of the carrying value of the sub-prime and Alt-A securities carried a third-party guarantee.

Pretax OTTI losses of $6 million for securities with sub-prime and Alt-A exposure were included in the $28 million of pretax OTTI losses related to asset-backed securities recognized in earnings on the Condensed Consolidated Statement of Operations for the three months ended March 31, 2010. Continued deterioration in the underlying collateral beyond our current expectations may cause us to reconsider and recognize additional OTTI losses in

earnings. See Note D of the Condensed Consolidated Financial Statements included under Item 1 for additional information related to unrealized losses on asset-backed securities.

Short Term Investments

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

Short Term Investments (In millions)	**March 31, 2010**	**December 31, 2009**
Short term investments available-for-sale:		
Commercial paper	$ 383	$ 185
U.S. Treasury securities	1,576	3,025
Money market funds	169	179
Other	356	560
Total short term investments	$ 2,484	$ 3,949

There was no cash collateral held related to securities lending at March 31, 2010 or December 31, 2009.

53

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Our principal operating cash flow sources are premiums and investment income from our insurance subsidiaries. Our primary operating cash flow uses are payments for claims, policy benefits and operating expenses.

For the three months ended March 31, 2010, net cash provided by operating activities was $364 million as compared with $187 million for the same period in 2009. Cash provided by operating activities was favorably impacted by increased investment income receipts in the first quarter of 2010 as compared with the same period in 2009. Additionally, during the second quarter of 2009 we resumed the use of a trading portfolio for income enhancement purposes. Because cash receipts and cash payments resulting from purchases and sales of trading securities are reported as cash flows related to operating activities, operating cash flows were increased by $99 million related to net activities of trading securities at March 31, 2010.

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

For the three months ended March 31, 2010, net cash used by investing activities was $369 million as compared with $150 million for the same period in 2009. Investing cash flows related principally to purchases and sales of fixed maturity securities and short term investments. The cash flow from investing activities is impacted by various factors such as the anticipated payment of claims, financing activity, asset/liability management and individual security buy and sell decisions made in the normal course of portfolio management.

Cash flows from financing activities include proceeds from the issuance of debt and equity securities, outflows for dividends or repayment of debt, outlays to reacquire equity instruments, and deposits and withdrawals related to investment contract products issued by us.

For the three months ended March 31, 2010, net cash used by financing activities was $38 million as compared with $26 million for the same period in 2009. Net cash used by financing activities in 2010 and 2009 was primarily related to the payment of dividends on the 2008 Senior Preferred Stock to Loews Corporation.

Liquidity

We believe that our present cash flows from operations, investing activities and financing activities are sufficient to fund our current and expected working capital and debt obligation needs and we do not expect this to change in the near term.

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

Table of Contents

Accounting Standards Updates

For discussion of accounting standards updates that have been adopted or will be adopted in the future, see Note B of the Condensed Consolidated Financial Statements included under Item 1.

Proposed Clarification of the Definition of Deferred Acquisition Costs of Insurance Entities

In December 2009, the Financial Accounting Standards Board Emerging Issues Task Force (FASB EITF) issued a proposed Accounting Standards Update (ASU), which would limit the capitalization of costs incurred to acquire or renew insurance contracts to those that are directly related to successful contract acquisitions. In March 2010, the FASB EITF generally reaffirmed its consensus for exposure, but continues to discuss its proposal that the ASU be effective for reporting periods beginning after December 15, 2010. Final issuance is expected in June 2010. We have not quantified the impact of potential adoption, but expect that amounts capitalized under the proposed guidance would be less than under our current accounting practice.

FORWARD-LOOKING STATEMENTS

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

- conditions in the capital and credit markets, including continuing uncertainty and instability in these markets, as well as the overall economy, and their impact on the returns, types, liquidity and valuation of our investments;

- general economic and business conditions, including recessionary conditions that may decrease the size and number of our insurance customers and create additional losses to our lines of business, especially those that provide management and professional liability insurance, as well as surety bonds, to businesses engaged in real estate, financial services and professional services, and inflationary pressures on medical care costs, construction costs and other economic sectors that increase the severity of claims;

- the effects of failures in the financial services industry, as well as irregularities in financial reporting and other corporate governance matters, on the markets for directors and officers and errors and omissions coverages, as well as on capital and credit markets;

- changes in foreign or domestic political, social and economic conditions;

- regulatory initiatives and compliance with governmental regulations, judicial decisions, including interpretation of policy provisions, decisions regarding coverage and theories of liability, trends in litigation and the outcome of any litigation involving us, and rulings and changes in tax laws and regulations;

- regulatory limitations, impositions and restrictions upon us, including the effects of assessments and other surcharges for guaranty funds and second-injury funds, other mandatory pooling arrangements and future assessments levied on insurance companies and other financial industry participants under the Emergency Economic Stabilization Act of 2008 recoupment provisions;

- the impact of competitive products, policies and pricing and the competitive environment in which we operate, including changes in our book of business;

- product and policy availability and demand and market responses, including the level of ability to obtain rate increases and decline or non-renew under priced accounts, to achieve premium targets and profitability and to realize growth and retention estimates;

- development of claims and the impact on loss reserves, including changes in claim settlement policies;

- the assertion of public nuisance theories of liability, pursuant to which plaintiffs seek to recover monies spent to administer public health care programs and/or to abate hazards to public health and safety;

the effectiveness of current initiatives by claims management to reduce loss and expense ratios through more efficacious claims handling techniques;

the performance of reinsurance companies under reinsurance contracts with us;

conditions in the capital and credit markets that may limit our ability to raise significant amounts of capital on favorable terms, as well as restrictions on the ability or willingness of Loews to provide additional capital support to us;

weather and other natural physical events, including the severity and frequency of storms, hail, snowfall and other winter conditions, natural disasters such as hurricanes and earthquakes, as well as climate change, including effects on weather patterns, greenhouse gases, sea, land and air temperatures, sea levels, rain and snow;

regulatory requirements imposed by coastal state regulators in the wake of hurricanes or other natural disasters, including limitations on the ability to exit markets or to non-renew, cancel or change terms and conditions in policies, as well as mandatory assessments to fund any shortfalls arising from the inability of quasi-governmental insurers to pay claims;

man-made disasters, including the possible occurrence of terrorist attacks and the effect of the absence or insufficiency of applicable terrorism legislation on coverages;

the unpredictability of the nature, targets, severity or frequency of potential terrorist events, as well as the uncertainty as to our ability to contain our terrorism exposure effectively, notwithstanding the extension through December 31, 2014 of the Terrorism Risk Insurance Act of 2002;

the occurrence of epidemics;

exposure to liabilities due to claims made by insureds and others relating to asbestos remediation and health-based asbestos impairments, as well as exposure to liabilities for environmental pollution, construction defect claims and exposure to liabilities due to claims made by insureds and others relating to lead-based paint and other mass torts;

the risks and uncertainties associated with our loss reserves, as outlined in the Critical Accounting Estimates and the Reserves Estimates and Uncertainties sections of our Annual Report on Form 10-K, including the sufficiency of the reserves and the possibility for future increases;

regulatory limitations and restrictions, including limitations upon our ability to receive dividends from our insurance subsidiaries imposed by state regulatory agencies and minimum risk-based capital standards established by the National Association of Insurance Commissioners;

the possibility of changes in our ratings by ratings agencies, including the inability to access certain markets or distribution channels and the required collateralization of future payment obligations as a result of such changes, and changes in rating agency policies and practices; and

the actual closing of contemplated transactions and agreements.

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

CNA Financial Corporation

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in our market risk components for the three months ended March 31, 2010. See the Quantitative and Qualitative Disclosures About Market Risk included in Item 7A of our Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2009 for further information. Additional information related to portfolio duration is discussed in the Investments section of the Management s Discussion and Analysis of Financial Condition and Results of Operations included in Part I, Item 2.

Table of Contents

CNA Financial Corporation

Item 4. Controls and Procedures

The Company maintains a system of disclosure controls and procedures which are designed to ensure that information required to be disclosed by the Company in reports that it files or submits to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the Exchange Act), including this report, is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to the Company s management on a timely basis to allow decisions regarding required disclosure.

As of March 31, 2010, the Company s management, including the Company s Chief Executive Officer (CEO) and Chief Financial Officer (CFO), conducted an evaluation of the effectiveness of the Company s disclosure controls and procedures (as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based on this evaluation, the CEO and CFO have concluded that the Company s disclosure controls and procedures are effective.

There has been no change in the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Table of Contents

CNA Financial Corporation
Part II. Other Information
Item 1. Legal Proceedings
Information on our legal proceedings is set forth in Notes G and H of the Condensed Consolidated Financial Statements included under Part I, Item 1.
Item 6. Exhibits
(a) Exhibits

Description of Exhibit	Exhibit Number
Second Amendment to Employment Agreement, dated March 3, 2010, by and between CNA Financial Corporation and Thomas F. Motamed	10.1
Certification of Chief Executive Officer	31.1
Certification of Chief Financial Officer	31.2
Written Statement of the Chief Executive Officer of CNA Financial Corporation Pursuant to 18 U.S.C. Section 1350 (As adopted by Section 906 of the Sarbanes-Oxley Act of 2002)	32.1
Written Statement of the Chief Financial Officer of CNA Financial Corporation Pursuant to 18 U.S.C. Section 1350 (As adopted by Section 906 of the Sarbanes-Oxley Act of 2002)	32.2

Table of Contents

CNA Financial Corporation
Part II. Other Information
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CNA Financial Corporation

Dated: May 3, 2010

By /s/ D. Craig Mense
D. Craig Mense
Executive Vice President and
Chief Financial Officer

61