

CNA FINANCIAL CORP
Form 10-Q
August 03, 2010

Table of Contents

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

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

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

60604
(Zip Code)

(312) 822-5000

(Registrant's telephone number, including area code)

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

Yes ☒ No ☐

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

Yes ☐ No ☐

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

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

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

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

Class	Outstanding at July 30, 2010
Common Stock, Par value \$2.50	269,188,098

Item Number		Page Number
	<u>PART I. Financial Information</u>	
1.	<u>Condensed Consolidated Financial Statements (Unaudited):</u>	
	<u>Condensed Consolidated Statements of Operations for the Three and Six months ended June 30, 2010 and 2009</u>	3
	<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six months ended June 30, 2010 and 2009</u>	5
	<u>Condensed Consolidated Balance Sheets at June 30, 2010 and December 31, 2009</u>	6
	<u>Condensed Consolidated Statements of Cash Flows for the Six months ended June 30, 2010 and 2009</u>	7
	<u>Condensed Consolidated Statements of Equity for the Six months ended June 30, 2010 and 2009</u>	9
	<u>Notes to Condensed Consolidated Financial Statements</u>	10
2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	53
3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	73
4.	<u>Controls and Procedures</u>	74
	<u>PART II. Other Information</u>	
1.	<u>Legal Proceedings</u>	75
1A.	<u>Risk Factors</u>	75
6.	<u>Exhibits</u>	75
	<u>EX-10.1</u>	
	<u>EX-31.1</u>	
	<u>EX-31.2</u>	
	<u>EX-32.1</u>	
	<u>EX-32.2</u>	

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

Periods ended June 30	Three Months		Six Months	
(In millions, except per share data)	2010	2009	2010	2009
Revenues				
Net earned premiums	\$ 1,608	\$ 1,656	\$ 3,223	\$ 3,328
Net investment income	521	675	1,111	1,095
Net realized investment gains (losses), net of participating policyholders' interests:				
Other-than-temporary impairment losses	(58)	(484)	(148)	(1,098)
Portion of other-than-temporary impairment losses recognized in Other comprehensive income	1	89	31	89
Net other-than-temporary impairment losses recognized in earnings	(57)	(395)	(117)	(1,009)
Other net realized investment gains	86	98	180	180
Net realized investment gains (losses), net of participating policyholders' interests	29	(297)	63	(829)
Other revenues	75	62	151	140
Total revenues	2,233	2,096	4,548	3,734
Claims, Benefits and Expenses				
Insurance claims and policyholders' benefits	1,147	1,294	2,455	2,636
Amortization of deferred acquisition costs	345	349	687	698
Other operating expenses	258	291	530	542
Interest	37	30	73	61
Total claims, benefits and expenses	1,787	1,964	3,745	3,937
Income (loss) from continuing operations before income tax	446	132	803	(203)
Income tax (expense) benefit	(145)	(12)	(247)	138
Income (loss) from continuing operations	301	120	556	(65)
Income (loss) from discontinued operations, net of income tax (expense) benefit of \$0, \$0, \$0 and \$0	1	(1)	1	(1)

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Net income (loss)	302	119	557	(66)
Net (income) loss attributable to noncontrolling interests	(19)	(14)	(29)	(24)

Net income (loss) attributable to CNA	\$ 283	\$ 105	\$ 528	\$ (90)
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Income (Loss) Attributable to CNA Common Stockholders

Income (loss) from continuing operations attributable to CNA	\$ 282	\$ 106	\$ 527	\$ (89)
Dividends on 2008 Senior Preferred	(25)	(32)	(50)	(63)

Income (loss) from continuing operations attributable to CNA common stockholders	257	74	477	(152)
Income (loss) from discontinued operations attributable to CNA common stockholders	1	(1)	1	(1)

Income (loss) attributable to CNA common stockholders	\$ 258	\$ 73	\$ 478	\$ (153)
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The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

Table of Contents**Periods ended June 30**

(In millions, except per share data)

**Basic and Diluted Earnings (Loss) Per Share
Attributable to CNA Common Stockholders**

	Three Months		Six Months	
	2010	2009	2010	2009
Income (loss) from continuing operations attributable to CNA common stockholders	\$ 0.96	\$ 0.28	\$ 1.77	\$ (0.56)
Income (loss) from discontinued operations attributable to CNA common stockholders		(0.01)	0.01	(0.01)

Basic and diluted earnings (loss) per share attributable to CNA common stockholders

\$ 0.96	\$ 0.27	\$ 1.78	\$ (0.57)
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**Weighted Average Outstanding Common Stock and
Common Stock Equivalents**

Basic	269.1	269.0	269.1	269.0
Diluted	269.3	269.0	269.3	269.0

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

Table of Contents**CNA Financial Corporation****Condensed Consolidated Statements of Comprehensive Income (Unaudited)**

Periods ended June 30 (In millions)	Three Months		Six Months	
	2010	2009	2010	2009
Other Comprehensive Income (Loss), Net of Tax				
Changes in:				
Net unrealized gains (losses) on investments with other-than-temporary impairments	\$ 17	\$ (34)	\$ 42	\$ (34)
Net unrealized gains on other investments	377	1,508	700	1,909
Net unrealized gains on investments	394	1,474	742	1,875
Net unrealized gains on discontinued operations and other	1	2	8	
Foreign currency translation adjustment	17	79	7	71
Pension and postretirement benefits	2	1	3	3
Allocation to participating policyholders	(5)	(19)	(28)	(19)
Other comprehensive income, net of tax	409	1,537	732	1,930
Net income (loss)	302	119	557	(66)
Comprehensive income	711	1,656	1,289	1,864
Changes in:				
Net unrealized (gains) losses on investments attributable to noncontrolling interests	(8)	(6)	(14)	(11)
Pension and postretirement benefits attributable to noncontrolling interests			(3)	
Other comprehensive (income) loss attributable to noncontrolling interests	(8)	(6)	(17)	(11)
Net (income) loss attributable to noncontrolling interests	(19)	(14)	(29)	(24)
Comprehensive (income) loss attributable to noncontrolling interests	(27)	(20)	(46)	(35)
Total comprehensive income attributable to CNA	\$ 684	\$ 1,636	\$ 1,243	\$ 1,829

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)**

	June 30, 2010	December 31, 2009
(In millions, except share data)		
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of \$36,410 and \$35,602)	\$ 37,565	\$ 35,612
Equity securities at fair value (cost of \$540 and \$633)	549	644
Limited partnership investments	2,059	1,787
Other invested assets	1	4
Mortgage loans	14	
Short term investments	3,040	3,949
 Total investments	 43,228	 41,996
Cash	72	140
Reinsurance receivables (less allowance for uncollectible receivables of \$348 and \$351)	6,209	6,581
Insurance receivables (less allowance for doubtful accounts of \$185 and \$202)	1,707	1,656
Accrued investment income	419	416
Deferred acquisition costs	1,095	1,108
Deferred income taxes	846	1,333
Property and equipment at cost (less accumulated depreciation of \$519 and \$498)	340	360
Goodwill and other intangible assets	141	141
Other assets	1,170	1,144
Separate account business	447	423
 Total assets	 \$ 55,674	 \$ 55,298
 Liabilities and Equity		
Liabilities:		
Insurance reserves:		
Claim and claim adjustment expenses	\$ 25,968	\$ 26,816
Unearned premiums	3,303	3,274
Future policy benefits	8,217	7,981
Policyholders funds	172	192
Participating policyholders funds	61	56
Long term debt	2,254	2,303
Other liabilities	2,847	3,087
Separate account business	447	423
 Total liabilities	 43,269	 44,132

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

Equity:

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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 269,085,821 and 269,026,759 shares outstanding)	683	683
Additional paid-in capital	2,200	2,177
Retained earnings	7,742	7,264
Accumulated other comprehensive income (loss)	390	(325)
Treasury stock (3,954,422 and 4,013,484 shares), at cost	(106)	(109)
Notes receivable for the issuance of common stock	(30)	(30)
Total CNA stockholders equity	11,879	10,660
Noncontrolling interests	526	506
Total equity	12,405	11,166
Total liabilities and equity	\$ 55,674	\$ 55,298

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

Table of Contents**CNA Financial Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)****Six months ended June 30**

(In millions)

	2010	2009
Cash Flows from Operating Activities		
Net income (loss)	\$ 557	\$ (66)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
(Income) loss from discontinued operations	(1)	1
Loss on disposal of property and equipment		8
Deferred income tax expense (benefit)	82	(59)
Trading portfolio activity	153	(142)
Net realized investment (gains) losses, net of participating policyholders' interests	(63)	829
Equity method investees	14	(47)
Amortization of investments	(59)	(115)
Depreciation	41	42
Changes in:		
Receivables, net	314	386
Accrued investment income	(9)	(27)
Deferred acquisition costs	13	(20)
Insurance reserves	(437)	(245)
Other assets	40	(124)
Other liabilities	(52)	(125)
Other, net	2	3
 Total adjustments	 38	 365
 Net cash flows provided by operating activities-continuing operations	 \$ 595	 \$ 299
Net cash flows used by operating activities-discontinued operations	\$ (14)	\$ (12)
 Net cash flows provided by operating activities-total	 \$ 581	 \$ 287
 Cash Flows from Investing Activities		
Purchases of fixed maturity securities	\$ (9,478)	\$ (12,402)
Proceeds from fixed maturity securities:		
Sales	6,388	11,083
Maturities, calls and redemptions	1,866	1,723
Purchases of equity securities	(62)	(240)
Proceeds from sales of equity securities	128	440
Origination of mortgage loans	(14)	
Change in short term investments	789	(895)
Change in other investments	(199)	102
Purchases of property and equipment	(23)	(33)
Dispositions	65	
Other, net	3	(10)

Net cash flows used by investing activities-continuing operations	\$ (537)	\$ (232)
Net cash flows provided by investing activities-discontinued operations	\$ 14	\$ 12
Net cash flows used by investing activities-total	\$ (523)	\$ (220)

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

7

Table of Contents**Six months ended June 30**

(In millions)

Cash Flows from Financing Activities

	2010	2009
Dividends paid to Loews Corporation for 2008 Senior Preferred	\$ (50)	\$ (63)
Principal payments on debt	(50)	
Policyholders' investment contract net deposits (withdrawals)	(6)	(8)
Stock options exercised	1	
Other, net	(19)	12

Net cash flows used by financing activities-continuing operations \$ (124) \$ (59)

Net cash flows provided (used) by financing activities-discontinued operations \$ \$

Net cash flows used by financing activities-total \$ (124) \$ (59)

Effect of foreign exchange rate changes on cash-continuing operations (2) 5

Net change in cash (68) 13

Cash, beginning of year 140 85

Cash, end of period \$ 72 \$ 98

Cash-continuing operations \$ 72 \$ 98

Cash-discontinued operations

Cash-total \$ 72 \$ 98

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)****Six months ended June 30**

(In millions)

Preferred Stock

	2010	2009
Balance, beginning and end of period	\$ 1,000	\$ 1,250

Common Stock

Balance, beginning and end of period	683	683
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Additional Paid-in Capital

Balance, beginning of period	2,177	2,174
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Stock-based compensation		1
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Other	23	
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Balance, end of period	2,200	2,175
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Retained Earnings

Balance, beginning of period	7,264	6,845
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Cumulative effect adjustment from change in other-than-temporary impairment accounting guidance		122
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Dividends paid to Loews Corporation for 2008 Senior Preferred	(50)	(63)
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Net income (loss) attributable to CNA	528	(90)
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Balance, end of period	7,742	6,814
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Accumulated Other Comprehensive Income (Loss)

Balance, beginning of period	(325)	(3,924)
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Cumulative effect adjustment from change in other-than-temporary impairment accounting guidance		(122)
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Other comprehensive income attributable to CNA	715	1,919
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Balance, end of period	390	(2,127)
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Treasury Stock

Balance, beginning of period	(109)	(109)
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Stock-based compensation	3	
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Balance, end of period	(106)	(109)
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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	11,879	8,656
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Noncontrolling Interests

Balance, beginning of period	506	420
Net income	29	24
Other comprehensive income	17	11
Other	(26)	

Balance, end of period	526	455
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Total Equity	\$ 12,405	\$ 9,111
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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 controlled subsidiaries are referred to as CNA or the Company. CNA's property and casualty and remaining life and group insurance operations are primarily conducted by Continental Casualty Company (CCC), The Continental Insurance Company (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 June 30, 2010. Loews Corporation (Loews) owned approximately 90% of the outstanding common stock of CNAF as of June 30, 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 June 30, 2010 and for the three and six months ended June 30, 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

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.

Table of Contents

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 2010, 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 synthetic collateralized debt and loan obligations, are considered embedded derivatives subject to potential bifurcation. The updated accounting guidance is effective for the first quarter beginning after June 15, 2010. The adoption of this updated accounting guidance is not expected to have a material impact on the Company's financial condition or 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 and six months ended June 30, 2010, approximately 245 thousand and 193 thousand potential shares attributable to exercises under stock-based employee compensation plans were included in the calculation of diluted earnings per share. For those same periods, approximately 1.2 million and 1.4 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 June 30, 2009, approximately 20 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 2 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 six months ended June 30, 2009, as a result of the net loss, none of the 2.1 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.

Table of Contents**Note D. Investments**

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

Net Investment Income

Periods ended June 30 (In millions)	Three Months		Six Months	
	2010	2009	2010	2009
Fixed maturity securities	\$ 519	\$ 487	\$ 1,029	\$ 962
Short term investments	5	11	11	21
Limited partnerships	(4)	165	68	95
Equity securities	9	14	19	28
Trading portfolio (a)	2	8	6	8
Other	3	1	5	4
 Gross investment income	 534	 686	 1,138	 1,118
Investment expense	(13)	(11)	(27)	(23)
 Net investment income	 \$ 521	 \$ 675	 \$ 1,111	 \$ 1,095

(a) There were no net unrealized gains (losses) on trading securities still held included in net investment income for the three and six months ended June 30, 2010. The net unrealized gains on trading securities still held included in net investment income was \$1 million for the three and six months ended June 30, 2009.

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

Net Realized Investment Gains (Losses)

Periods ended June 30 (In millions)	Three Months		Six Months	
	2010	2009	2010	2009
Net realized investment gains (losses):				

Fixed maturity securities:				
Gross realized gains	\$ 133	\$ 100	\$ 231	\$ 204
Gross realized losses	(67)	(492)	(138)	(954)
Net realized investment gains (losses) on fixed maturity securities	66	(392)	93	(750)
Equity securities:				
Gross realized gains		73	4	77
Gross realized losses	(28)	(9)	(29)	(229)
Net realized investment gains (losses) on equity securities	(28)	64	(25)	(152)
Derivatives		33		64
Short term investments and other	(9)	(2)	(5)	9
Net realized investment gains (losses), net of participating policyholders' interests	\$ 29	\$ (297)	\$ 63	\$ (829)

Table of Contents

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

Periods ended June 30 (In millions)	Three Months		Six Months	
	2010	2009	2010	2009
Fixed maturity securities available-for-sale:				
Asset-backed securities:				
Residential mortgage-backed securities	\$ 11	\$ 119	\$ 37	\$ 268
Commercial mortgage-backed securities		165	2	181
Other asset-backed securities	2		2	31
Total asset-backed securities	13	284	41	480
States, municipalities and political subdivisions securities	6	15	20	15
Corporate and other bonds	24	94	42	284
Redeemable preferred stock				9
Total fixed maturity securities available-for-sale	43	393	103	788
Equity securities available-for-sale:				
Common stock	5	1	5	4
Preferred stock	9	1	9	217
Total equity securities available-for-sale	14	2	14	221
Net OTTI losses recognized in earnings	\$ 57	\$ 395	\$ 117	\$ 1,009

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.

Table of Contents

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 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

	Cost or	Gross	Gross Unrealized		Estimated	Unrealized
	Amortized	Unrealized	Less	12	Fair	OTTI
June 30, 2010	Cost	Gains	than	Months	Value	Losses
(In millions)			12	or		
Fixed maturity securities available-for-sale:			Months	Greater		
U.S. Treasury securities and obligations of government agencies	\$ 146	\$ 19	\$	\$	\$ 165	\$
Asset-backed securities:						
Residential mortgage-backed securities	6,526	133	11	326	6,322	252
Commercial mortgage-backed securities	1,052	18	2	77	991	
Other asset-backed securities	733	17		17	733	
Total asset-backed securities	8,311	168	13	420	8,046	252
States, municipalities and political subdivisions securities	7,617	274	20	292	7,579	
Foreign government securities	577	15	1		591	
Corporate and other bonds	19,705	1,591	46	123	21,127	26
Redeemable preferred stock	48	4		1	51	
Total fixed maturity securities available-for-sale	36,404	2,071	80	836	37,559	\$ 278
Total fixed maturity securities trading	6				6	

Equity securities available-for-sale:					
Common stock	77	12	1		88
Preferred stock	463	42	2	42	461
Total equity securities available-for-sale	540	54	3	42	549
Total	\$ 36,950	\$ 2,125	\$ 83	\$ 878	\$ 38,114

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 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 securities	7,280	203	30	329	7,124	
Foreign government securities	467	14	1	1	479	
Corporate and other bonds	18,410	1,107	44	244	19,229	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	
Total equity securities available-for-sale	633	54	1	42	644	
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 \$39 million and \$71 million for the three and six months ended June 30, 2010. The amount of pretax net unrealized losses on available-for-sale securities reclassified out of AOCI into earnings was \$328 million for the three months ended June 30, 2009.

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Activity for the three months and six months ended June 30, 2010 related to the pretax fixed maturity credit loss component reflected within Retained earnings for securities still held at June 30, 2010 was as follows.

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

Table of Contents

Activity for the three months ended June 30, 2009 related to the pretax fixed maturity credit loss component reflected within Retained earnings for securities still held at June 30, 2009 was as follows.

	Three Months ended June 30, 2009
(In millions)	
Beginning balance of credit losses on fixed maturity securities	\$ 192
Additional credit losses for which an OTTI loss was previously recognized	21
Credit losses for which an OTTI loss was not previously recognized	84
Reductions for securities sold during the period	(36)
Reductions for securities the Company intends to sell or more likely than not will be required to sell	(49)
Ending balance of credit losses on fixed maturity securities	\$ 212

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 June 30, 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.

Asset-Backed Securities

The fair value of total asset-backed holdings at June 30, 2010 was \$8,046 million which was comprised of 2,133 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, 175 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 232 structured securities in a gross unrealized loss position. In addition, there were 34 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 10% of amortized cost.

Commercial mortgage-backed securities include 42 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 13% of amortized cost.

Other asset-backed securities include 19 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 9% of amortized cost.

Table of Contents

The following table summarizes asset-backed securities in a gross unrealized loss position by ratings distribution at June 30, 2010.

Gross Unrealized Losses by Ratings Distribution**June 30, 2010**

(In millions)

	Amortized	Estimated	Gross
Rating	Cost	Fair Value	Unrealized Losses
U.S. Government Agencies	\$ 47	\$ 42	\$ 5
AAA	1,697	1,571	126
AA	411	371	40
A	324	270	54
BBB	342	311	31
Non-investment grade and equity tranches	1,245	1,068	177
Total	\$ 4,066	\$ 3,633	\$ 433

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 amortized cost and interest, collateral shortfalls, or substantial changes in future cash flow expectations; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at June 30, 2010.

States, Municipalities and Political Subdivisions Securities

The holdings in this portfolio consist of both tax-exempt and taxable special revenue and assessment bonds, representing 73% of the overall portfolio, followed by general obligation political subdivision bonds at 19% and state general obligation bonds at 8%.

The unrealized losses on the Company's investments in this portfolio are due to market conditions in certain sectors or states that continued to lag behind the broader municipal market performance. Yields for certain issuers and types of securities, such as zero coupon bonds, auction rate securities and tobacco securitizations, continue to be higher than historical norms relative to after-tax returns on other fixed income alternatives. The holdings for all securities in this category include 240 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 states, municipalities and political subdivisions securities in a gross unrealized loss position at June 30, 2010.

Gross Unrealized Losses by Ratings Distribution**June 30, 2010**

(In millions)

	Amortized	Estimated	Gross
Rating	Cost	Fair Value	Unrealized Losses

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AAA	\$	868	\$	819	\$	49
AA		708		588		120
A		438		416		22
BBB		481		362		119
Non-investment grade		22		20		2
Total	\$	2,517	\$	2,205	\$	312

The largest exposures at June 30, 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 \$110 million, and

Table of Contents

several separate issues of Puerto Rico sales tax revenue bonds with gross unrealized losses of \$85 million. All of these securities are rated investment grade.

The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of principal and interest; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at June 30, 2010.

Corporate and Other Bonds

The holdings in this category include 278 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized losses was approximately 6% of amortized cost.

The following table summarizes corporate and other bonds in a gross unrealized loss position by ratings distribution at June 30, 2010.

Gross Unrealized Losses by Ratings Distribution

June 30, 2010

(In millions)

	Amortized	Estimated	Gross
Rating	Cost	Fair Value	Unrealized Losses
AAA	\$ 36	\$ 33	\$ 3
AA	149	148	1
A	745	714	31
BBB	1,243	1,153	90
Non-investment grade	761	717	44
Total	\$ 2,934	\$ 2,765	\$ 169

The unrealized losses on corporate and other bonds, primarily in the financial sector of the portfolio, are attributable to the lingering impacts of the U.S. and European financial crisis over the past several years. Overall conditions in the corporate bond market have generally continued to improve during 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 June 30, 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 \$496 million and an aggregate amortized cost of \$561 million.

Table of Contents***Contractual Maturity***

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at June 30, 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

	June 30, 2010		December 31, 2009	
	Cost or Amortized Cost	Estimated Fair Value	Cost or Amortized Cost	Estimated Fair Value
(In millions)				
Due in one year or less	\$ 2,096	\$ 2,056	\$ 1,240	\$ 1,219
Due after one year through five years	11,391	11,817	10,046	10,244
Due after five years through ten years	9,106	9,423	10,646	10,538
Due after ten years	13,811	14,263	13,496	13,437
Total	\$ 36,404	\$ 37,559	\$ 35,428	\$ 35,438

Investment Commitments

As of June 30, 2010, the Company had committed approximately \$237 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases and sales. The purchase and sale of these investments are recorded on the date that the legal agreements are finalized and cash settlements are made. As of June 30, 2010, the Company had commitments to purchase \$256 million and sell \$104 million of such investments.

Mortgage Loans

Mortgage loans are carried at unpaid principal balance, net of unamortized fees and any valuation allowance. Valuation allowances are established for impaired loans when it is probable that contractual principal and interest will not be collected. Allowances for losses are determined based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the fair value of the collateral if the loan is collateral dependent. As of June 30, 2010, there was no valuation allowance for mortgage loans.

Interest income from mortgage loans is recognized on an accrual basis using the effective yield method. Accrual of income is suspended for mortgage loans that are in default or when full and timely collection of principal and interest payments is not probable.

Table of Contents**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.

Table of Contents

The tables below summarize open CDS contracts where the Company sold credit protection as of June 30, 2010 and December 31, 2009. The fair value of the contracts represents the amounts that the Company would receive or pay at those dates to exit the derivative positions. The maximum amount of future payments assumes no residual value in the defaulted securities that the Company would receive as part of the contract terminations and is equal to the notional value of the CDS contracts.

Credit Ratings of Underlying Reference Obligations

	Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps	Weighted Average Years to Maturity
June 30, 2010			
(In millions)			
B-rated	\$ 1	\$ 8	2.6
Total	\$ 1	\$ 8	2.6

Credit Ratings of Underlying Reference Obligations

	Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps	Weighted Average Years to Maturity
December 31, 2009			
(In millions)			
B-rated	\$	\$ 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 \$1 million and \$7 million at June 30, 2010 and December 31, 2009. The fair value of cash collateral received from counterparties was \$1 million at June 30, 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.

Table of Contents

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

Recognized Gains

Periods ended June 30 (In millions)	Three Months		Six Months	
	2010	2009	2010	2009
Without hedge designation				
Interest rate swaps	\$	\$ 40	\$	\$ 61
Credit default swaps purchased protection		(26)		(35)
Credit default swaps sold protection		8		2
Total return swaps		(2)		(2)
Futures sold, not yet purchased		9		23
Options written		4		15
Total without hedge designation		33		64
Trading activities				
Futures sold, not yet purchased	4	(1)	1	(1)
Total	\$ 4	\$ 32	\$ 1	\$ 63

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

June 30, 2010 (In millions)	Contractual/		Estimated Fair Value	
	Notional Amount	Asset	(Liability)	
Without hedge designation				
Credit default swaps purchased protection	\$ 35	\$	\$	(3)
Credit default swaps sold protection	8	1		
Currency forwards	3			
Equity warrants	5			
Total without hedge designation	51	1		(3)
Trading activities				
Futures sold, not yet purchased				
Total	\$ 51	\$ 1	\$	(3)

Table of Contents**Derivative Financial Instruments**

December 31, 2009 (In millions)	Contractual/ Notional Amount	Estimated Fair Value 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 and six months ended June 30, 2010, new derivative transactions entered into totaled approximately \$1.0 billion and \$1.2 billion in notional value while derivative termination activity totaled approximately \$1.1 billion and \$1.4 billion. This activity was primarily attributable to interest rate futures and forward commitments for mortgage-backed securities. During the three and six months ended June 30, 2009, new derivative transactions entered into totaled approximately \$4.5 billion and \$10.6 billion in notional value while derivative termination activity totaled approximately \$5.2 billion and \$11.1 billion. This activity was primarily attributable to interest rate futures, interest rate options and interest rate swaps.

Table of Contents

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.

June 30, 2010 (In millions)	Level 1	Level 2	Level 3	Total Assets/(Liabilities) at Fair Value
Assets				
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	\$ 96	\$ 69	\$	\$ 165
Asset-backed securities:				
Residential mortgage-backed securities		5,663	659	6,322
Commercial mortgage-backed securities		896	95	991
Other asset-backed securities		427	306	733
Total asset-backed securities		6,986	1,060	8,046
States, municipalities and political subdivisions securities		7,040	539	7,579
Foreign government securities	92	499		591
Corporate and other bonds		20,415	718	21,133
Redeemable preferred stock	3	47	1	51
Total fixed maturity securities	191	35,056	2,318	37,565
Equity securities	415	130	4	549
Derivative financial instruments, included in Other invested assets			1	1
Short term investments	1,621	1,408	11	3,040
Life settlement contracts, included in Other assets			134	134
Discontinued operations investments, included in Other assets	8	124		132
Separate account business	32	378	37	447
Total assets	\$ 2,267	\$ 37,096	\$ 2,505	\$ 41,868
Liabilities				
Derivative financial instruments, included in Other liabilities	\$	\$	\$ (3)	\$ (3)
Total liabilities	\$	\$	\$ (3)	\$ (3)

Table of Contents

December 31, 2009 (In millions)	Level 1	Level 2	Level 3	Total Assets/(Liabilities) at Fair Value
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 securities		6,424	756	7,180
Foreign government securities	139	340		479
Corporate and other bonds		18,636	609	19,245
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 June 30, 2010 and 2009.

		Net realized investment	gains (losses)	Net change in	and net change in	unrealized appreciation	unrealized (depreciation) appreciation	depreciation included in	Purchases, sales,	Transfers into Level 3	Transfers out of Level 3	Balance at June 30, 2010	Unrealized gains (losses) on Level 3 assets and liabilities held at June 30, 2010 recognized in net income*
Level 3	Balance at April 1, 2010	included in net income*	comprehensive income	other	issuances and settlements	into Level 3	out of Level 3	Balance at June 30, 2010	Balance at June 30, 2010	Balance at June 30, 2010	Balance at June 30, 2010	Balance at June 30, 2010	Balance at June 30, 2010
(In millions)													
Fixed maturity securities:													
Asset-backed securities:													
Residential mortgage-backed securities	\$ 679	\$ 2	\$ 3	\$ 13	\$	\$	(38)	\$ 659	\$				
Commercial mortgage-backed securities	112		2	11			(30)	95					
Other asset-backed securities	368		1	(18)			(45)	306					(2)
Total asset-backed securities	1,159	2	6	6			(113)	1,060					(2)
States, municipalities and political subdivisions securities	737		4	(202)				539					
Corporate and other bonds	684	7	9	53	14		(49)	718					(3)
Redeemable preferred stock	4	6	(2)	(7)				1					

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Total fixed maturity securities	2,584	15	17	(150)	14	(162)	2,318	(5)
Equity securities	8	(1)		(1)		(2)	4	(1)
Derivative financial instruments, net	(4)	(1)		3			(2)	
Short term investments	1			10			11	
Life settlement contracts	131	7		(4)			134	5
Discontinued operations investments	15					(15)		
Separate account business	40			(3)			37	
Total	\$ 2,775	\$ 20	\$ 17	\$ (145)	\$ 14	\$ (179)	\$ 2,502	\$ (1)

Table of Contents

Level 3	Balance at April 1, 2009	Net realized investment gains (losses)	Net change in unrealized	Purchases, sales, issuances	Transfers into Level 3	Transfers out of Level 3	Balance at June 30, 2009	Unrealized gains (losses) on Level 3 assets and liabilities held at June 30, 2009 recognized in net income*
		and net change in	unrealized appreciation (depreciation) included in other comprehensive income	and settlements				
(In millions)								
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	\$ 743	\$ (6)	\$ 35	\$ (25)	\$ 71	\$ (10)	\$ 808	\$ (5)
Commercial mortgage-backed securities	158	(155)	155	(9)	26		175	(155)
Other asset-backed securities	252		10	(2)		(119)	141	
Total asset-backed securities	1,153	(161)	200	(36)	97	(129)	1,124	(160)
States, municipalities and political subdivisions securities	784		18	(17)			785	
Corporate and other bonds	809		47	(137)	16	(5)	730	(1)
Redeemable preferred stock	19					(18)	1	
Total fixed maturity securities	2,765	(161)	265	(190)	113	(152)	2,640	(161)

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Equity securities	210		(1)					209		
Derivative financial instruments, net	(63)	19		34				(10)	(11)	
Life settlement contracts	127	5		(6)				126		
Discontinued operations investments	13		1	(1)				13		
Separate account business	38		3	(3)				38		
Total	\$ 3,090	\$ (137)	\$ 268	\$ (166)	\$ 113	\$ (152)	\$ 3,016	\$ (172)		

28

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 six months ended June 30, 2010 and 2009.

Level 3	Balance at January 1, 2010	Net realized investment		Net change in		Unrealized gains (losses) on Level 3 assets and liabilities		Balance at June 30, 2010	Unrealized gains (losses) on Level 3 assets and liabilities held at June 30, 2010 recognized in net income*
		gains (losses)	and net change in	unrealized appreciation	depreciation included	Purchases, included	Transfers into Level 3		
(In millions)						sales,	Transfers out of Level 3		
		in net income*	comprehensive income	and settlements	into Level 3				
Fixed maturity securities:									
Asset-backed securities:									
Residential mortgage-backed securities	\$ 629	\$ (8)	\$ 29	\$ 55	\$	\$ (46)	\$	659	\$ (10)
Commercial mortgage-backed securities	123	(1)	(2)	6	7	(38)		95	(1)
Other asset-backed securities	348	4	22	(23)		(45)		306	(2)
Total asset-backed securities	1,100	(5)	49	38	7	(129)		1,060	(13)
States, municipalities and political subdivisions securities	756		6	(223)				539	
Corporate and other bonds	609	9	38	112	23	(73)		718	(4)
Redeemable preferred stock	2	6		(7)				1	

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Total fixed maturity securities	2,467	10	93	(80)	30	(202)	2,318	(17)
Equity securities	11	(1)		(1)	2	(7)	4	(1)
Derivative financial instruments, net	(11)	(1)		10			(2)	
Short term investments				10	1		11	
Life settlement contracts	130	17		(13)			134	7
Discontinued operations investments	16		1	(2)		(15)		
Separate account business	38			(1)			37	
Total	\$ 2,651	\$ 25	\$ 94	\$ (77)	\$ 33	\$ (224)	\$ 2,502	\$ (11)

Table of Contents

		Net realized investment gains (losses)		Net and net change in	Net change in unrealized				Unrealized gains (losses) on Level 3 assets and liabilities held at June 30, 2009 recognized in
	Balance at January 1, 2009	(depreciation) included in net loss*	unrealized appreciation (depreciation) included in comprehensive income	Purchases, sales, issuances and settlements	Transfers into Level 3	Transfers out of Level 3	Balance at June 30, 2009		net loss*
Level 3									
(In millions)									
Fixed maturity securities:									
Asset-backed securities:									
Residential mortgage-backed securities	\$ 782	\$ (23)	\$ 36	\$ (48)	\$ 71	\$ (10)	\$ 808	\$	(12)
Commercial mortgage-backed securities	186	(165)	142	(14)	26		175		(165)
Other asset-backed securities	139	(30)	40	(42)	153	(119)	141		(31)
Total asset-backed securities	1,107	(218)	218	(104)	250	(129)	1,124		(208)
States, municipalities and political subdivisions securities	750		55	(20)			785		
Foreign government securities	6					(6)			
Corporate and other bonds	616	(5)	46	67	18	(12)	730		(7)
Redeemable preferred stock	13	(9)	8	7		(18)	1		(9)
	2,492	(232)	327	(50)	268	(165)	2,640		(224)

Total fixed maturity
securities

Equity securities	210		(1)					209	
Derivative financial instruments, net	(87)	25		52				(10)	(15)
Life settlement contracts	129	16		(19)				126	2
Discontinued operations investments	15			(2)				13	
Separate account business	38		4	(4)				38	
Total	\$ 2,797	\$ (191)	\$ 330	\$ (23)	\$ 268	\$ (165)	\$ 3,016	\$ (237)	

30

Table of Contents

* *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 securities issued by foreign governments 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, states, municipalities and political subdivisions securities, foreign provincial and local government 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, states, municipalities and political subdivisions securities and redeemable preferred stock. Within corporate bonds and states, municipalities and political subdivisions securities, Level 3 securities also include tax-exempt and taxable auction rate certificates. Fair value of auction rate securities is determined utilizing a pricing model with three primary inputs. The interest rate and spread inputs are observable from like instruments while the maturity date assumption is unobservable due to the uncertain nature of the principal prepayments prior to maturity.

Equity Securities

Level 1 securities include publicly traded securities valued using quoted market prices. Level 2 securities are primarily non-redeemable preferred stocks and common stocks valued using pricing for similar securities, recently executed transactions, broker/dealer quotes and other pricing models utilizing observable inputs. Level 3 securities 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.

Table of Contents***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.

(In millions)	June 30, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Notes receivable for the issuance of common stock	\$ 30	\$ 29	\$ 30	\$ 29
Mortgage loans	14	14		
Financial liabilities				
Premium deposits and annuity contracts	\$ 101	\$ 103	\$ 105	\$ 106
Long term debt	2,254	2,341	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.

The fair value of mortgage loans is based on the present value of the expected future cash flows discounted at the current interest rate for origination of similar quality loans.

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.

Table of Contents

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 \$48 million and \$88 million for the three and six months ended June 30, 2010 for events occurring in those periods. Catastrophe losses in 2010 related primarily to wind, thunderstorms and winter storms. The Company reported catastrophe losses, net of reinsurance, of \$43 million and \$56 million for the three and six months ended June 30, 2009 for events occurring in those periods. There can be no assurance that the Company's ultimate cost for catastrophes will not exceed current estimates.

Table of Contents

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 managed by its centralized A&E claims group.

A&E Reserves

(In millions)	June 30, 2010		December 31, 2009	
	Asbestos	Environmental Pollution	Asbestos	Environmental Pollution
Gross reserves	\$ 1,937	\$ 412	\$ 2,046	\$ 482
Ceded reserves	(875)	(174)	(909)	(196)
Net reserves	\$ 1,062	\$ 238	\$ 1,137	\$ 286

In connection with the pending transaction related to A&E reinsurance discussed in Note M, the Company is also ceding A&E liabilities reflected within the carried reserves of certain assumed reinsurance run-off books of business not managed by the centralized A&E claims group. As of December 31, 2009 there were approximately \$68 million of net A&E claim and claim adjustment expense reserves within these assumed reinsurance run-off books of business. Additionally, the Company had approximately \$90 million of net undiscounted A&E reserves within its discontinued operations, which are included in Other liabilities on the Condensed Consolidated Balance Sheet on a discounted basis of \$61 million. The A&E liabilities in the table above along with these A&E liabilities will be ceded under the A&E reinsurance transaction.

Asbestos

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

Asbestos Reserves**Six months ended June 30**

(In millions)	2010	2009
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	(75)	(89)
Ending net reserves	\$ 1,062	\$ 1,113

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

Table of Contents

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. On June 15, 2010, the Court of Appeals entered an order to list the case for rehearing. No date has been set for rehearing.

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 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.

Table of Contents***Environmental Pollution***

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

Environmental Pollution Reserves**Six months ended June 30**

(In millions)	2010	2009
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	(48)	(22)
Ending net reserves	\$ 238	\$ 240

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 \$17 million and \$26 million was recorded in the Life & Group Non-Core segment for the three and six months ended June 30, 2010. Development in 2010 included favorable reserve development of \$24 million arising from a commutation of an assumed reinsurance agreement in the first quarter of 2010. For the three and six months ended June 30, 2009 for the Life & Group Non-Core segment, favorable net prior year development of \$5 million and unfavorable net prior year development of \$6 million were recorded.

Table of Contents
**Three Month Comparison
 Net Prior Year Development
 Three months ended June 30, 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) A&E	\$ (125)	\$ (175)	\$ 1	\$ (299)
Pretax (favorable) unfavorable net prior year development before impact of premium development	(125)	(175)	1	(299)
Pretax (favorable) unfavorable premium development	1	35	(2)	34
Total pretax (favorable) unfavorable net prior year development	\$ (124)	\$ (140)	\$ (1)	\$ (265)

**Net Prior Year Development
 Three months ended June 30, 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) A&E	\$ (35)	\$ (85)	\$ 4	\$ (116)
Pretax (favorable) unfavorable net prior year development before impact of premium development	(35)	(85)	4	(116)
Pretax (favorable) unfavorable premium development	2	56	(2)	56

Total pretax (favorable) unfavorable net prior year development	\$ (33)	\$ (29)	\$ 2	\$ (60)
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Table of Contents

2010 Net Prior Year Development

CNA Specialty

The favorable claim and allocated claim adjustment expense reserve development was primarily due to professional liability coverages, as discussed below.

Approximately \$51 million of favorable claim and allocated claim adjustment expense reserve development was recorded for medical professional liability coverages due to favorable incurred emergence, primarily in accident years 2007 and prior.

Favorable claim and allocated claim adjustment expense reserve development of approximately \$33 million was recorded for financial institutions and life agents coverages due to reduced frequency of large claims and favorable ceded recoveries, primarily in accident years 2007 and prior. Favorable development of \$18 million was recorded in architects and engineers coverages due to favorable incurred emergence and claims closing favorable to expectations, primarily in accident years 2007 and prior.

CNA Commercial

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in property, auto and international coverages, as discussed below.

Approximately \$98 million of favorable claim and allocated claim adjustment expense reserve development was recorded for property coverages. Favorable development of \$53 million was recorded in catastrophe coverages due to favorable incurred loss emergence, primarily in accident years 2008 and 2009. Favorable claim and allocated claim adjustment expense reserve development of approximately \$45 million was recorded for non-catastrophe related property coverages, primarily due to decreased severity in accident years 2009 and prior.

Approximately \$61 million of favorable claim and allocated claim adjustment expense reserve development was primarily due to decreased frequency and severity trends in commercial auto coverages in accident years 2009 and prior.

Approximately \$35 million of favorable claim and allocated claim adjustment expense reserve development was recorded in international commercial coverages. Approximately \$21 million of favorable development was recorded due to decreased frequency across several lines within an affiliate, primarily in accident years 2008 and prior. The remaining favorable development was primarily due to a commutation within the Company's European operations book of renewable energy business.

Approximately \$32 million of unfavorable claim and allocated claim adjustment expense reserve development was due to increased claim frequency in a portion of our primary casualty surplus lines book in accident years 2008 and 2009.

Approximately \$35 million of unfavorable premium development was recorded due to a change in ultimate premium estimates relating to retrospectively rated policies and return premium on auditable policies due to reduced exposures.

Table of Contents

2009 Net Prior Year Development

CNA Specialty

Favorable claim and allocated claim adjustment expense reserve development of approximately \$25 million for medical professional liability was primarily due to better than expected frequency and severity in accident years 2005 and prior, including individual claims closing favorable to expectations.

Approximately \$8 million of favorable claim and allocated claim adjustment expense reserve development was recorded for professional liability coverages due primarily to favorable experience on a number of large claims, primarily related to financial institutions in accident years 2003 and prior.

CNA Commercial

Favorable claim and allocated claim adjustment expense reserve development was primarily due to experience in property coverages. Prior year catastrophe reserves decreased approximately \$33 million, driven by the favorable settlement of several claims primarily in accident years 2005 and 2007. An additional \$17 million of favorable claim and allocated claim adjustment expense reserve development was due to non-catastrophe related favorable loss emergence on large property coverages, primarily in accident years 2007 and 2008.

Approximately \$25 million of favorable claim and allocated claim adjustment expense reserve development was due to decreased frequency and severity trends related to construction defect exposures in accident years 2003 and prior.

Approximately \$40 million of adverse premium development was related to changes in estimated ultimate premium on retrospectively rated coverages. Additional adverse premium development was due to an estimated liability for an assessment related to a reinsurance association and less premium processing on auditable policies than expected.

Table of Contents
**Six Month Comparison
 Net Prior Year Development
 Six months ended June 30, 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) A&E	\$ (150)	\$ (203)	\$ 3	\$ (350)
Pretax (favorable) unfavorable net prior year development before impact of premium development	(150)	(203)	3	(350)
Pretax (favorable) unfavorable premium development	(3)	56	(3)	50
Total pretax (favorable) unfavorable net prior year development	\$ (153)	\$ (147)	\$	\$ (300)

**Net Prior Year Development
 Six months ended June 30, 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) A&E	\$ (64)	\$ (127)	\$ 5	\$ (186)
Pretax (favorable) unfavorable net prior year development before impact of premium development	(64)	(127)	5	(186)
Pretax (favorable) unfavorable premium development	(3)	76	(3)	70

Total pretax (favorable) unfavorable net prior year development	\$	(67)	\$	(51)	\$	2	\$	(116)
		40						

Table of Contents

2010 Net Prior Year Development

CNA Specialty

The favorable claim and allocated claim adjustment expense reserve development was primarily due to professional liability coverages, as discussed below.

Approximately \$52 million of favorable claim and allocated claim adjustment expense reserve development was recorded for medical professional liability coverages primarily due to favorable incurred emergence, primarily in accident years 2007 and prior.

Favorable claim and allocated claim adjustment expense reserve development of approximately \$68 million was recorded for financial institutions, commercial governance and life agents coverages due to reduced frequency of large claims and favorable ceded recoveries, primarily in accident years 2007 and prior. Favorable development of \$28 million was recorded in architects and engineers coverages due to favorable incurred emergence and claims closing favorable to expectations, primarily in accident years 2007 and prior. This favorability was partially offset by unfavorable development of approximately \$28 million in employee practices liability 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 property, auto and international casualty coverages, as discussed below.

Approximately \$116 million of favorable claim and allocated claim adjustment expense reserve development was recorded for property coverages. Favorable development of \$53 million was recorded in catastrophe coverages due to favorable incurred loss emergence, primarily in accident years 2008 and 2009. Favorable claim and allocated claim adjustment expense reserve development of approximately \$63 million was recorded for non-catastrophe related property coverages, primarily due to decreased severity in accident years 2009 and prior.

Approximately \$61 million of favorable claim and allocated claim adjustment expense reserve development was primarily due to decreased frequency and severity trends in commercial auto coverages in accident years 2009 and prior.

Approximately \$47 million of favorable claim and allocated claim adjustment expense reserve development was recorded in international commercial coverages. Approximately \$25 million of favorable development was recorded due to decreased frequency across several lines within an affiliate, primarily in accident years 2008 and prior. The remaining favorable development was primarily due to a commutation within the Company's European operations book of renewable energy business.

Approximately \$32 million of unfavorable claim and allocated claim adjustment expense reserve development was due to increased claim frequency in a portion of our primary casualty surplus lines book in accident years 2008 and 2009.

Approximately \$56 million of unfavorable premium development was recorded due to a change in ultimate premium estimates relating to retrospectively rated policies and return premium on auditable policies due to reduced exposures.

Table of Contents

2009 Net Prior Year Development

CNA Specialty

Favorable claim and allocated claim adjustment expense reserve development of approximately \$25 million for medical professional liability was primarily due to better than expected frequency and severity in accident years 2005 and prior, including claims closing favorable to expectations.

Approximately \$28 million of favorable claim and allocated claim adjustment expense reserve development was recorded for professional liability coverages due primarily to favorable experience on a number of large claims related to financial institutions in accident years 2003 and prior and decreased frequency of large claims in accident years 2007 and prior.

An additional \$4 million of favorable claim and allocated claim adjustment expense reserve development was a result of favorable outcomes on claims relating to catastrophes in accident year 2005.

CNA Commercial

Favorable claim and allocated claim adjustment expense reserve development was primarily due to experience in property coverages. Prior year catastrophe reserves decreased approximately \$64 million, driven by the favorable settlement of several claims primarily in accident years 2005 and 2007, and favorable frequency and severity on claims relating to catastrophes in accident year 2008. An additional \$17 million of favorable claim and allocated claim adjustment expense reserve development was due to non-catastrophe related favorable loss emergence on large property coverages, primarily in accident years 2007 and 2008.

Approximately \$25 million of favorable claim and allocated claim adjustment expense reserve development was due to decreased frequency and severity trends related to construction defect exposures in accident years 2003 and prior.

Approximately \$40 million of adverse premium development was related to changes in estimated ultimate premium on retrospectively rated coverages. Additional adverse premium development was due to an estimated liability for an assessment related to a reinsurance association and less premium processing on auditable policies than expected.

Table of Contents**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.

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)

Periods ended June 30 (In millions)	Three Months		Six Months	
	2010	2009	2010	2009
Pension cost				
Service cost	\$ 4	\$ 3	\$ 8	\$ 8
Interest cost on projected benefit obligation	36	39	74	77
Expected return on plan assets	(40)	(36)	(81)	(72)
Actuarial loss amortization	6	6	12	12
Net periodic pension cost	\$ 6	\$ 12	\$ 13	\$ 25
Postretirement benefit				
Service cost	\$	\$	\$ 1	\$ 1
Interest cost on projected benefit obligation	2	2	4	4
Prior service cost amortization	(4)	(4)	(8)	(8)
Actuarial loss amortization	1		1	
Net periodic postretirement benefit	\$ (1)	\$ (2)	\$ (2)	\$ (3)

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 June 30, 2010 that the Company could be required to pay under this guarantee are approximately \$109 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 \$14 million at June 30, 2010, are \$10 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 June 30, 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 June 30, 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 June 30, 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 OTTI 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 analysis 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.

Table of Contents**Three months ended****June 30, 2010**

(In millions)

Revenues

	CNA Specialty	CNA Commercial	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Net earned premiums	\$ 665	\$ 797	\$ 146	\$ 1	\$ (1)	\$ 1,608
Net investment income	125	181	174	41		521
Other revenues	53	16	2	4		75
Total operating revenues	843	994	322	46	(1)	2,204

**Claims, benefits and
expenses**

Net incurred claims and benefits	320	484	314	19		1,137
Policyholders dividends	3	6	1			10
Amortization of deferred acquisition costs	154	186	5			345
Other insurance related expenses	47	107	45	(1)	(1)	197
Other expenses	50	11		37		98
Total claims, benefits and expenses	574	794	365	55	(1)	1,787

Operating income

(loss) from continuing operations before income tax

Income tax

(expense) benefit on

operating income (loss)

Net operating (income) loss,

after-tax, attributable to

noncontrolling interests

Net operating income

(loss) from continuing operations attributable to CNA

Net realized investment

gains (losses), net of participating policyholders interests

Income tax

(expense) benefit on net

realized investment gains
(losses)
Net realized investment
(gains) losses, after-tax,
attributable to
noncontrolling interests

Net realized investment
gains (losses) attributable to
CNA

21 (14) (1) 7 13

**Net income (loss) from
continuing operations
attributable to CNA**

\$ 189 \$ 110 \$ (19) \$ 2 \$ 282

46

Table of Contents**Three months ended****June 30, 2009**

(In millions)

Revenues

	CNA Specialty	CNA Commercial	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Net earned premiums	\$ 668	\$ 837	\$ 148	\$ 4	\$ (1)	\$ 1,656
Net investment income	157	283	168	67		675
Other revenues	45	19	(1)	(1)		62
Total operating revenues	870	1,139	315	70	(1)	2,393

**Claims, benefits and
expenses**

Net incurred claims and benefits	404	596	269	23		1,292
Policyholders dividends	3	(1)				2
Amortization of deferred acquisition costs	152	193	4			349
Other insurance related expenses	42	89	47	1	(1)	178
Other expenses	39	23	51	30		143
Total claims, benefits and expenses	640	900	371	54	(1)	1,964

Operating income
(loss) from continuing
operations before income
tax

230 239 (56) 16 429

Income tax

(expense) benefit on

operating income (loss)

(71) (66) 30 (3) (110)

Net operating (income) loss,

after-tax, attributable to

noncontrolling interests

(8) (6) (14)

Net operating income

(loss) from continuing

operations attributable to

CNA

151 167 (26) 13 305

Net realized investment
gains (losses), net of
participating policyholders
interests

(83) (183) 13 (44) (297)

Income tax

27 61 (4) 14 98

(expense) benefit on net

realized investment gains
(losses)
Net realized investment
(gains) losses, after-tax,
attributable to
noncontrolling interests

Net realized investment
gains (losses) attributable to
CNA

(56)	(122)	9	(30)	(199)
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**Net income (loss) from
continuing operations
attributable to CNA**

\$ 95	\$ 45	\$ (17)	\$ (17)	\$ 106
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Table of Contents**Six months ended**

June 30, 2010 (In millions)	CNA Specialty	CNA Commercial	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Revenues						
Net earned premiums	\$ 1,319	\$ 1,613	\$ 291	\$ 2	\$ (2)	\$ 3,223
Net investment income	272	399	349	91		1,111
Other revenues	105	34	6	6		151
Total operating revenues	1,696	2,046	646	99	(2)	4,485
Claims, benefits and expenses						
Net incurred claims and benefits	722	1,086	595	40		2,443
Policyholders dividends	4	7	1			12
Amortization of deferred acquisition costs	309	369	9			687
Other insurance related expenses	94	214	96	1	(2)	403
Other expenses	94	28	6	72		200
Total claims, benefits and expenses	1,223	1,704	707	113	(2)	3,745
Operating income (loss) from continuing operations before income tax	473	342	(61)	(14)		740
Income tax (expense) benefit on operating income (loss)	(158)	(111)	44	6		(219)
Net operating (income) loss, after-tax, attributable to noncontrolling interests	(19)	(10)				(29)
Net operating income (loss) from continuing operations attributable to CNA	296	221	(17)	(8)		492
Net realized investment gains (losses), net of participating policyholders interests	45 (15)	8 (8)	(5)	15 (5)		63 (28)

Income tax
(expense) benefit on net
realized investment gains
(losses)
Net realized investment
(gains) losses, after-tax,
attributable to
noncontrolling interests

Net realized investment
gains (losses) attributable
to CNA

30

(5)

10

35

**Net income (loss) from
continuing operations
attributable to CNA**

\$ 326

\$ 221

\$ (22)

\$ 2

\$ 527

June 30, 2010

(In millions)

Reinsurance receivables	\$ 1,049	\$ 2,137	\$ 1,577	\$ 1,794	\$ 6,557
Insurance receivables	\$ 677	\$ 1,201	\$ 9	\$ 5	\$ 1,892
Deferred acquisition costs	\$ 320	\$ 331	\$ 444	\$	\$ 1,095
Insurance reserves					
Claim and claim					
adjustment expenses	\$ 6,916	\$ 12,575	\$ 2,734	\$ 3,743	\$ 25,968
Unearned premiums	1,522	1,637	144	2	(2) 3,303
Future policy benefits			8,217		8,217
Policyholders funds	13	13	146		172

48

Table of Contents**Six months ended**

June 30, 2009 (In millions)	CNA Specialty	CNA Commercial	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Revenues						
Net earned premiums	\$ 1,327	\$ 1,700	\$ 298	\$ 5	\$ (2)	\$ 3,328
Net investment income	242	426	327	100		1,095
Other revenues	100	34	5	1		140
Total operating revenues	1,669	2,160	630	106	(2)	4,563
Claims, benefits and expenses						
Net incurred claims and benefits	799	1,210	574	44		2,627
Policyholders dividends	6	2	1			9
Amortization of deferred acquisition costs	300	388	10			698
Other insurance related expenses	83	183	93	2	(2)	359
Other expenses	88	39	57	60		244
Total claims, benefits and expenses	1,276	1,822	735	106	(2)	3,937
Operating income (loss) from continuing operations before income tax	393	338	(105)			626
Income tax (expense) benefit on operating income (loss)	(117)	(91)	57	4		(147)
Net operating (income) loss, after-tax, attributable to noncontrolling interests	(16)	(9)				(25)
Net operating income (loss) from continuing operations attributable to CNA	260	238	(48)	4		454
Net realized investment losses, net of participating policyholders interests	(192)	(369)	(177)	(91)		(829)
Income tax benefit on net realized investment losses	65	126	62	32		285

Net realized investment (gains) losses, after-tax, attributable to noncontrolling interests			1				1
Net realized investment losses attributable to CNA	(127)	(242)	(115)	(59)		(543)	
Net income (loss) from continuing operations attributable to CNA	\$ 133	\$ (4)	\$ (163)	\$ (55)	\$ (89)		
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		

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

Periods ended June 30 (In millions)	Three Months		Six Months	
	2010	2009	2010	2009
CNA Specialty				
Professional & Management Liability	\$ 634	\$ 566	\$ 1,265	\$ 1,054
International	48	33	99	70
Surety	119	119	233	232
Warranty & Alternative Risks	74	69	144	121
CNA Specialty revenues	875	787	1,741	1,477
CNA Commercial				
Commercial Insurance	690	648	1,403	1,173
Business Insurance	140	113	281	243
International	89	151	244	293
CNA Select Risk	62	44	126	82
CNA Commercial revenues	981	956	2,054	1,791
Life & Group Non-Core				
Life & Annuity	52	63	116	87
Health	266	266	520	363
Other	3	(1)	5	3
Life & Group Non-Core revenues	321	328	641	453
Corporate & Other Non-Core revenues	57	26	114	15
Eliminations	(1)	(1)	(2)	(2)
Total revenues	\$ 2,233	\$ 2,096	\$ 4,548	\$ 3,734

Table of Contents**Note L. IT Transformation**

During the first quarter of 2010, the Company commenced a program involving several initiatives 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 and \$4 million was incurred during the second quarter of 2010. Through June 30, 2010, the Company has paid \$6 million of these costs. 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 six months ended June 30, 2010 are as follows.

IT Transformation Costs by Segment**Six months ended June 30**

(In millions)

	2010
CNA Specialty	\$ 6
CNA Commercial	13
Life & Group Non-Core	8
Corporate & Other Non-Core	2

Total IT Transformation Costs	\$ 29
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Table of Contents

Note M. Subsequent Event

Agreement To Cede A&E Liabilities To National Indemnity Company

On July 14, 2010, CCC together with several of the Company's insurance subsidiaries entered into an agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., under which the Company's legacy A&E liabilities will be ceded to NICO.

Under the terms of the transaction, effective January 1, 2010 the Company will cede approximately \$1.6 billion of net A&E liabilities to NICO under a retroactive reinsurance agreement with an aggregate limit of \$4 billion. The aggregate reinsurance limit will also cover credit risk on existing third party reinsurance related to these liabilities.

The Company will pay to NICO a reinsurance premium of \$2 billion and also transfer to NICO the right to collect billed third party reinsurance receivables with a net book value of approximately \$200 million. To secure its obligations, NICO will deposit \$2.2 billion in a collateral trust for the benefit of the Company. In addition, Berkshire Hathaway Inc. will guarantee the payment obligations of NICO up to the full aggregate reinsurance limit as well as certain of NICO's performance obligations under the trust agreement.

NICO will assume responsibility for claims handling and collection from third party reinsurers related to the Company's A&E claims.

The closing of this transaction is subject to the receipt of required regulatory approvals and the satisfaction of other closing conditions. The closing is expected to occur in the third quarter of 2010 at which time the Company expects to recognize an after-tax loss of approximately \$375 million.

Table of Contents

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.

Agreement To Cede A&E Liabilities To National Indemnity Company

On July 14, 2010, Continental Casualty Company (CCC) with several of our other insurance subsidiaries entered into an agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., under which our legacy Asbestos and Environmental Pollution (A&E) liabilities will be ceded to NICO.

Under the terms of the transaction, effective January 1, 2010 we will cede approximately \$1.6 billion of net A&E liabilities to NICO under a retroactive reinsurance agreement with an aggregate limit of \$4 billion. The aggregate reinsurance limit will also cover credit risk on existing third party reinsurance related to these liabilities.

We will pay to NICO a reinsurance premium of \$2 billion and also transfer to NICO the right to collect billed third party reinsurance receivables with a net book value of approximately \$200 million. To secure its obligations, NICO will deposit \$2.2 billion in a collateral trust for our benefit. In addition, Berkshire Hathaway Inc. will guarantee the payment obligations of NICO up to the full aggregate reinsurance limit as well as certain of NICO's performance obligations under the trust agreement.

Table of Contents

NICO will assume responsibility for claims handling and collection from third party reinsurers related to our A&E claims.

The closing of this transaction is subject to the receipt of required regulatory approvals and the satisfaction of other closing conditions. The closing is expected to occur in the third quarter of 2010 at which time we expect to recognize an after-tax loss of approximately \$375 million.

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.

Periods ended June 30 (In millions)	Three Months		Six Months	
	2010	2009	2010	2009
Revenues				
Net earned premiums	\$ 1,608	\$ 1,656	\$ 3,223	\$ 3,328
Net investment income	521	675	1,111	1,095
Other revenues	75	62	151	140
 Total operating revenues	 2,204	 2,393	 4,485	 4,563
 Claims, benefits and expenses				
Net incurred claims and benefits	1,137	1,292	2,443	2,627
Policyholders' dividends	10	2	12	9
Amortization of deferred acquisition costs	345	349	687	698
Other insurance related expenses	197	178	403	359
Other expenses	98	143	200	244
 Total claims, benefits and expenses	 1,787	 1,964	 3,745	 3,937
 Operating income from continuing operations before income tax	 417	 429	 740	 626
Income tax expense on operating income	(129)	(110)	(219)	(147)
Net operating (income) loss, after-tax, attributable to noncontrolling interests	(19)	(14)	(29)	(25)
 Net operating income from continuing operations attributable to CNA	 269	 305	 492	 454
 Net realized investment gains (losses), net of participating policyholders' interests	 29	 (297)	 63	 (829)
Income tax (expense) benefit on net realized investment gains (losses)	(16)	98	(28)	285
Net realized investment (gains) losses, after-tax, attributable to noncontrolling interests				1
 Net realized investment gains (losses) attributable to CNA	 13	 (199)	 35	 (543)
 Income (loss) from continuing operations attributable to CNA	 282	 106	 527	 (89)

Income (loss) from discontinued operations attributable to CNA, net of income tax (expense) benefit of \$0, \$0, \$0 and \$0	1	(1)	1	(1)
Net income (loss) attributable to CNA	\$ 283	\$ 105	\$ 528	\$ (90)

Three Month Comparison

Net income improved \$178 million for the three months ended June 30, 2010 as compared with the same period in 2009. This improvement was driven by significantly improved net realized investment results.

Net realized investment results improved \$212 million for the three months ended June 30, 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.

Table of Contents

Net operating income decreased \$36 million for the three months ended June 30, 2010 as compared with the same period in 2009. This decrease was primarily due to lower net investment income, driven by significantly decreased limited partnership results, and decreased current accident year underwriting results, partially offset by increased favorable net prior year development. The 2010 results include \$4 million pretax of costs associated with our Information Technology (IT) Transformation as discussed below.

Favorable net prior year development of \$265 million and \$60 million was recorded for the three months ended June 30, 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 June 30, 2010 and 2009 is included in Note G of the Condensed Consolidated Financial Statements included under Item 1.

Net earned premiums decreased \$48 million for the three months ended June 30, 2010 as compared with the same period in 2009, driven by a \$40 million decrease in CNA Commercial. See the Segment Results section of this MD&A for further discussion.

Six Month Comparison

Net results improved \$618 million for the six months ended June 30, 2010 as compared with the same period in 2009. This improvement was driven by significantly improved net realized investment results.

Net realized investment results improved \$578 million for the six months ended June 30, 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 \$38 million for the six months ended June 30, 2010 as compared with the same period in 2009. This improvement was primarily due to increased favorable net prior year development, partially offset by decreased current accident year underwriting results, including higher catastrophe losses.

As further discussed in Note L of the Condensed Consolidated Financial Statements included under Item 1, we commenced a program during the first quarter of 2010 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 \$29 million was incurred through the second 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 \$300 million and \$116 million was recorded for the six months ended June 30, 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 six months ended June 30, 2010 and 2009 is included in Note G of the Condensed Consolidated Financial Statements included under Item 1.

Net earned premiums decreased \$105 million for the six months ended June 30, 2010 as compared with the same period in 2009, driven by an \$87 million decrease in CNA Commercial. See the Segment Results section of this MD&A for further discussion.

Table of Contents

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 2009 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

Periods ended June 30 (In millions)	Three Months		Six Months	
	2010	2009	2010	2009
Net written premiums	\$ 647	\$ 655	\$ 1,303	\$ 1,327
Net earned premiums	665	668	1,319	1,327
Net investment income	125	157	272	242
Net operating income	168	151	296	260
Net realized investment gains (losses), after-tax	21	(56)	30	(127)
Net income	189	95	326	133
Ratios				
Loss and loss adjustment expense	48.2%	60.4%	54.8%	60.2%
Expense	30.3	29.0	30.6	28.9
Dividend	0.5	0.4	0.3	0.4
Combined	79.0%	89.8%	85.7%	89.5%

Three Month Comparison

Net written premiums for CNA Specialty decreased \$8 million for the three months ended June 30, 2010 as compared with the same period in 2009. The decrease in net written premiums was driven by our architects & engineers 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 \$3 million as compared with the same period in 2009, consistent with the trend of lower net written premiums.

CNA Specialty's average rate decreased 2% for the three months ended June 30, 2010 and 2009 for the policies that renewed during those periods. Retention rates of 85% and 84% were achieved for those policies that were available for renewal in each period.

Net income improved \$94 million for the three months ended June 30, 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 \$17 million for the three months ended June 30, 2010 as compared with the same period in 2009. This improvement was primarily due to increased favorable net prior year development, partially offset by lower net investment income and increased expenses.

The combined ratio improved 10.8 points for the three months ended June 30, 2010 as compared with the same period in 2009. The loss ratio improved 12.2 points, primarily due to 13.5 points of increased favorable net prior year development. The expense ratio increased 1.3 points, primarily related to higher underwriting expenses and higher commission rates.

Favorable net prior year development of \$124 million was recorded for the three months ended June 30, 2010, compared to favorable net prior year development of \$33 million for the same period in 2009. Further information on CNA Specialty's net prior year development for the three months ended June 30, 2010 and 2009 is included in Note G of the Condensed Consolidated Financial Statements included under Item 1.

Table of Contents**Six Month Comparison**

Net written premiums for CNA Specialty decreased \$24 million and net earned premiums decreased \$8 million for the six months ended June 30, 2010 as compared to the same period in 2009, due primarily to the same reasons discussed above in the three month comparison.

CNA Specialty's average rate decreased 2% for the six months ended June 30, 2010 and 2009 for the policies that renewed during those periods. Retention rates of 87% and 85% were achieved for those policies that were available for renewal in each period.

Net income improved \$193 million for the six months ended June 30, 2010 as compared with the same period in 2009. This improvement was due primarily to the same reasons discussed above in the three month comparison.

Net operating income improved \$36 million for the six months ended June 30, 2010 as compared with the same period in 2009, primarily due to increased favorable net prior year development and increased net investment income, partially offset by increased expenses.

The combined ratio improved 3.8 points for the six months ended June 30, 2010 as compared with the same period in 2009. The loss ratio improved 5.4 points, primarily due to 6.4 points of increased favorable net prior year development. The expense ratio increased 1.7 points primarily related to higher underwriting expenses and higher commission rates. 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 \$153 million was recorded for the six months ended June 30, 2010 compared to favorable net prior year development of \$67 million for the same period in 2009. Further information on CNA Specialty's net prior year development for the six months ended June 30, 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 June 30, 2010 and December 31, 2009 for CNA Specialty.

Gross and Net Carried**Claim and Claim Adjustment Expense Reserves**

(In millions)	June 30, 2010	December 31, 2009
Gross Case Reserves	\$ 2,329	\$ 2,208
Gross IBNR Reserves	4,587	4,714
Total Gross Carried Claim and Claim Adjustment Expense Reserves	\$ 6,916	\$ 6,922
Net Case Reserves	\$ 1,918	\$ 1,781
Net IBNR Reserves	3,990	4,085
Total Net Carried Claim and Claim Adjustment Expense Reserves	\$ 5,908	\$ 5,866

Table of Contents**CNA COMMERCIAL**

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

Results of Operations

Periods ended June 30 (In millions)	Three Months		Six Months	
	2010	2009	2010	2009
Net written premiums	\$ 838	\$ 940	\$ 1,667	\$ 1,860
Net earned premiums	797	837	1,613	1,700
Net investment income	181	283	399	426
Net operating income	124	167	221	238
Net realized investment gains (losses), after-tax	(14)	(122)		(242)
Net income (loss)	110	45	221	(4)
Ratios				
Loss and loss adjustment expense	60.7%	71.2%	67.4%	71.2%
Expense	36.7	33.6	36.1	33.6
Dividend	0.8	(0.2)	0.4	0.1
 Combined	 98.2%	 104.6%	 103.9%	 104.9%

Three Month Comparison

Net written premiums for CNA Commercial decreased \$102 million for the three months ended June 30, 2010 as compared with the same period in 2009. Premiums written were unfavorably impacted by decreased insured exposures and decreased new business as a result of competitive market conditions. Current economic conditions have 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 \$40 million for the three months ended June 30, 2010 as compared with the same period in 2009, consistent with the trend of lower net written premiums.

CNA Commercial's average rate increased 2% for the three months ended June 30, 2010, as compared to flat rates for the three months ended June 30, 2009 for policies that renewed in each period. Retention rates of 79% and 80% were achieved for those policies that were available for renewal in each period.

Net income improved \$65 million for the three months ended June 30, 2010 as compared with the same period in 2009. This improvement was due to improved net realized investment results, partially offset by lower 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 decreased \$43 million for the three months ended June 30, 2010 as compared with the same period in 2009. This decrease was primarily driven by significantly lower net investment income and decreased current accident year underwriting results, partially offset by increased favorable net prior year development.

The combined ratio improved 6.4 points for the three months ended June 30, 2010 as compared with the same period in 2009. The loss ratio improved 10.5 points, primarily due to 13.5 points of increased favorable net prior year development, partially offset by increased catastrophe losses and the impact of a higher current accident year non-catastrophe loss ratio. Catastrophe losses were \$45 million, or 5.7 points of the loss ratio, for the three months ended June 30, 2010, as compared to \$40 million, or 4.8 points of the loss ratio, for the same period in 2009.

The expense ratio increased 3.1 points for the three months ended June 30, 2010 as compared with the same period in 2009, primarily related to higher underwriting expenses and the lower net earned premium base.

The dividend ratio increased 1.0 point for the three months ended June 30, 2010 as compared with the same period in 2009. The dividend ratio for the three months ended June 30, 2009 was impacted by favorable dividend development related to workers' compensation coverages.

Table of Contents

Favorable net prior year development of \$140 million was recorded for the three months ended June 30, 2010, compared to favorable net prior year development of \$29 million for the same period in 2009. Further information on CNA Commercial net prior year development for the three months ended June 30, 2010 and 2009 is included in Note G of the Condensed Consolidated Financial Statements included under Item 1.

Six Month Comparison

Net written premiums for CNA Commercial decreased \$193 million and net earned premiums decreased \$87 million for the six months ended June 30, 2010 as compared with the same period in 2009, primarily due to the same reasons discussed above in the three month comparison.

CNA Commercial's average rate increased 1% for the six months ended June 30, 2010, as compared to a decrease of 1% for the six months ended June 30, 2009 for policies that renewed in each period. Retention rates of 79% and 82% were achieved for those policies that were available for renewal in each period.

Net results improved \$225 million for the six months ended June 30, 2010 as compared with the same period in 2009, primarily due to the same reasons discussed above in the three month comparison.

Net operating income decreased \$17 million for the six months ended June 30, 2010 as compared with the same period in 2009. This decrease was primarily driven by decreased current accident year underwriting results, including higher catastrophe losses, and lower net investment income. These unfavorable items were partially offset by increased favorable net prior year development.

The combined ratio improved 1.0 point for the six months ended June 30, 2010 as compared with the same period in 2009. The loss ratio improved 3.8 points, primarily due to 6.1 points of increased favorable net prior year development, partially offset by increased catastrophe losses and the impact of a higher current accident year non-catastrophe loss ratio. Catastrophe losses were \$83 million, or 5.2 points of the loss ratio, for the six months ended June 30, 2010, as compared to \$52 million, or 3.1 points of the loss ratio, for the same period in 2009.

The expense ratio increased 2.5 points for the six months ended June 30, 2010 as compared with the same period in 2009, primarily due to the reasons discussed above in the three month comparison. 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 \$147 million was recorded for the six months ended June 30, 2010, compared to favorable net prior year development of \$51 million for the same period in 2009. Further information on CNA Commercial net prior year development for the six months ended June 30, 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 June 30, 2010 and December 31, 2009 for CNA Commercial.

Gross and Net Carried**Claim and Claim Adjustment Expense Reserves**

(In millions)	June 30, 2010	December 31, 2009
Gross Case Reserves	\$ 6,462	\$ 6,510
Gross IBNR Reserves	6,113	6,495
Total Gross Carried Claim and Claim Adjustment Expense Reserves	\$ 12,575	\$ 13,005
Net Case Reserves	\$ 5,255	\$ 5,269
Net IBNR Reserves	5,274	5,580
Total Net Carried Claim and Claim Adjustment Expense Reserves	\$ 10,529	\$ 10,849

Table of Contents**LIFE & GROUP NON-CORE**

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

Results of Operations

Periods ended June 30 (In millions)	Three Months		Six Months	
	2010	2009	2010	2009
Net earned premiums	\$ 146	\$ 148	\$ 291	\$ 298
Net investment income	174	168	349	327
Net operating loss	(18)	(26)	(17)	(48)
Net realized investment gains (losses), after-tax	(1)	9	(5)	(115)
Net loss	(19)	(17)	(22)	(163)

Three Month Comparison

Net earned premiums for Life & Group Non-Core decreased \$2 million for the three months ended June 30, 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 increased \$2 million for the three months ended June 30, 2010 as compared with the same period in 2009. This was primarily due to less favorable performance on our pension deposit business and decreased net realized investment results, largely offset by the favorable period over period impact of a \$28 million after-tax legal accrual recorded in the second quarter of 2009 related to a previously held limited partnership investment. See the Investments section of this MD&A for further discussion of net realized investment results.

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 second quarter of 2009, we decreased this pretax liability by \$31 million based on improved results from these investments. During the second quarter of 2010, we decreased this pretax liability by an additional \$6 million based on the results from these investments.

Six Month Comparison

Net earned premiums for Life & Group Non-Core decreased \$7 million for the six months ended June 30, 2010 as compared with the same period in 2009.

Net loss decreased \$141 million for the six months ended June 30, 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, the favorable period over period impact of the 2009 legal accrual as discussed above in the three month comparison and the impact of 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.

Table of Contents**CORPORATE & OTHER NON-CORE**

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

Results of Operations

Periods ended June 30 (In millions)	Three Months		Six Months	
	2010	2009	2010	2009
Net investment income	\$ 41	\$ 67	\$ 91	\$ 100
Net operating income (loss)	(5)	13	(8)	4
Net realized investment gains (losses), after-tax	7	(30)	10	(59)
Net income (loss)	2	(17)	2	(55)

Three Month Comparison

Net results improved \$19 million for the three months ended June 30, 2010 as compared with the same period in 2009 primarily due to improved net realized investment results, partially offset by lower net investment income. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Favorable net prior year development of \$1 million was recorded for the three months ended June 30, 2010, compared to unfavorable net prior year development of \$2 million for the same period of 2009. Further information on Corporate & Other Non-Core net prior year development for the three months ended June 30, 2010 and 2009 is included in Note G of the Condensed Consolidated Financial Statements included under Item 1.

Six Month Comparison

Net results improved \$57 million for the six months ended June 30, 2010 as compared with the same period in 2009, primarily due to improved net realized investment results, partially offset by higher interest expense and lower net investment income. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

There was no net prior year development recorded for the six months ended June 30, 2010. Unfavorable net prior year development of \$2 million was recorded for the same period of 2009. Further information on Corporate & Other Non-Core net prior year development for the six months ended June 30, 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 June 30, 2010 and December 31, 2009 for Corporate & Other Non-Core.

Gross and Net Carried**Claim and Claim Adjustment Expense Reserves**

(In millions)	June 30,		December 31,	
	2010		2009	
Gross Case Reserves	\$	1,497	\$	1,548
Gross IBNR Reserves		2,246		2,458
Total Gross Carried Claim and Claim Adjustment Expense Reserves	\$	3,743	\$	4,006
Net Case Reserves	\$	967	\$	972
Net IBNR Reserves		1,347		1,515
Total Net Carried Claim and Claim Adjustment Expense Reserves	\$	2,314	\$	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

Periods ended June 30 (In millions)	Three Months		Six Months	
	2010	2009	2010	2009
Fixed maturity securities	\$ 519	\$ 487	\$ 1,029	\$ 962
Short term investments	5	11	11	21
Limited partnerships	(4)	165	68	95
Equity securities	9	14	19	28
Trading portfolio	2	8	6	8
Other	3	1	5	4
 Gross investment income	 534	 686	 1,138	 1,118
Investment expense	(13)	(11)	(27)	(23)
 Net investment income	 \$ 521	 \$ 675	 \$ 1,111	 \$ 1,095

Net investment income for the three months ended June 30, 2010 decreased \$154 million as compared with the same period in 2009. The decrease was driven primarily by unfavorable results in our limited partnership investments, partially offset by an investment shift from lower yielding short term assets to higher yielding long term bonds. Limited partnership investments generally present greater volatility, higher illiquidity and greater risk than fixed income investments.

Net investment income for the six months ended June 30, 2010 increased \$16 million as compared with the same period in 2009. The increase was primarily driven by an investment shift from lower yielding short term assets to higher yielding long term bonds. The increase was partially offset by a decrease in limited partnership income, as discussed above.

The fixed maturity investment portfolio and short term investments provided a pretax effective income yield of 5.2% and 5.1% for the six months ended June 30, 2010 and 2009. Tax-exempt municipal bonds generated \$68 million and \$146 million of net investment income for the three and six months ended June 30, 2010 compared with \$104 million and \$205 million of net investment income for the same periods in 2009.

Table of Contents***Net Realized Investment Gains (Losses)***

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

Net Realized Investment Gains (Losses)

Periods ended June 30 (In millions)	Three Months		Six Months	
	2010	2009	2010	2009
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	\$ 4	\$ (6)	\$ 4	\$ (27)
Asset-backed securities	15	(307)	10	(499)
States, municipalities and political subdivisions securities	11	18	8	55
Foreign government securities	(1)	8	1	26
Corporate and other bonds	30	(105)	63	(296)
Redeemable preferred stock	7		7	(9)
Total fixed maturity securities	66	(392)	93	(750)
Equity securities	(28)	64	(25)	(152)
Derivative securities		33		64
Short term investments and other	(9)	(2)	(5)	9
Net realized investment gains (losses), net of participating policyholders' interests	29	(297)	63	(829)
Income tax (expense) benefit on net realized investment gains (losses)	(16)	98	(28)	285
Net realized investment (gains) losses, after-tax, attributable to noncontrolling interests				1
Net realized investment gains (losses) attributable to CNA	\$ 13	\$ (199)	\$ 35	\$ (543)

Net realized investment results improved \$212 million and \$578 million for the three and six months ended June 30, 2010 compared with the same periods in 2009. The improved results were 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 June 30, 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)	June 30, 2010	%	December 31, 2009	%
U.S. Government and Agencies	\$ 3,394	9%	\$ 3,705	10%
AAA rated	5,235	14	5,855	17
AA and A rated	14,289	38	12,464	35
BBB rated	10,844	29	10,122	28
Non-investment grade	3,803	10	3,466	10
Total	\$ 37,565	100%	\$ 35,612	100%

Table of Contents

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 \$3,903 million and \$3,637 million at June 30, 2010 and December 31, 2009. The following table summarizes the ratings of this portfolio at carrying value.

Non-investment Grade

Rating (In millions)	June 30,		December	
	2010	%	31, 2009	%
BB	\$ 1,390	37%	\$ 1,352	39%
B	1,306	34	1,255	36
CCC C	1,023	27	761	22
D	84	2	98	3
Total	\$ 3,803	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 June 30, 2010, \$432 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 AA- to AA+. Of this amount, over 98% was within the states, municipalities and political subdivisions securities sector.

At June 30, 2010 and December 31, 2009, approximately 98% and 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 June 30, 2010 was \$223 million, which represents approximately 0.5% of our total investment portfolio. These securities were in a net unrealized gain position of \$6 million at June 30, 2010.

The following table provides available-for-sale fixed maturity securities in a gross unrealized loss position at June 30, 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	12%	8%
Due after one year through five years	16	12
Due after five years through ten years	26	27
Due after ten years	46	53
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

Table of Contents

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

	June 30, 2010		December 31, 2009	
	Fair Value	Effective Duration	Fair Value	Effective Duration
(In millions)		(In years)		(In years)
Segregated investments	\$ 11,267	11.0	\$ 10,376	11.2
Other interest sensitive investments	29,924	4.2	29,665	4.0
Total Fair Value	\$ 41,191	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.

Asset-Backed Exposure**Asset-Backed Distribution**

June 30, 2010		Security Type		
	RMBS	CMBS	Other ABS	Total
(In millions)	(a)	(b)	(c)	
U.S. Government Agencies	\$ 3,198	\$ 31	\$	\$ 3,229
AAA	1,276	394	569	2,239
AA	246	218	52	516
A	165	236	29	430
BBB	244	82	67	393
Non-investment grade and equity tranches	1,193	30	16	1,239
Total Fair Value	\$ 6,322	\$ 991	\$ 733	\$ 8,046
Total Amortized Cost	\$ 6,526	\$ 1,052	\$ 733	\$ 8,311
Sub-prime (included above)				
Fair Value	\$ 527	\$	\$	\$ 527
Amortized Cost	\$ 594	\$	\$	\$ 594
Alt-A (included above)				
Fair Value	\$ 694	\$	\$	\$ 694
Amortized Cost	\$ 755	\$	\$	\$ 755

- (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 68% were rated investment grade, while 82% of the Alt-A securities were rated investment grade. At June 30, 2010, \$7 million of the carrying value of the sub-prime and Alt-A securities carried a third-party guarantee.

Table of Contents

Pretax OTTI losses of \$16 million for securities with sub-prime and Alt-A exposure were included in the \$41 million of pretax OTTI losses related to asset-backed securities recognized in earnings on the Condensed Consolidated Statement of Operations for the six months ended June 30, 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

	June 30, 2010	December 31, 2009
(In millions)		
Short term investments available-for-sale:		
Commercial paper	\$ 1,275	\$ 185
U.S. Treasury securities	1,259	3,025
Money market funds	144	179
Other	362	560
Total short term investments	\$ 3,040	\$ 3,949

There was no cash collateral held related to securities lending at June 30, 2010 or December 31, 2009.

Table of Contents

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 six months ended June 30, 2010, net cash provided by operating activities was \$581 million as compared with \$287 million for the same period in 2009. 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 reduced by \$142 million in 2009 related to net cash outflows which increased the size of the trading portfolio held at June 30, 2009. During 2010, operating cash flows were increased by \$153 million related to net cash inflows primarily from sales of trading securities.

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 six months ended June 30, 2010, net cash used by investing activities was \$523 million as compared with \$220 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 six months ended June 30, 2010, net cash used by financing activities was \$124 million as compared with \$59 million for the same period in 2009. Net cash used by financing activities in 2010 was primarily related to the payment of dividends on the 2008 Senior Preferred Stock to Loews Corporation. Additionally, we repaid \$50 million of an outstanding credit facility during the second quarter of 2010.

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. As discussed previously in this MD&A, CCC with several of our other insurance subsidiaries entered into an agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., under which our legacy A&E liabilities will be ceded to NICO. Under the terms of the agreement we will pay to NICO a reinsurance premium of \$2 billion. We expect to have sufficient funds to satisfy the required premium payment through existing cash, short term holdings, and expected cash flow from operations and the investment portfolio.

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.

70

Table of Contents

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, as well as the new federal financial regulatory reform of the insurance industry established by the Dodd-Frank Wall Street Reform and Consumer Protection Act;

increased operating costs and underwriting losses arising from the Patient Protection and Affordable Care Act and the related amendments in the Health Care and Education Reconciliation Act, as well as health care reform proposals at the state level;

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 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;

Table of Contents

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;

mass tort claims, including bodily injury claims related to welding rods, benzene, lead and noise induced hearing loss claims, as well as claims relating to various medical products including pharmaceuticals;

the risks and uncertainties associated with our loss reserves, as outlined in the Critical Accounting Estimates and the Reserves Estimates and Uncertainties sections under Item 7 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

with respect to the agreement to cede asbestos and environmental pollution (A&E) liabilities referenced in this document, the satisfaction of the conditions to closing, including receipt of regulatory approvals, whether the contemplated transaction will close, whether the other parties to the contemplated transaction will fully perform their obligations to CNA, the uncertainty in estimating loss reserves for A&E claims and the possible continued exposure of CNA to liabilities for A&E claims.

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.

Table of Contents

CNA Financial Corporation

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in our market risk components for the six months ended June 30, 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.

73

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 June 30, 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 June 30, 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 1A. Risk Factors

Our Annual Report on Form 10-K for the year ended December 31, 2009 includes a detailed discussion of certain material risk factors facing us. The information presented below describes updates and additions to such risk factors and should be read in conjunction with the risk factors and information disclosed in our Form 10-K.

We may face increased operating costs and underwriting losses arising from the federal health care reform legislation, as well as health care reform proposals at the state level.

The Patient Protection and Affordable Care Act and the related amendments in the Health Care and Education Reconciliation Act, enacted in March 2010, may increase our operating costs and underwriting losses. This landmark legislation may lead to numerous changes in the health care industry that could create additional operating costs for us, particularly with respect to our workers' compensation and long term care products. These costs might arise through the increased use of health care services by our claimants or the increased complexities in health care bills that could require additional levels of review. In addition, due to the expected number of new participants in the health care system and the potential for additional malpractice claims, we may experience increased underwriting risk in the lines of our business that provide management and professional liability insurance to individuals and businesses engaged in the health care industry. The lines of our business that provide professional liability insurance to attorneys, accountants and other professionals who advise clients regarding the health care reform legislation may also experience increased underwriting risk due to the complexity of the legislation. As a result, we may experience unanticipated underwriting losses with respect to these lines of business. Finally, we cannot predict with any certainty the impact upon us of the various health care reform proposals at the state level. Consequently, our results of operations, equity, business, insurer financial strength and debt ratings could be materially adversely impacted.

We are unable to predict the impact on us of the new federal financial regulatory reform.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July, 2010, expands the federal presence in insurance oversight. The Act's requirements include streamlining the state-based regulation of reinsurance and nonadmitted insurance (property or casualty insurance placed from insurers that are eligible to accept insurance, but are not licensed to write insurance in a particular state). The Act also establishes a new Federal Insurance Office within the U.S. Department of the Treasury with powers over all lines of insurance except health insurance, certain long-term care insurance and crop insurance, to, among other things, monitor aspects of the insurance industry, identify issues in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the overall financial system, coordinate federal policy on international insurance matters and preempt state insurance measures under certain circumstances. As the Act calls for numerous studies and contemplates further regulation, we are unable to predict with any certainty the overall impact the reform will have on us. As a result, our results of operations, equity, business, and insurer financial strength and debt ratings could be materially adversely impacted.

Item 6. Exhibits

See Exhibit Index.

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: August 3, 2010

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

76

Table of Contents

EXHIBIT INDEX

Description of Exhibit	Exhibit Number
Form of Long-Term Incentive Award Terms for Grant Under the CNA Financial Corporation Incentive Compensation Plan	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