CNA FINANCIAL CORP
Form 10-Q
November 02, 2009

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

FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from __________ to __________

Commission File Number 1-5823

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

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

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

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

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

Class	Outstanding at October 29, 2009
Common Stock, Par value $2.50	269,026,759

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

Periods ended September 30	**Three Months**		**Nine Months**	
(In millions, except per share data)	**2009**	**2008**	**2009**	**2008**
Revenues				
Net earned premiums	$ 1,707	$ 1,799	$ 5,035	$ 5,386
Net investment income	660	439	1,755	1,449
Net realized investment losses, net of participating policyholders interests:				
Other-than-temporary impairment losses	(232)	(584)	(1,330)	(840)
Portion of other-than-temporary impairment losses recognized in Other comprehensive income	84		173	
Net impairment losses recognized in earnings	(148)	(584)	(1,157)	(840)
Other net realized investment gains (losses)	48	(67)	228	27
Net realized investment losses, net of participating policyholders interests	(100)	(651)	(929)	(813)
Other revenues	73	72	213	240
Total revenues	2,340	1,659	6,074	6,262
Claims, Benefits and Expenses				
Insurance claims and policyholders benefits	1,283	1,519	3,919	4,380
Amortization of deferred acquisition costs	365	355	1,063	1,083
Other operating expenses	272	294	814	724
Interest	34	33	95	100
Total claims, benefits and expenses	1,954	2,201	5,891	6,287
Income (loss) from continuing operations before income tax	386	(542)	183	(25)
Income tax (expense) benefit	(108)	218	30	92
Income (loss) from continuing operations	278	(324)	213	67
Income (loss) from discontinued operations, net of income tax (expense) benefit of $0, $9, $0 and $9	(1)	9	(2)	10

Net income (loss)	277	(315)	211	77
Net income attributable to noncontrolling interests	(14)	(16)	(38)	(40)
Net income (loss) attributable to CNAF	$ 263	$ (331)	$ 173	$ 37
Income (Loss) Attributable to CNAF Common Stockholders				
Income (loss) from continuing operations attributable to CNAF	$ 264	$ (340)	$ 175	$ 27
Less: Dividends on 2008 Senior Preferred	(31)		(94)	
Income (loss) from continuing operations attributable to CNAF common stockholders	233	(340)	81	27
Income (loss) from discontinued operations attributable to CNAF common stockholders	(1)	9	(2)	10
Income (loss) attributable to CNAF common stockholders	$ 232	$ (331)	$ 79	$ 37

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

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Periods ended September 30	Three Months		Nine Months	
(In millions, except per share data)	2009	2008	2009	2008
Basic and Diluted Earnings (Loss) Per Share Attributable to CNAF Common Stockholders				
Income (loss) from continuing operations attributable to CNAF common stockholders	$ 0.86	$ (1.26)	$ 0.30	$ 0.10
Income (loss) from discontinued operations attributable to CNAF common stockholders		0.03	(0.01)	0.04
Basic and diluted earnings (loss) per share attributable to CNAF common stockholders	$ 0.86	$ (1.23)	$ 0.29	$ 0.14
Weighted Average Outstanding Common Stock and Common Stock Equivalents				
Basic	269.0	269.0	269.0	269.6
Diluted	269.2	269.1	269.1	269.6

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

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CNA Financial Corporation (CNAF)
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

Periods ended September 30	**Three Months**		**Nine Months**	
(In millions)	**2009**	**2008**	**2009**	**2008**
Net income (loss)	$ 277	$ (315)	$ 211	$ 77
Other comprehensive income (loss), net of tax				
Changes in:				
Net unrealized losses on investments with other-than-temporary impairments	(36)		(70)	
Net other unrealized gains (losses) on investments	1,906	(1,212)	3,815	(2,246)
Net unrealized gains (losses) on investments	1,870	(1,212)	3,745	(2,246)
Unrealized gains (losses) on discontinued operations and other	5	(3)	5	(3)
Foreign currency translation adjustment	39	(44)	110	(53)
Pension and postretirement benefits	1	(2)	4	(5)
Allocation to participating policyholders	(17)	10	(36)	24
Other comprehensive income (loss), net of tax	1,898	(1,251)	3,828	(2,283)
Comprehensive income (loss)	2,175	(1,566)	4,039	(2,206)
Net income attributable to noncontrolling interests	(14)	(16)	(38)	(40)
Other comprehensive (income) loss attributable to noncontrolling interests	(18)	9	(29)	17
Total comprehensive income (loss) attributable to CNAF	$ 2,143	$ (1,573)	$ 3,972	$ (2,229)

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

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CNA Financial Corporation (CNAF)
Condensed Consolidated Balance Sheets (Unaudited)

(In millions, except share data)	September 30, 2009	December 31, 2008
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of $34,880 and $34,155)	$ 34,718	$ 28,887
Equity securities at fair value (cost of $639 and $1,016)	972	871
Limited partnership investments	1,890	1,683
Other invested assets	6	28
Short term investments	4,075	3,534
Total investments	41,661	35,003
Cash	128	85
Reinsurance receivables (less allowance for uncollectible receivables of $357 and $366)	6,644	7,395
Insurance receivables (less allowance for doubtful accounts of $211 and $221)	1,720	1,818
Accrued investment income	429	356
Receivables for securities sold and collateral	235	402
Deferred acquisition costs	1,138	1,125
Prepaid reinsurance premiums	223	237
Federal income tax recoverable (includes $428 and $299 due from Loews Corporation)	434	294
Deferred income taxes	1,383	3,493
Property and equipment at cost (less accumulated depreciation of $488 and $641)	363	393
Goodwill and other intangible assets	141	141
Other assets	624	562
Separate account business	452	384
Total assets	$ 55,575	$ 51,688
Liabilities and Equity		
Liabilities:		
Insurance reserves:		
Claim and claim adjustment expenses	$ 26,906	$ 27,593
Unearned premiums	3,392	3,406
Future policy benefits	7,864	7,529
Policyholders funds	200	243
Collateral on loaned securities and derivatives	1	6
Payables for securities purchased	502	12
Participating policyholders funds	55	20
Long term debt	2,056	2,058
Reinsurance balances payable	339	316

Other liabilities	2,553	2,824
Separate account business	452	384
Total liabilities	44,320	44,391
Commitments and contingencies (Notes D, E, G, H, and J)		
Equity:		
Preferred stock (12,500,000 shares authorized)		
2008 Senior Preferred (no par value; $100,000 stated value; 12,500 shares issued; held by Loews Corporation)	1,250	1,250
Common stock ($2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; and 269,026,759 and 269,024,408 shares outstanding)	683	683
Additional paid-in capital	2,176	2,174
Retained earnings	7,046	6,845
Accumulated other comprehensive loss	(247)	(3,924)
Treasury stock (4,013,484 and 4,015,835 shares), at cost	(109)	(109)
Notes receivable for the issuance of common stock	(30)	(42)
Total CNAF stockholders equity	10,769	6,877
Noncontrolling interests	486	420
Total equity	11,255	7,297
Total liabilities and equity	$ 55,575	$ 51,688

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

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

Nine months ended September 30 (In millions)	**2009**	**2008**
Cash Flows from Operating Activities		
Net income	$ 211	$ 77
Adjustments to reconcile net income to net cash flows provided by operating activities:		
(Income) loss from discontinued operations	2	(10)
Loss on disposal of property and equipment	13	1
Deferred income tax provision	81	6
Trading portfolio activity	(621)	472
Net realized investment losses, net of participating policyholders interests	929	813
Undistributed (earnings) losses of equity method investees	(151)	137
Net amortization of investment discount	(169)	(217)
Depreciation	63	56
Changes in:		
Receivables, net	849	712
Accrued investment income	(73)	(54)
Deferred acquisition costs	(13)	4
Prepaid reinsurance premiums	14	(6)
Federal income taxes recoverable	(140)	(276)
Insurance reserves	(488)	(238)
Reinsurance balances payable	23	(34)
Other assets	(66)	(6)
Other liabilities	(177)	(174)
Other, net	4	5
Total adjustments	80	1,191
Net cash flows provided by operating activities-continuing operations	$ 291	$ 1,268
Net cash flows used by operating activities-discontinued operations	$ (16)	$ (7)
Net cash flows provided by operating activities-total	$ 275	$ 1,261
Cash Flows from Investing Activities		
Purchases of fixed maturity securities	$ (18,099)	$ (39,989)
Proceeds from fixed maturity securities:		
Sales	15,507	36,545
Maturities, calls and redemptions	2,568	3,374
Purchases of equity securities	(262)	(170)
Proceeds from sales of equity securities	510	177
Change in short term investments	(460)	(165)
Change in collateral on loaned securities and derivatives	(5)	(57)

Change in other investments	101	(153)
Purchases of property and equipment	(46)	(90)
Other, net	2	3
Net cash flows used by investing activities-continuing operations	$ (184)	$ (525)
Net cash flows provided by investing activities-discontinued operations	$ 16	$ 17
Net cash flows used by investing activities-total	$ (168)	$ (508)

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

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Nine months ended September 30 (In millions)	2009	2008
Cash Flows from Financing Activities		
Dividends paid to common stockholders	$	$ (122)
Dividends paid to Loews Corporation for 2008 Senior Preferred	(94)	
Principal payments on debt		(150)
Return of investment contract account balances	(10)	(421)
Receipts on investment contract account balances	3	3
Stock options exercised	1	1
Purchase of treasury stock		(70)
Other, net	28	26
Net cash flows used by financing activities-continuing operations	$ (72)	$ (733)
Net cash flows provided (used) by financing activities-discontinued operations	$	$
Net cash flows used by financing activities-total	$ (72)	$ (733)
Effect of foreign exchange rate changes on cash-continuing operations	8	(6)
Net change in cash	43	14
Net cash transactions from continuing operations to discontinued operations		17
Net cash transactions from discontinued operations to continuing operations		(17)
Cash, beginning of year	85	101
Cash, end of period	$ 128	$ 115
Cash-continuing operations	$ 128	$ 115
Cash-discontinued operations		
Cash-total	$ 128	$ 115

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

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CNA Financial Corporation (CNAF)
Condensed Consolidated Statements of Equity (Unaudited)

Nine months ended September 30 (In millions)	2009	2008
Preferred Stock		
Balance, beginning and end of period	$ 1,250	$
Common Stock		
Balance, beginning and end of period	683	683
Additional Paid-in Capital		
Balance, beginning of period	2,174	2,169
Stock-based compensation and other	2	3
Balance, end of period	2,176	2,172
Retained Earnings		
Balance, beginning of period	6,845	7,285
Cumulative effect adjustment from change in impairment accounting guidance	122	
Dividends paid to common stockholders		(122)
Dividends paid to Loews Corporation for 2008 Senior Preferred	(94)	
Net income attributable to CNAF	173	37
Balance, end of period	7,046	7,200
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	(3,924)	103
Cumulative effect adjustment from change in impairment accounting guidance	(122)	
Other comprehensive income (loss) attributable to CNAF	3,799	(2,266)
Balance, end of period	(247)	(2,163)
Treasury Stock		
Balance, beginning of period	(109)	(39)
Purchase of treasury stock		(70)
Balance, end of period	(109)	(109)

Notes Receivable for the Issuance of Common Stock		
Balance, beginning of period	(42)	(51)
Decrease in notes receivable for the issuance of common stock	12	4
Balance, end of period	(30)	(47)
Total CNAF Stockholders Equity	10,769	7,736
Noncontrolling Interests		
Balance, beginning of period	420	385
Net income	38	40
Other comprehensive income (loss)	29	(17)
Other	(1)	(4)
Balance, end of period	486	404
Total Equity	$ 11,255	$ 8,140

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

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CNA Financial Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)
Note A. Basis of Presentation

The Condensed Consolidated Financial Statements (Unaudited) include the accounts of CNA Financial Corporation (CNAF) and its controlled subsidiaries. Collectively, CNAF and its subsidiaries are referred to as CNA or the Company. CNA s property and casualty and remaining life and group insurance operations are primarily conducted by Continental Casualty Company (CCC), The Continental Insurance Company (CIC), Continental Assurance Company (CAC) and CNA Surety Corporation (CNA Surety). The Company owned approximately 62% of the outstanding common stock of CNA Surety as of September 30, 2009. Loews Corporation (Loews) owned approximately 90% of the outstanding common stock of CNAF as of September 30, 2009.

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, 2008. 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 September 30, 2009 and for the three and nine months ended September 30, 2009 and 2008 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. For the period ended September 30, 2009, management has evaluated all subsequent events through the filing date of November 2, 2009.

Note B. Accounting Standards Updates

Recognition and Presentation of Other-Than-Temporary Impairments

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

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

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

The adoption of this updated accounting guidance as of April 1, 2009 resulted in a cumulative effect adjustment of $122 million, net of tax, which was reclassified to Accumulated other comprehensive income (AOCI) from Retained earnings on the Condensed Consolidated Statement of Equity. The cumulative effect adjustment represents the non-credit component of those previously impaired fixed maturity securities that are still considered OTTI, and the entire amount previously recorded as an OTTI loss on fixed maturity securities no longer considered OTTI as of April 1, 2009.

Note C. Earnings (Loss) Per Share

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

For the three and nine months ended September 30, 2009, approximately 160 thousand and 90 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 1.7 million and 2.0 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 September 30, 2008, as a result of the net loss, no 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. For the nine months ended September 30, 2008, approximately 60 thousand potential shares attributable to exercises under stock-based employee compensation plans were included in the calculation of diluted earnings per share. For that same period, approximately 1.1 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.

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. Dividends of $31 million and $94 million on the 2008 Senior Preferred were declared and paid for the three and nine months ended September 30, 2009.

No common stock dividends were declared or paid for the three or nine months ended September 30, 2009. Dividends of $0.15 and $0.45 per share of common stock were declared and paid for the three and nine months ended September 30, 2008.

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Note D. Investments

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

Net Investment Income

Periods ended September 30	**Three Months**		**Nine Months**	
(In millions)	**2009**	**2008**	**2009**	**2008**
Fixed maturity securities	$ 496	$ 501	$ 1,458	$ 1,495
Short term investments	7	29	28	94
Limited partnerships	145	(77)	240	(70)
Equity securities	11	18	39	62
Trading portfolio indexed group annuity (a)		(22)		(103)
Trading portfolio other (b)	12	(1)	20	(1)
Other	2	3	6	14
Gross investment income	673	451	1,791	1,491
Investment expense	(13)	(12)	(36)	(42)
Net investment income	$ 660	$ 439	$ 1,755	$ 1,449

(a) The gains (losses) related to the indexed group annuity trading portfolio, including net unrealized gains (losses), were substantially offset by a corresponding change in the policyholders funds reserves supported by this trading portfolio, which was included in Insurance claims and policyholders benefits on the Condensed Consolidated Statements of Operations.

(b) Net unrealized gains on trading securities still held included in net investment income were $6 million for the three and nine months ended September 30, 2009.

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

Net Realized Investment Gains (Losses)

Periods ended September 30	**Three Months**		**Nine Months**	
(In millions)	**2009**	**2008**	**2009**	**2008**
Net realized investment gains (losses):				
Fixed maturity securities:				
Gross realized gains	$ 148	$ 75	$ 352	$ 275
Gross realized losses	(260)	(390)	(1,214)	(750)
Net realized investment losses on fixed maturity securities	(112)	(315)	(862)	(475)
Equity securities:				
Gross realized gains	20	10	97	21
Gross realized losses	(1)	(386)	(230)	(426)
Net realized investment gains (losses) on equity securities	19	(376)	(133)	(405)
Derivatives	(13)	35	51	47
Short term investments and other	6	5	15	20
Net realized investment losses, net of participating policyholders interests	$ (100)	$ (651)	$ (929)	$ (813)

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

Periods ended September 30	**Three Months**		**Nine Months**	
(In millions)	**2009**	**2008**	**2009**	**2008**
Fixed maturity securities available-for-sale:				
Asset-backed securities:				
Residential mortgage-backed securities	$ 108	$ 29	$ 376	$ 142
Commercial mortgage-backed securities	4	1	185	57
Other asset-backed securities			31	10
Total asset-backed securities	112	30	592	209
States, municipalities and political subdivisions tax-exempt securities	12	1	27	1
Corporate and other taxable bonds	24	247	308	288
Redeemable preferred stock			9	
Total fixed maturity securities available-for-sale	148	278	936	498
Equity securities available-for-sale:				
Common stock		51	4	79
Preferred stock		255	217	263
Total equity securities available-for-sale		306	221	342
Net OTTI losses recognized in earnings	$ 148	$ 584	$ 1,157	$ 840

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

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

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

The Company performs the discounted cash flow analysis using distressed 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 the non-redeemable preferred stock securities. 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 table provides a summary of fixed maturity and equity securities.

Summary of Fixed Maturity and Equity Securities

September 30, 2009 (In millions)	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses: Less than 12 Months**	**Gross Unrealized Losses: 12 Months or Greater**	**Estimated Fair Value**	**Unrealized OTTI Losses**
Fixed maturity securities available-for-sale:						
U.S. Treasury securities and obligations of government agencies	$ 223	$ 27	$ 1	$	$ 249	$
Asset-backed securities:						
Residential mortgage-backed securities	7,345	81	371	500	6,555	190
Commercial mortgage-backed securities	760	4	4	161	599	6
Other asset-backed securities	701	12	1	40	672	
Total asset-backed securities	8,806	97	376	701	7,826	196
States, municipalities and political subdivisions tax-exempt securities	7,434	295	75	168	7,486	
Corporate and other taxable bonds	17,752	1,233	281	214	18,490	25
Redeemable preferred stock	49	3		1	51	
Total fixed maturity securities available-for-sale	34,264	1,655	733	1,084	34,102	$ 221

Total fixed maturity securities trading	616				616
Equity securities available-for-sale:					
Common stock	60	381		2	439
Preferred stock	579	39	18	67	533
Total equity securities available-for-sale	639	420	18	69	972
Total	$ 35,519	$ 2,075	$ 751	$ 1,153	$ 35,690

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Summary of Fixed Maturity and Equity Securities

December 31, 2008 (In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	Gross Unrealized Losses 12 Months or Greater	Estimated Fair Value
Fixed maturity securities available-for-sale:					
U.S. Treasury securities and obligations of government agencies	$ 2,862	$ 69	$ 1	$	$ 2,930
Asset-backed securities	9,670	24	961	969	7,764
States, municipalities and political subdivisions tax-exempt securities	8,557	90	609	623	7,415
Corporate and other taxable bonds	12,993	275	1,164	1,374	10,730
Redeemable preferred stock	72	1	23	3	47
Total fixed maturity securities available-for-sale	34,154	459	2,758	2,969	28,886
Total fixed maturity securities trading	1				1
Equity securities available-for-sale:					
Common stock	134	190	1	3	320
Preferred stock	882	5	15	321	551
Total equity securities available-for-sale	1,016	195	16	324	871
Total	$ 35,171	$ 654	$ 2,774	$ 3,293	$ 29,758

The amount of pretax net unrealized losses on available-for-sale securities reclassified out of AOCI into earnings was $92 million and $989 million for the three and nine months ended September 30, 2009.

Activity for the three months ended September 30, 2009 and for the period from April 1, 2009 to September 30, 2009 related to the pretax fixed maturity credit loss component reflected within Retained earnings for securities still held at September 30, 2009 was as follows.

(In millions)	Three Months ended September 30, 2009	Period from April 1, 2009 to September 30, 2009
Beginning balance of credit losses on fixed maturity securities	$ 212	$ 192

Additional credit losses for which an OTTI loss was previously recognized		57		78
Additional credit losses for which an OTTI loss was not previously recognized		65		149
Reductions for securities sold during the period		(114)		(150)
Reductions for securities the Company intends to sell or more likely than not will be required to sell		(11)		(60)
Ending balance of credit losses on fixed maturity securities	$	209	$	209

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 September 30, 2009 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 & Poors (S&P), Moody s Investor Services, 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.

The market disruption that emerged during 2008 has significantly subsided in the third quarter of 2009. The government has initiated programs intended to stabilize and improve markets and the economy. While the ultimate impact of these programs remains uncertain and economic conditions in the U.S. remain challenging, financial markets have shown improvement in the third quarter. Risk free interest rates approached multi-year lows and corporate credit spreads continued to narrow resulting in improvement in the Company s unrealized position. However, fair market values in the asset-backed sector continue to be depressed due to continued concerns with underlying residential and commercial collateral.

Common stock holdings at September 30, 2009 were in a gross unrealized gain of $381 million. The majority of this gain was the Company s common stock holdings in Verisk Analytics Inc. (Verisk), which began trading on October 7, 2009 after an initial public offering (IPO). The gross unrealized gain reflects this security valued using the IPO price as a significant input. The Company sold all of its common stock holdings in the IPO resulting in a pretax realized investment gain of $370 million that will be reflected in the fourth quarter of 2009.

Asset-Backed Securities

The fair value of total asset-backed holdings at September 30, 2009 was $7,826 million which was comprised of over 2,125 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, 224 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 315 structured securities in a gross unrealized loss position. In addition, there were 49 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 17% of amortized cost.

Commercial mortgage-backed securities include 41 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 24% of amortized cost.

Other asset-backed securities include 27 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 12% of amortized cost.

The following table summarizes asset-backed securities in a gross unrealized loss position by ratings distribution at September 30, 2009.

Gross Unrealized Losses by Ratings Distribution
September 30, 2009
(In millions)

Rating	Amortized Cost	Estimated Fair Value	Gross Unrealized Loss
U.S. Government Agencies	$ 409	$ 400	$ 9
AAA	2,730	2,363	367
AA	490	384	106
A	457	342	115
BBB	422	336	86
Non-investment grade and equity tranches	1,652	1,258	394
Total	$ 6,160	$ 5,083	$ 1,077

The Company believes the unrealized losses are primarily attributable to broader economic conditions, liquidity concerns and wider than historical bid/ask spreads brought about as a result of portfolio liquidations and is not indicative of the quality of the underlying collateral. The Company has no current

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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 credit worthiness, 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 September 30, 2009.

States, Municipalities and Political Subdivisions Tax-Exempt Securities

The tax-exempt portfolio consists primarily of special revenue and assessment bonds, representing 82% of the overall portfolio, followed by general obligation political subdivision bonds at 15% and state general obligation bonds at 3%. The unrealized losses on the Company s investments in tax-exempt municipal securities are due to market conditions in certain sectors or states that continue to lag behind the broader municipal market recovery. Market conditions in the tax-exempt sector have improved during 2009. However, yields for certain issuers and types of securities, such as auction rate and tobacco securitizations, continue to be higher than historical norms relative to after-tax returns on other fixed income alternatives. The holdings for all tax-exempt securities in this category include 249 securities in a gross unrealized loss position. The aggregate severity of the total gross unrealized losses was approximately 8% of amortized cost.

The following table summarizes the ratings distribution of tax-exempt securities in a gross unrealized loss position at September 30, 2009.

Gross Unrealized Losses by Ratings Distribution
September 30, 2009
(In millions)

Rating	Amortized Cost	Estimated Fair Value	Gross Unrealized Loss
AAA	$ 1,127	$ 1,089	$ 38
AA	664	591	73
A	333	315	18
BBB	712	600	112
Non-investment grade	48	46	2
Total	$ 2,884	$ 2,641	$ 243

The largest exposures at September 30, 2009 as measured by gross unrealized losses were special revenue bonds issued by several states backed by tobacco settlement funds with gross unrealized losses of $106 million, and several separate issues of Puerto Rico sales tax revenue bonds with gross unrealized losses of $45 million. All of these securities are 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 credit worthiness; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at September 30, 2009.

Corporate and Other Taxable Bonds

The holdings in this category include 405 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized losses was approximately 12% of amortized cost.

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The following tables summarize corporate and other taxable bonds in a gross unrealized loss position at September 30, 2009 across industry sectors and by ratings distribution.

September 30, 2009 (In millions)	**Amortized Cost**	**Estimated Fair Value**	**Gross Unrealized Loss**
Communications	$ 287	$ 276	$ 11
Consumer, Cyclical	490	434	56
Consumer, Non-cyclical	275	256	19
Energy	315	296	19
Financial	1,962	1,670	292
Industrial	235	211	24
Utilities	469	419	50
Other	252	228	24
Total	$ 4,285	$ 3,790	$ 495

Gross Unrealized Losses by Ratings Distribution
September 30, 2009
(In millions)

Rating	**Amortized Cost**	**Estimated Fair Value**	**Gross Unrealized Loss**
AAA	$ 63	$ 57	$ 6
AA	80	79	1
A	951	864	87
BBB	1,900	1,686	214
Non-investment grade	1,291	1,104	187
Total	$ 4,285	$ 3,790	$ 495

The unrealized losses on corporate and other taxable bonds are primarily attributable to lingering impacts of the broader credit market deterioration throughout 2008 that resulted in widening of credit spreads over risk free interest rates beyond historical norms. These conditions continue in certain sectors, such as financial, that the market continues to view as out of favor. Overall conditions in the corporate bond market have significantly improved throughout 2009 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 credit worthiness; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at September 30, 2009.

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 financial industry sector presented above includes hybrid debt securities with an aggregate fair value of $711 million and an aggregate amortized cost of $899 million.

Non-Redeemable Preferred Stock

The unrealized losses on the Company s investments in non-redeemable preferred stock were caused by factors similar to those that affected the Company s corporate bond portfolio. Approximately 79% of the gross unrealized losses in this category come from securities issued by financial institutions and 21% from utilities. The holdings in this category include 23 securities in a gross unrealized loss position. The following table summarizes non-redeemable preferred stocks in a gross unrealized loss position at September 30, 2009 by ratings distribution.

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Gross Unrealized Losses by Ratings Distribution
September 30, 2009
(In millions)

Rating	Amortized Cost	Estimated Fair Value	Gross Unrealized Loss
A	$ 95	$ 81	$ 14
BBB	396	331	65
Non-investment grade	18	12	6
Total	$ 509	$ 424	$ 85

The majority of securities in this category relate to the banking and mortgage industries. These securities continue to experience what the Company believes to be temporarily depressed valuations. The Company has no current intent to sell these securities, nor is it more likely than not 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 credit worthiness; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at September 30, 2009. This evaluation was made on the basis that these securities possess characteristics similar to debt securities and that the issuers maintain their ability to pay dividends.

Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at September 30, 2009 and December 31, 2008. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

	September 30, 2009		December 31, 2008	
Contractual Maturity (In millions)	**Cost or Amortized Cost**	**Estimated Fair Value**	**Cost or Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$ 1,206	$ 1,176	$ 3,105	$ 2,707
Due after one year through five years	10,058	9,990	10,295	9,210
Due after five years through ten years	8,998	8,928	5,929	4,822
Due after ten years	14,002	14,008	14,825	12,147
Total	$ 34,264	$ 34,102	$ 34,154	$ 28,886

Auction Rate Securities

The investment portfolio includes auction rate securities which are primarily issued by student loan agencies from ten states and are substantially guaranteed by the Federal Family Education Loan Program (FFELP). The fair value of auction rate securities held at September 30, 2009 was $945 million, with no gross unrealized gains and gross unrealized losses of $75 million. The average rating on these holdings was AAA. At September 30, 2009, three auction rate securities, with a fair value of $68 million and gross unrealized losses of $20 million, were paying below market penalty rates.

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Limited Partnerships

The carrying value of limited partnerships as of September 30, 2009 and December 31, 2008 was approximately $1.9 billion and $1.7 billion. At September 30, 2009, limited partnerships comprising 47% of the total carrying value are reported on a current basis through September 30, 2009 with no reporting lag, 43% are reported on a one month lag and the remainder are reported on more than a one month lag. As of September 30, 2009 and December 31, 2008, the Company had 78 and 82 active limited partnership investments. The number of limited partnerships held and the strategies employed provide diversification to the limited partnership portfolio and the overall invested asset portfolio. The Company generally does not invest in highly leveraged partnerships.

Of the limited partnerships held, 90% or approximately $1.7 billion in carrying value at September 30, 2009 and 89% or approximately $1.5 billion in carrying value at December 31, 2008, employ strategies that generate returns through investing in securities that are marketable while engaging in various management techniques primarily in public fixed income and equity markets. These hedge fund strategies include both long and short positions in fixed income, equity and derivative instruments. The hedge fund strategies may seek to generate gains from mispriced or undervalued securities, price differentials between securities, distressed investments, sector rotation, or various arbitrage disciplines. Within hedge fund strategies, approximately 46% are equity related, 28% pursue a multi-strategy approach, 21% are focused on distressed investments and 5% are fixed income related.

Limited partnerships representing 6% or $117 million at September 30, 2009 and 7% or $126 million at December 31, 2008 were invested in private equity. The remaining were invested in various other partnerships including real estate.

The ten largest limited partnership positions held totaled $1,164 million and $915 million as of September 30, 2009 and December 31, 2008. Based on the most recent information available regarding the Company s percentage ownership of the individual limited partnerships, the carrying value reflected on the Condensed Consolidated Balance Sheets represents approximately 4% and 3% of the aggregate partnership equity at September 30, 2009 and December 31, 2008, and the related income reflected on the Condensed Consolidated Statements of Operations represents approximately 4% of the changes in partnership equity for all limited partnership investments for the nine months ended September 30, 2009 and 2008.

The risks associated with limited partnership investments may include losses due to leveraging, short-selling, derivatives or other speculative investment practices. The use of leverage increases volatility generated by the underlying investment strategies.

Investment Commitments

As of September 30, 2009, the Company had committed approximately $254 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in multiple bank loan participations 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 settlement is made. As of September 30, 2009, the Company had commitments to purchase $295 million and sell $214 million of various bank loan participations. When loan participation purchases are settled and recorded they may contain both funded and unfunded amounts. An unfunded loan represents an obligation by the Company to provide additional amounts under the terms of the loan participation. The funded portions are reflected on the Condensed Consolidated Balance Sheets, while any unfunded amounts are not recorded until a draw is made under the loan facility. As of September 30, 2009, the Company had obligations on unfunded bank loan participations in the amount of $9 million.

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 infrequently applies hedge accounting treatment to derivative hedging transactions.

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.

The tables below summarize CDS contracts where the Company sold credit protection as of September 30, 2009 and December 31, 2008. The fair value of the contracts represents the amount that the Company would have to 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. The largest single reference obligation as of September 30, 2009 represented 76% of the total notional value and was rated BBB. The largest single reference obligation as of December 31, 2008 represented 20% of the total notional value and was rated AAA.

Credit Ratings of Underlying Reference Obligations

September 30, 2009 (In millions)	**Fair Value of Credit Default Swaps**	**Maximum Amount of Future Payments under Credit Default Swaps**	**Weighted Average Years to Maturity**
BBB	$	$ 25	0.2
B		8	3.4
Total	$	$ 33	1.0

Credit Ratings of Underlying Reference Obligations

December 31, 2008 (In millions)	**Fair Value of Credit Default Swaps**	**Maximum Amount of Future Payments under Credit Default Swaps**	**Weighted Average Years to Maturity**
AAA/AA/A	$ (8)	$ 40	12.3
BBB	(4)	55	3.1
B	(2)	8	4.1
CCC and lower	(29)	45	4.5
Total	$ (43)	$ 148	6.1

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 $9 million and $74 million at September 30, 2009 and December 31, 2008. The fair value of cash collateral received from counterparties was $1 million and $6 million at September 30, 2009 and December 31, 2008.

See Note F for information regarding the fair value of derivatives securities. The Company s accounting for changes in the fair value of derivatives not held in a trading portfolio is reported in Net realized investment gains (losses) on the Condensed Consolidated Statements of Operations.

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

Recognized Gains (Losses)

Periods ended September 30	**Three Months**		**Nine Months**	
(In millions)	**2009**	**2008**	**2009**	**2008**
Without hedge designation				
Interest rate swaps	$	$ 4	$ 61	$ 6
Credit default swaps purchased protection	(11)	53	(46)	64
Credit default swaps sold protection		(4)	2	(13)
Total return swaps			(2)	
Futures sold, not yet purchased	(2)	(23)	21	(12)
Commitments to purchase government and municipal securities (TBAs)		3		3
Options embedded in convertible debt securities		1		1
Equity warrants				(2)
Options written			15	
Trading activities				
Futures purchased		(18)		(96)
Futures sold, not yet purchased	(4)		(5)	1
Currency forwards				1
Total	$ (17)	$ 16	$ 46	$ (47)

The derivatives held for trading purposes are carried at fair value with the related gains and losses included within Net investment income on the Condensed Consolidated Statements of Operations. The Company s derivative activities in the trading portfolio in 2009 are associated with the resumption of a trading portfolio for income enhancement purposes. The Company s derivative activities in the trading portfolio in 2008 were associated with its pension deposit business, through which the Company was exposed to equity price risk associated with its indexed group annuity contracts. A corresponding increase or decrease was reflected in the Policyholders funds reserves supported by this trading portfolio, which was included in Insurance claims and policyholders benefits on the Condensed Consolidated Statements of Operations. During 2008, the Company exited the indexed group annuity portion of its pension deposit business.

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. Embedded derivative instruments subject to bifurcation are reported together with the host contract, at fair value. 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.

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Derivative Financial Instruments

September 30, 2009 (In millions)	**Contractual/ Notional Amount**	**Estimated Fair Value Asset**	**(Liability)**
Without hedge designation			
Credit default swaps purchased protection	$ 159	$ 2	$ (12)
Credit default swaps sold protection	33		
Futures sold, not yet purchased	174		
Equity warrants	2		
Trading activities			
Futures sold, not yet purchased	130		
Total	$ 498	$ 2	$ (12)

Derivative Financial Instruments

December 31, 2008 (In millions)	**Contractual/ Notional Amount**	**Estimated Fair Value Asset**	**(Liability)**
Without hedge designation			
Interest rate swaps	$ 900	$	$ (66)
Credit default swaps purchased protection	405	24	(2)
Credit default swaps sold protection	148		(43)
Equity warrants	4		
Total	$ 1,457	$ 24	$ (111)

During the three and nine months ended September 30, 2009, new derivative transactions entered into totaled approximately $8 billion and $18 billion in notional value while derivative termination activity totaled approximately $8 billion and $19 billion. The activity during the three months ended September 30, 2009 was primarily attributable to interest rate futures. The activity during the nine months ended September 30, 2009 was primarily attributable to interest rate futures, interest rate options and interest rate swaps.

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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.

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Assets and Liabilities Measured at Fair Value

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

September 30, 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	$ 731	$ 96	$	$ 827
Asset-backed securities:				
Residential mortgage-backed securities		5,818	737	6,555
Commercial mortgage-backed securities		388	211	599
Other asset-backed securities		384	288	672
Total asset-backed securities		6,590	1,236	7,826
States, municipalities and political subdivisions - tax-exempt securities		6,716	770	7,486
Corporate and other taxable bonds	139	17,617	772	18,528
Redeemable preferred stock		49	2	51
Total fixed maturity securities	870	31,068	2,780	34,718
Equity securities	478	484	10	972
Derivative financial instruments, included in Other invested assets			2	2
Short term investments	3,036	1,031	8	4,075
Life settlement contracts, included in Other assets			129	129
Discontinued operations investments, included in Other liabilities	25	107	16	148
Separate account business	59	353	40	452
Total assets	$ 4,468	$ 33,043	$ 2,985	$ 40,496
Liabilities				
Derivative financial instruments, included in Other liabilities	$	$	$ (12)	$ (12)
Total liabilities	$	$	$ (12)	$ (12)

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December 31, 2008 (in millions)	**Level 1**	**Level 2**	**Level 3**	**Total assets/(liabilities) at fair value**
Assets				
Fixed maturity securities	$ 2,028	$ 24,367	$ 2,492	$ 28,887
Equity securities	567	94	210	871
Derivative financial instruments, included in Other invested assets			24	24
Short term investments	2,926	608		3,534
Life settlement contracts, included in Other assets			129	129
Discontinued operations investments, included in Other liabilities	83	59	15	157
Separate account business	40	306	38	384
Total assets	$ 5,644	$ 25,434	$ 2,908	$ 33,986
Liabilities				
Derivative financial instruments, included in Other liabilities	$	$	$ (111)	$ (111)
Total liabilities	$	$	$ (111)	$ (111)

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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 September 30, 2009 and 2008.

Level 3 (in millions)	Balance at July 1, 2009	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income*	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in other comprehensive income	Purchases, sales, issuances and settlements	Transfers into Level 3	Transfers out of Level 3	Balance at September 30, 2009	Unrealized gains (losses) on Level 3 assets and liabilities held at September 30, 2009 recognized in net income*
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	$ 808	$ 1	$ 62	$ 20	$	$ (154)	$ 737	$ (1)
Commercial mortgage-backed securities	175	(3)	28	11			211	(3)
Other asset-backed securities	141	1	14	132			288	
Total asset-backed securities	1,124	(1)	104	163		(154)	1,236	(4)
States, municipalities and political subdivisions-tax-exempt securities	785		19	(34)			770	
Corporate and other taxable bonds	730	(10)	67	63	5	(83)	772	(10)
Redeemable preferred stock	1		1				2	

Total fixed maturity securities	2,640	(11)	191	192	5	(237)	2,780	(14)
Equity securities	209					(199)	10	
Derivative financial instruments, net	(10)	(10)		10			(10)	(4)
Short term investments			1	7			8	
Life settlement contracts	126	8		(5)			129	5
Discontinued operations investments	13		3				16	
Separate account business	38			3		(1)	40	
Total	$ 3,016	$ (13)	$ 195	$ 207	$ 5	$ (437)	$ 2,973	$ (13)

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Level 3 (in millions)	Balance at July 1, 2008	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net loss*	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in other comprehensive loss	Purchases, sales, issuances and settlements	Transfers into Level 3	Transfers out of Level 3	Balance at September 30, 2008	Unrealized gains (losses) on Level 3 assets and liabilities held at September 30, 2008 recognized in net loss*
Fixed maturity securities	$ 3,213	$ (27)	$ (103)	$ (152)	$ 138	$ (87)	$ 2,982	$ (23)
Equity securities	261		(1)	(23)		(23)	214	
Derivative financial instruments, net	(67)	54		22			9	76
Short term investments								
Life settlement contracts	118	4		(1)			121	3
Discontinued operations investments	23		(2)	(1)			20	
Separate account business	45		(7)	(1)	6		43	
Total	$ 3,593	$ 31	$ (113)	$ (156)	$ 144	$ (110)	$ 3,389	$ 56

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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 nine months ended September 30, 2009 and 2008.

Level 3 (in millions)	Balance at January 1, 2009	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income*	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in other comprehensive income	Purchases, sales, issuances and settlements	Transfers into Level 3	Transfers out of Level 3	Balance at September 30, 2009	Unrealized gains (losses) on Level 3 assets and liabilities held at September 30, 2009 recognized in net income*
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	$ 782	$ (22)	$ 98	$ (28)	$ 71	$ (164)	$ 737	$ (13)
Commercial mortgage-backed securities	186	(168)	170	(3)	26		211	(166)
Other asset-backed securities	139	(29)	54	90	153	(119)	288	(31)
Total asset-backed securities	1,107	(219)	322	59	250	(283)	1,236	(210)
States, municipalities and political subdivisions-tax-exempt securities	750		74	(54)			770	
Corporate and other taxable bonds	622	(15)	113	130	23	(101)	772	(15)
Redeemable preferred stock	13	(9)	9	7		(18)	2	(9)
Total fixed maturity securities	2,492	(243)	518	142	273	(402)	2,780	(234)

Equity securities	210		(1)			(199)	10	
Derivative financial instruments, net	(87)	15		62			(10)	(11)
Short term investments			1	7			8	
Life settlement contracts	129	24		(24)			129	7
Discontinued operations investments	15		3	(2)			16	
Separate account business	38			3		(1)	40	
Total	$ 2,797	$ (204)	$ 521	$ 188	$ 273	$ (602)	$ 2,973	$ (238)

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Level 3 (in millions)	Balance at January 1, 2008	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in net income*	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) included in other comprehensive loss	Purchases, sales, issuances and settlements	Transfers into Level 3	Transfers out of Level 3	Balance at September 30, 2008	Unrealized gains (losses) on Level 3 assets and liabilities held at September 30, 2008 recognized in net income*
Fixed maturity securities	$ 2,684	$ (150)	$ (373)	$ (68)	$ 1,392	$ (503)	$ 2,982	$ (158)
Equity securities	196	(2)	(4)	25	22	(23)	214	(4)
Derivative financial instruments, net	2	55		(48)			9	7
Short term investments	85					(85)		
Life settlement contracts	115	34		(28)			121	8
Discontinued operations investments	42		(2)	(3)		(17)	20	
Separate account business	30		(11)	(2)	26		43	
Total	$ 3,154	$ (63)	$ (390)	$ (124)	$ 1,440	$ (628)	$ 3,389	$ (147)

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* *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.

For the nine months ended September 30, 2009, transfers into Level 3 related primarily to structured securities with underlying auto loan collateral and structured securities with residential and commercial mortgage collateral. These were previously valued using observable prices for similar securities, but due to decreased market activity, fair value is determined by cash flow models using market observable and unobservable inputs. Unobservable inputs include estimates of future cash flows and the maturity assumption.

Securities transferred out of Level 3 included a large common stock holding in Verisk, which began trading on October 7, 2009 after an IPO as discussed in Note D. The Verisk holding had been previously valued using a discounted cash flow analysis model, adjusted for the Company s assumption regarding an inherent lack of liquidity in the security. This security has been transferred to Level 2 based on the use of the observable IPO price as a significant input.

In addition, for the nine months ended September 30, 2009, transfers out of Level 3 related primarily to structured securities with underlying auto loan collateral and structured securities with residential mortgage collateral. These structured securities with underlying auto loan and residential mortgage loan collateral are currently valued using observable market information and inputs from external pricing sources.

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

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Equity Securities

Level 1 securities include publicly traded securities valued using quoted market prices. Level 2 securities are primarily non-redeemable preferred securities 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 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, credit default swaps, equity warrants and options, are valued using inputs including broker/dealer quotes and are classified within Level 3 of the valuation hierarchy due to a lack of transparency as to whether these quotes are based on information that is observable in the marketplace.

Short Term Investments

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

Life Settlement Contracts

The fair values of life settlement contracts are estimated using discounted cash flows based on 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.

	September 30, 2009		**December 31, 2008**	
(In millions)	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets				
Notes receivable for the issuance of common stock	$ 30	$ 30	$ 42	$ 42
Financial liabilities				
Premium deposits and annuity contracts	$ 107	$ 110	$ 111	$ 113
Long term debt	2,056	1,953	2,058	1,585

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

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

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

CNAF 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, Receivables for securities sold, Federal income taxes recoverable/payable, Collateral on loaned securities and derivatives, Payables for securities purchased, and certain other assets and other liabilities approximate fair value due to the short term nature of these items. These assets and liabilities are not listed in the table above.

Note G. Claim and Claim Adjustment Expense Reserves

CNA s property and casualty insurance claim and claim adjustment expense reserves represent the estimated amounts necessary to resolve all outstanding claims, including claims that are incurred but not reported (IBNR) as of the reporting date. The Company s reserve projections are based primarily on detailed analysis of the facts in each case, CNA s experience with similar cases and various historical development patterns. Consideration is given to such historical patterns as field reserving trends and claims settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions 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 $23 million and $79 million for the three and nine months ended September 30, 2009 for events occurring in those periods. Catastrophe losses in 2009 related primarily to tornadoes, floods, hail and wind. The Company reported catastrophe losses, net of reinsurance, of $248 million and $348 million for the three and nine months ended September 30, 2008 for events occurring in those periods. Catastrophe losses in 2008 related primarily to Hurricanes Gustav and Ike. There can be no assurance that CNA s ultimate cost for catastrophes will not exceed current estimates.

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

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A&E Reserves

CNA s property and casualty insurance subsidiaries have actual and potential exposures related to A&E claims. The following table provides data related to CNA s A&E claim and claim adjustment expense reserves.

A&E Reserves

	September 30, 2009		December 31, 2008	
(In millions)	**Asbestos**	**Environmental Pollution**	**Asbestos**	**Environmental Pollution**
Gross reserves	$ 1,912	$ 345	$ 2,112	$ 392
Ceded reserves	(821)	(119)	(910)	(130)
Net reserves	$ 1,091	$ 226	$ 1,202	$ 262

Asbestos

There was no asbestos-related net claim and claim adjustment expense reserve development recorded for the nine months ended September 30, 2009. The Company recorded $18 million of unfavorable asbestos-related net claim and claim adjustment expense reserve development for the nine months ended September 30, 2008. The Company paid asbestos-related claims, net of reinsurance recoveries, of $111 million and $125 million for the nine months ended September 30, 2009 and 2008.

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 CNA 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. CNA has such claims from a number of insureds. Some of these claims involve insureds facing exhaustion of products liability aggregate limits in their policies, who have asserted that their asbestos-related claims fall within so-called non-products liability coverage contained within their policies rather than products liability coverage, and that the claimed non-products coverage is not subject to any aggregate limit. It is difficult to predict the ultimate size of any of the claims for coverage purportedly not subject to aggregate limits or predict to what extent, if any, the attempts to assert non-products claims outside the products liability aggregate will succeed. CNA s policies also contain other limits applicable to these claims and the Company has additional coverage defenses to certain claims.

CNA 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 CNA. Where the Company cannot settle a claim on acceptable terms, CNA 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 CNA is currently engaged is described below:

A.P. Green: On February 13, 2003, CNA 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, CNA 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 on August 18, 2003. The debtor s plan of reorganization includes an injunction to protect CNA from any future claims. The bankruptcy court issued an opinion on September 24, 2007 recommending confirmation of that plan. On July 25, 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 on May 21, 2009 and the parties are awaiting the court s decision.

Keasbey: CNA is engaged in insurance coverage litigation in New York State Court, filed in 2003, with a defendant class of underlying plaintiffs who have asbestos bodily injury claims against the former Robert A. Keasbey Company (Keasbey) (Continental Casualty Co. v. Employers Ins. of Wausau et al., No. 601037/03 (N.Y. County)). Keasbey, currently a dissolved corporation, was a seller and installer of asbestos-containing insulation products in New York and New Jersey. Thousands of plaintiffs have filed bodily injury claims against Keasbey. However, under New York court rules, asbestos claims are not cognizable unless they meet certain minimum medical impairment standards. Since 2002, when these court rules were adopted, only a small portion of such claims have met medical impairment criteria under New York court rules and as to the remaining claims, Keasbey s involvement at a number of work sites is a highly contested issue.

CNA issued Keasbey primary policies for 1970-1987 and excess policies for 1971-1978. CNA has paid an amount substantially equal to the policies aggregate limits for products and completed operations claims in the confirmed CNA policies. Claimants against Keasbey allege, among other things, that CNA owes coverage under sections of the policies not subject to the aggregate limits, an allegation CNA vigorously contests in the lawsuit. In the litigation, CNA and the claimants seek declaratory relief as to the interpretation of various policy provisions.

On December 30, 2008, a New York appellate court entered a unanimous decision in favor of CNA on multiple alternative grounds including findings that claims arising out of Keasbey s asbestos insulating activities are included within the products hazard/completed operations coverage, which has been exhausted; and that the defendant claimant class is subject to the affirmative defenses that CNA may have had against Keasbey, barring all coverage claims. The New York Court of Appeals has denied leave for a further appeal and, subject to a motion to reargue, the December 30, 2008 ruling in favor of CNA is final.

Burns & Roe: CNA has insurance coverage disputes related to asbestos bodily injury claims against a bankrupt insured, Burns & Roe Enterprises, Inc. (Burns & Roe). CNA allegedly provided primary liability coverage to Burns & Roe from 1956-1969 and 1971-1974, along with certain project-specific policies from 1964-1970. In September of 2007, CNA entered into an agreement in the Burns & Roe bankruptcy proceeding which provides that claims allegedly covered by CNA policies will be adjudicated in the tort system, with any coverage disputes related to those claims to be decided in coverage litigation. That agreement was included in the Burns & Roe Bankruptcy Plan which became final on June 15, 2009 and was not appealed. The potential outcome will depend on whether the plaintiffs can successfully prosecute their claims in the tort system and, further, whether those claims are covered by the CNA policies. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

Direct Action Case Montana: On March 22, 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 CNA, 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. On April 7, 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 is held in two phases. The first phase was held in June 2009. The second phase began in September 2009 and will continue through January 2010. 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.

CNA 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 CNA s business, insurer financial strength and debt ratings, results of operations and/or equity.

Environmental Pollution

There was no environmental pollution net claim and claim adjustment expense reserve development recorded for the nine months ended September 30, 2009. The Company recorded $3 million of unfavorable environmental pollution net claim and claim adjustment expense reserve development for the nine months ended September 30, 2008. The Company paid environmental pollution-related claims, net of reinsurance recoveries, of $36 million and $51 million for the nine months ended September 30, 2009 and 2008.

Net Prior Year Development

The following tables and discussion include the net prior year development recorded for Standard Lines, Specialty Lines and Corporate & Other Non-Core. Favorable net prior year development of $75 million was recorded in the Life & Group Non-Core segment for the nine months ended September 30, 2009. Included in this amount is the impact of a settlement reached in September 2009 with Willis Limited that resolves litigation related to the placement of personal accident reinsurance. Under the settlement agreement, Willis Limited agreed to pay the Company a total of $130 million, which is reported as a loss recovery of $94 million, net of reinsurance. For the nine months ended September 30, 2008 for the Life & Group Non-Core segment, unfavorable net prior year development of $10 million was recorded.

The net prior year development presented below includes premium development due to its direct relationship to claim and allocated claim adjustment expense reserve development. The net prior year development presented below includes the impact of commutations, but excludes the impact of increases or decreases in the allowance for uncollectible reinsurance.

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Three Month Comparison
Net Prior Year Development
Three months ended September 30, 2009

(In millions)	Standard Lines	Specialty Lines	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	$ (13)	$ (47)	$ 1	$ (59)
A&E				
Pretax (favorable) unfavorable net prior year development before impact of premium development	(13)	(47)	1	(59)
Pretax (favorable) unfavorable premium development	12			12
Total pretax (favorable) unfavorable net prior year development	$ (1)	$ (47)	$ 1	$ (47)

Net Prior Year Development
Three months ended September 30, 2008

(In millions)	Standard Lines	Specialty Lines	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	$ (4)	$ (68)	$ 1	$ (71)
A&E			13	13
Pretax (favorable) unfavorable net prior year development before impact of premium development	(4)	(68)	14	(58)
Pretax (favorable) unfavorable premium development	3	(2)	(3)	(2)
	$ (1)	$ (70)	$ 11	$ (60)

Total pretax (favorable) unfavorable net prior year development

2009 Net Prior Year Development

Standard Lines

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in general liability, partially offset by unfavorable experience in workers compensation.

Approximately $56 million of favorable development was primarily due to claims closing favorable to expectations on non-construction defect general liability exposures in accident years 2003 and prior.

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Approximately $47 million of unfavorable development was due to increased paid and incurred severity on workers compensation business, primarily in accident years 2004, 2007 and 2008 on small and middle markets business.

Specialty Lines

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in professional liability, directors and officers and surety business.

Approximately $20 million of favorable development was recorded for professional liability coverages driven by lower than expected large claim frequency, primarily related to accountants and lawyers in accident years 2004 through 2006. Approximately $11 million of favorable development was primarily related to directors and officers coverages in accident years 2003 through 2006. This favorable development related primarily to lower than expected large claim frequency. An additional $7 million of favorable development was recorded for surety business primarily in accident years 2004, due to claims closing favorable to expectations, and 2006, due to lower than expected claim frequency.

2008 Net Prior Year Development

Standard Lines

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in general liability and property coverages offset by unfavorable experience in workers compensation (including excess workers compensation coverages) and large account business.

For general liability excluding construction defect, $228 million in favorable claim and allocated claim adjustment expense reserve development was due to decreased frequency and severity of claims across multiple accident years. The improvement was due to underwriting initiatives and favorable outcomes on individual claims. Favorable development of $207 million associated with construction defect exposures was due to lower severity resulting from various claim handling initiatives and lower than expected frequency of claims, primarily in accident years 1999 and prior. Claims handling initiatives have resulted in an increase in the number of claims closed without payment and increased recoveries from other parties involved in the claims. The lower construction defect frequency is due to underwriting initiatives designed to limit the exposure to future construction defect claims. For property exposures, $31 million of favorable development was primarily the result of decreased frequency and severity in recent years. The remaining favorable development was the result of favorable experience across several miscellaneous coverages in Standard Lines.

Unfavorable development of $248 million for workers compensation was primarily the result of the impact of claim cost inflation on lifetime medical and home health care claims in accident years 1999 and prior. The changes were driven by increased life expectancy due to advances in medical care and increasing medical inflation. Unfavorable development of $161 million for large account business was also driven primarily by workers compensation claim cost inflation primarily in accident years 2001 and prior. Unfavorable development of $90 million on excess workers compensation was due to claims in accident years 2002 and prior. Increasing medical inflation, increased life expectancy resulting from advances in medical care, and reviews of individual claims have resulted in higher cost estimates of existing claims and a higher estimate of the number of claims expected to reach excess layers. The remaining unfavorable development was driven primarily by commercial auto liability coverages in recent accident years due to an increase in frequency.

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Specialty Lines

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in medical professional liability and surety business, partially offset by unfavorable experience in professional liability coverages.

Favorable claim and allocated claim adjustment expense reserve development of approximately $52 million for medical professional liability was primarily due to better than expected frequency of large losses in accident years 2005 and 2006 for healthcare facilities and medical technology firms. Favorable development of approximately $22 million for surety coverages was due to better than expected frequency in accident years 2002 through 2006. The remaining favorable development was due primarily to favorable outcomes on individual claims in accident years 2004 through 2006 for miscellaneous professional and general liability coverages.

Unfavorable development of approximately $18 million for professional liability coverages was primarily due to an increase in the frequency of large claims in older accident years.

Corporate & Other Non-Core

The unfavorable claim and allocated claim adjustment expense reserve development was primarily related to the commutation of a ceded reinsurance arrangement. The unfavorable development was offset by a release of a previously established allowance for uncollectible reinsurance.

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Nine Month Comparison
Net Prior Year Development
Nine months ended September 30, 2009

(In millions)	Standard Lines	Specialty Lines	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	$ (123)	$ (128)	$ 6	$ (245)
A&E				
Pretax (favorable) unfavorable net prior year development before impact of premium development	(123)	(128)	6	(245)
Pretax (favorable) unfavorable premium development	88	(3)	(3)	82
Total pretax (favorable) unfavorable net prior year development	$ (35)	$ (131)	$ 3	$ (163)

Net Prior Year Development
Nine months ended September 30, 2008

(In millions)	Standard Lines	Specialty Lines	Corporate & Other Non-Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	$ (54)	$ (50)	$ 9	$ (95)
A&E			21	21
Pretax (favorable) unfavorable net prior year development before impact of premium development	(54)	(50)	30	(74)
Pretax (favorable) unfavorable premium development	4	(20)	(3)	(19)
	$ (50)	$ (70)	$ 27	$ (93)

Total pretax (favorable) unfavorable net prior year development

2009 Net Prior Year Development

Standard Lines

The favorable net prior year development was primarily due to favorable experience in property and general liability, partially offset by unfavorable experience in workers compensation.

Favorable claim and allocated claim adjustment expense reserve development of approximately $81 million 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 better than expected frequency and severity on claims relating to catastrophes in accident year 2008. An additional $17 million of favorable development was due to non-catastrophe related favorable loss emergence on large property coverages, primarily in accident years 2007 and 2008. Additional favorable development of approximately $81 million was related to general liability exposures.

Of this, $25 million was due to decreased frequency and severity trends related to construction defect exposures in accident years 2003 and prior. The remaining favorable development was primarily due to claims closing favorable to expectations on non-construction defect general liability exposures in accident years 2003 and prior.

Approximately $51 million of unfavorable claim and allocated claim adjustment expense reserve development was due to increased paid and incurred severity on workers compensation business primarily in accident years 2004, 2007 and 2008 on small and middle markets business.

Approximately $40 million of unfavorable premium development was related to changes in estimated ultimate premium on retrospectively rated coverages. Additional unfavorable 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.

Specialty Lines

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in medical professional liability, professional liability, directors and officers and surety business.

Favorable 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. Additional favorable development of $35 million was recorded for professional liability coverages. This favorable experience was related to several items, including favorable experience on a number of large claims related to financial institutions in accident years 2003 and prior, decreased frequency of large claims in accident years 2007 and prior related to financial institutions, and lower than expected large claim frequency related to accountants and lawyers in accident years 2004 through 2006. Approximately $30 million of favorable development was primarily related to directors and officers coverages in accident years 2003 through 2006. This favorable development related primarily to lower than expected large claim frequency. An additional $7 million of favorable development was recorded for surety business primarily in accident years 2004, due to claims closing favorable to expectations, and 2006, due to lower than expected claim frequency. An additional $4 million of favorable development was a result of favorable outcomes on claims relating to catastrophes in accident year 2005.

2008 Net Prior Year Development

Standard Lines

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in general liability and property coverages including marine exposures, partially offset by unfavorable experience in workers compensation (including excess workers compensation coverages) and large account business. For general liability excluding construction defect, $254 million in favorable claim and allocated claim adjustment expense reserve development was due to decreased frequency and severity of claims across multiple accident years. The improvement was due to underwriting initiatives and favorable outcomes on individual claims. Favorable development of $207 million associated with construction defect exposures was due to lower severity resulting from various claim handling initiatives and lower than expected frequency of claims, primarily in accident years 1999 and prior. Claims handling initiatives have resulted in an increase in the number of claims closed without payment and increased recoveries from other parties involved in the claims. The lower construction defect frequency is due to underwriting initiatives designed to limit the exposure to future construction defect claims. For property coverages including marine exposures, approximately $95 million of favorable development was primarily the result of decreased frequency and severity in recent years. The $95 million of favorable property and marine development

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includes approximately $29 million due to favorable outcomes on claims relating to catastrophes, primarily in accident year 2005.

Unfavorable development of $248 million for workers compensation was primarily the result of the impact of claim cost inflation on lifetime medical and home health care claims in accident years 1999 and prior. The changes were driven by increased life expectancy due to advances in medical care and increasing medical inflation. Unfavorable development of $161 million for large account business was also driven primarily by workers compensation claim cost inflation primarily in accident years 2001 and prior. Unfavorable development of $114 million on excess workers compensation was due to claims in accident years 2002 and prior. Increasing medical inflation, increased life expectancy resulting from advances in medical care, and reviews of individual claims have resulted in higher cost estimates of existing claims and a higher estimate of the number of claims expected to reach excess layers.

Specialty Lines

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in medical professional liability, professional liability coverages in recent years, and surety business, partially offset by unfavorable experience in professional liability coverages in older years.

Favorable claim and allocated claim adjustment expense reserve development of approximately $52 million for medical professional liability was primarily due to better than expected frequency of large losses in accident years 2005 and 2006 for healthcare facilities and medical technology firms. Approximately $22 million of favorable development was recorded for professional liability coverages due primarily to favorable outcomes on individual claims in accident years 2004 through 2006. Favorable development of approximately $14 million for surety coverages was due to better than expected frequency in accident years 2002 through 2006.

Unfavorable development of approximately $33 million for professional liability coverages was primarily due to an increase in the frequency of large claims in older accident years.

The favorable premium development is primarily the result of a change in ultimate premiums within a foreign affiliate s property and financial lines.

Corporate & Other Non-Core

The unfavorable claim and allocated claim adjustment expense reserve development was primarily related to commutations of certain ceded reinsurance arrangements. The unfavorable development was offset by a release of a previously established allowance for uncollectible reinsurance.

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Note H. Legal Proceedings and Contingent Liabilities

Insurance Brokerage Antitrust Litigation

On August 1, 2005, CNAF and several of its 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 on April 21, 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.

California Long Term Care Litigation

Shaffer v. Continental Casualty Company, et al., U.S. District Court, Central District of California, CV06-2235 RGK, is a class action on behalf of certain California individual long term health care policyholders, alleging that CCC and CNAF knowingly or negligently used unrealistic actuarial assumptions in pricing these policies. On January 8, 2008, CCC, CNAF and the plaintiffs entered into a binding agreement settling the case on a nationwide basis for the policy forms potentially affected by the allegations of the complaint. Following a fairness hearing, the Court entered an order approving the settlement. This order was appealed to the Ninth Circuit Court of Appeals. The appeal has been fully briefed. Oral argument has been scheduled for November 2009. The Company believes it has meritorious defenses to this appeal and intends to defend the appeal vigorously. The agreement did not have a material impact on the Company s results of operations, however it still remains subject to the favorable resolution of the appeal.

Asbestos and Environmental Pollution (A&E) Reserves

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

Other Litigation

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

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Note I. Benefit Plans

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

Net Periodic Cost (Benefit)

Periods ended September 30	**Three Months**		**Nine Months**	
(In millions)	**2009**	**2008**	**2009**	**2008**
Pension cost (benefit)				
Service cost	$ 4	$ 5	$ 12	$ 15
Interest cost on projected benefit obligation	38	37	115	110
Expected return on plan assets	(37)	(45)	(109)	(134)
Actuarial loss	7	1	19	3
Net periodic pension cost (benefit)	$ 12	$ (2)	$ 37	$ (6)
Postretirement benefit				
Service cost	$	$	$ 1	$ 1
Interest cost on projected benefit obligation	3	2	7	6
Prior service cost amortization	(4)	(3)	(12)	(11)
Actuarial loss				1
Net periodic postretirement benefit	$ (1)	$ (1)	$ (4)	$ (3)

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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, CNA, 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, CNA 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 and continues 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 September 30, 2009 that the Company could be required to pay under this guarantee are approximately $133 million. If CNA 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.

In the normal course of business, CNA has provided letters of credit in favor of various unaffiliated insurance companies, regulatory authorities and other entities. At September 30, 2009, there were approximately $5 million of outstanding letters of credit.

The Company has entered into a limited number of guaranteed payment contracts, primarily relating to software and telecommunication services, amounting to approximately $15 million at September 30, 2009. Estimated future minimum payments under these contracts are $9 million in 2009, $3 million in 2010 and $3 million in 2011.

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 September 30, 2009, 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 September 30, 2009, 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 September 30, 2009 and December 31, 2008, the Company has recorded liabilities of approximately $16 million and $22 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.

CNAF has also guaranteed certain collateral obligations of a large national contractor s letters of credit. As of September 30, 2009, these guarantees aggregated $4 million. Payment under these guarantees is reasonably possible based on various factors, including the underlying credit worthiness of the contractor.

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In connection with the issuance of preferred securities by CNA Surety Capital Trust I (Issuer Trust), CNA Surety has also guaranteed the dividend payments and redemption of the preferred securities issued by the Issuer Trust. The maximum amount of undiscounted future payments the Company could make under the guarantee is approximately $58 million, consisting of annual dividend payments of approximately $1.1 million through April 2034 and the redemption value of $30 million. Because payment under the guarantee would only be required if the Company does not fulfill its obligations under the debentures held by the Issuer Trust, the Company has not recorded any additional liabilities related to this guarantee. There has been no change in the underlying assets of the trust and the Company does not believe that a payment is likely under this guarantee.

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Note K. Business Segments

CNA s core property and casualty commercial insurance operations are reported in two business segments: Standard Lines and Specialty Lines. CNA 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 CNA 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 impairment of investments that produce realized gains and losses.

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

The Company s investment portfolio is monitored by management through analyses of various factors including unrealized gains and losses on securities, portfolio duration and exposure to interest rate, market and credit risk. Based on such analyses, the Company may impair 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.

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Three months ended September 30, 2009 (In millions)	Standard Lines	Specialty Lines	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Revenues						
Net earned premiums	$ 702	$ 859	$ 149	$ (3)	$	$ 1,707
Net investment income	243	187	169	61		660
Other revenues	12	54	2	5		73
Total operating revenues	957	1,100	320	63		2,440
Claims, benefits and expenses						
Net incurred claims and benefits	519	533	199	25		1,276
Policyholders dividends	4	1	2			7
Amortization of deferred acquisition costs	169	191	5			365
Other insurance related expenses	95	63	45	1		204
Other expenses	9	59	7	27		102
Total claims, benefits and expenses	796	847	258	53		1,954
Operating income from continuing operations before income tax	161	253	62	10		486
Income tax expense on operating income	(49)	(81)	(11)	(1)		(142)
Net operating income, after-tax, attributable to noncontrolling interests		(13)				(13)
Net operating income from continuing operations attributable to CNAF	112	159	51	9		331
Net realized investment gains (losses), net of participating policyholders interests	(69)	(35)	21	(17)		(100)
Income tax (expense) benefit on net realized investment gains (losses)	24	11	(7)	6		34
Net realized investment gains, after-tax, attributable to noncontrolling interests		(1)				(1)

Net realized investment gains (losses) attributable to CNAF	(45)	(25)	14	(11)		(67)
Net income (loss) from continuing operations attributable to CNAF	$ 67	$ 134	$ 65	$ (2)	$	$ 264

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Three months ended September 30, 2008 (In millions)	Standard Lines	Specialty Lines	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Revenues						
Net earned premiums	$ 762	$ 882	$ 154	$ 2	$ (1)	$ 1,799
Net investment income	136	121	135	47		439
Other revenues	13	59	(1)	1		72
Total operating revenues	911	1,062	288	50	(1)	2,310
Claims, benefits and expenses						
Net incurred claims and benefits	734	516	294	(19)		1,525
Policyholders dividends	(10)	2	2			(6)
Amortization of deferred acquisition costs	174	177	4			355
Other insurance related expenses	87	79	51	6	(1)	222
Other expenses	20	52	7	26		105
Total claims, benefits and expenses	1,005	826	358	13	(1)	2,201
Operating income (loss) from continuing operations before income tax	(94)	236	(70)	37		109
Income tax (expense) benefit on operating income (loss)	41	(74)	34	(11)		(10)
Net operating (income) loss, after-tax, attributable to noncontrolling interests		(17)		1		(16)
Net operating income (loss) from continuing operations attributable to CNAF	(53)	145	(36)	27		83
Net realized investment losses, net of participating policyholders interests	(178)	(116)	(298)	(59)		(651)
Income tax benefit on net realized investment losses	63	41	104	20		228
Net realized investment (gains) losses, after-tax, attributable to noncontrolling						

interests						
Net realized investment losses attributable to CNAF	(115)	(75)	(194)	(39)		(423)
Net income (loss) from continuing operations attributable to CNAF	$ (168)	$ 70	$ (230)	$ (12)	$	$ (340)

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Nine months ended September 30, 2009 (In millions)	Standard Lines	Specialty Lines	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Revenues						
Net earned premiums	$ 2,083	$ 2,505	$ 447	$ 2	$ (2)	$ 5,035
Net investment income	615	483	496	161		1,755
Other revenues	41	159	7	6		213
Total operating revenues	2,739	3,147	950	169	(2)	7,003
Claims, benefits and expenses						
Net incurred claims and benefits	1,507	1,554	773	69		3,903
Policyholders dividends	6	7	3			16
Amortization of deferred acquisition costs	498	550	15			1,063
Other insurance related expenses	239	185	138	3	(2)	563
Other expenses	40	155	64	87		346
Total claims, benefits and expenses	2,290	2,451	993	159	(2)	5,891
Operating income (loss) from continuing operations before income tax	449	696	(43)	10		1,112
Income tax (expense) benefit on operating income (loss)	(131)	(207)	46	3		(289)
Net operating income, after-tax, attributable to noncontrolling interests		(38)				(38)
Net operating income from continuing operations attributable to CNAF	318	451	3	13		785
Net realized investment losses, net of participating policyholders interests	(418)	(247)	(156)	(108)		(929)
Income tax benefit on net realized investment losses	146	80	55	38		319
Net realized investment (gains) losses, after-tax, attributable to noncontrolling interests						

Net realized investment losses attributable to CNAF	(272)	(167)	(101)	(70)		(610)
Net income (loss) from continuing operations attributable to CNAF	$ 46	$ 284	$ (98)	$ (57)	$	$ 175
September 30, 2009						
(In millions)						
Reinsurance receivables	$ 2,135	$ 1,388	$ 1,759	$ 1,719	$	$ 7,001
Insurance receivables	$ 1,157	$ 767	$ 8	$ (1)	$	$ 1,931
Deferred acquisition costs	$ 300	$ 381	$ 457	$	$	$ 1,138
Insurance reserves						
Claim and claim adjustment expenses	$ 11,658	$ 8,618	$ 2,866	$ 3,764	$	$ 26,906
Unearned premiums	1,395	1,850	145	3	(1)	3,392
Future policy benefits			7,864			7,864
Policyholders funds	10	13	177			200
		51				

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Nine months ended September 30, 2008 (In millions)	Standard Lines	Specialty Lines	Life & Group Non-Core	Corporate & Other Non-Core	Eliminations	Total
Revenues						
Net earned premiums	$ 2,313	$ 2,614	$ 460	$ 2	$ (3)	$ 5,386
Net investment income	499	408	376	166		1,449
Other revenues	42	166	20	12		240
Total operating revenues	2,854	3,188	856	180	(3)	7,075
Claims, benefits and expenses						
Net incurred claims and benefits	1,877	1,641	822	28		4,368
Policyholders dividends	(3)	10	5			12
Amortization of deferred acquisition costs	528	545	10			1,083
Other insurance related expenses	193	182	152	8	(3)	532
Other expenses	44	144	17	87		292
Total claims, benefits and expenses	2,639	2,522	1,006	123	(3)	6,287
Operating income (loss) from continuing operations before income tax	215	666	(150)	57		788
Income tax (expense) benefit on operating income (loss)	(49)	(212)	81	(14)		(194)
Net operating income, after-tax, attributable to noncontrolling interests		(40)				(40)
Net operating income (loss) from continuing operations attributable to CNAF	166	414	(69)	43		554
Net realized investment losses, net of participating policyholders interests	(254)	(154)	(321)	(84)		(813)
Income tax benefit on net realized investment losses	89	55	112	30		286
Net realized investment (gains) losses, after-tax, attributable to						

noncontrolling interests						
Net realized investment losses attributable to CNAF	(165)	(99)	(209)	(54)		(527)
Net income (loss) from continuing operations attributable to CNAF	$ 1	$ 315	$ (278)	$ (11)	$	$ 27
December 31, 2008						
(In millions)						
Reinsurance receivables	$ 2,266	$ 1,496	$ 1,907	$ 2,092	$	$ 7,761
Insurance receivables	$ 1,264	$ 765	$ 6	$ 4	$	$ 2,039
Deferred acquisition costs	$ 293	$ 360	$ 472	$	$	$ 1,125
Insurance reserves						
Claim and claim adjustment expenses	$ 12,048	$ 8,282	$ 2,862	$ 4,401	$	$ 27,593
Unearned premiums	1,401	1,848	152	5		3,406
Future policy benefits			7,529			7,529
Policyholders funds	14	10	219			243
		52				

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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.

Revenue by Line of Business

Periods ended September 30	**Three Months**		**Nine Months**	
(In millions)	**2009**	**2008**	**2009**	**2008**
Standard Lines				
Business Insurance	$ 150	$ 140	$ 393	$ 450
Commercial Insurance	738	593	1,928	2,150
Standard Lines revenue	888	733	2,321	2,600
Specialty Lines				
U.S. Specialty Lines	667	547	1,786	1,834
Surety	123	121	355	356
Warranty	70	70	191	218
CNA Global	205	208	568	626
Specialty Lines revenue	1,065	946	2,900	3,034
Life & Group Non-Core				
Life & Annuity	80	(18)	167	15
Health	257	11	620	491
Other	4	(3)	7	29
Life & Group Non-Core revenue	341			