

CNA FINANCIAL CORP  
Form 10-K  
February 22, 2011

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

**FORM 10-K**

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number 1-5823**

**CNA FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**36-6169860**

(I.R.S. Employer  
Identification No.)

**333 S. Wabash  
Chicago, Illinois**

(Address of principal executive offices)

**60604**

(Zip Code)

**(312) 822-5000**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of each class**

**Name of each exchange on which registered**

Common Stock  
with a par value  
of \$2.50 per share

New York Stock Exchange  
Chicago Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting

company in Rule 12b-2 of the Exchange Act. (Check one):

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

Smaller reporting company....

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

As of February 17, 2011, 269,309,618 shares of common stock were outstanding. The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2010 was approximately \$675 million based on the closing price of \$25.56 per share of the common stock on the New York Stock Exchange on June 30, 2010.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the CNA Financial Corporation Proxy Statement prepared for the 2011 annual meeting of shareholders, pursuant to Regulation 14A, are incorporated by reference into Part III of this Report.

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**PART I**

**ITEM 1. BUSINESS**

CNA Financial Corporation (CNAF) was incorporated in 1967 and is an insurance holding company. Collectively, CNAF and its subsidiaries are referred to as CNA or the Company. References to CNA, the Company, we, our, like terms refer to the business of CNAF and its subsidiaries. Our property and casualty insurance operations are conducted by Continental Casualty Company (CCC), incorporated in 1897, and The Continental Insurance Company (CIC), organized in 1853, and certain other affiliates. Loews Corporation (Loews) owned approximately 90% of our outstanding common stock as of December 31, 2010.

Our insurance products primarily include commercial property and casualty coverages. Our services include risk management, information services, warranty and claims administration. Our products and services are marketed through independent agents, brokers and managing general underwriters to a wide variety of customers, including small, medium and large businesses, associations, professionals and other groups.

Our core business, commercial property and casualty insurance operations, is reported in two business segments: CNA Specialty and CNA Commercial. Our non-core businesses are managed in two business segments: Life & Group Non-Core and Corporate & Other Non-Core. Each segment is managed separately due to differences in their product lines and markets. Discussions of each segment including the products offered, the customers served, the distribution channels used and competition are set forth in the Management's Discussion and Analysis (MD&A) included under Item 7 and in Note N to the Consolidated Financial Statements included under Item 8.

**Competition**

The property and casualty insurance industry is highly competitive both as to rate and service. We compete with stock and mutual insurance companies, reinsurance companies and other entities for both producers and customers. We must continuously allocate resources to refine and improve our insurance products and services.

Rates among insurers vary according to the types of insurers and methods of operation. We compete for business not only on the basis of rate, but also on the basis of availability of coverage desired by customers, financial strength, ratings and quality of service, including claim adjustment services.

There are approximately 2,400 individual companies that sell property and casualty insurance in the United States. Based on 2009 statutory net written premiums, we are the seventh largest commercial insurance writer and the 13th largest property and casualty insurance organization in the United States.

**Regulation**

The insurance industry is subject to comprehensive and detailed regulation and supervision throughout the United States. Each state has established supervisory agencies with broad administrative powers relative to licensing insurers and agents, approving policy forms, establishing reserve requirements, prescribing the form and content of statutory financial reports, and regulating capital adequacy and the type, quality and amount of investments permitted. Such regulatory powers also extend to premium rate regulations, which require that rates not be excessive, inadequate or unfairly discriminatory. In addition to regulation of dividends by insurance subsidiaries, intercompany transfers of assets may be subject to prior notice or approval by the state insurance regulators, depending on the size of such transfers and payments in relation to the financial position of the insurance affiliates making the transfer or payment. Insurers are also required by the states to provide coverage to insureds who would not otherwise be considered eligible by the insurers. Each state dictates the types of insurance and the level of coverage that must be provided to such involuntary risks. Our share of these involuntary risks is mandatory and generally a function of our respective share of the voluntary market by line of insurance in each state.

Further, insurance companies are subject to state guaranty fund and other insurance-related assessments. Guaranty fund assessments are levied by the state departments of insurance to cover claims of insolvent insurers. Other insurance-related assessments are generally levied by state agencies to fund various organizations including disaster relief funds, rating bureaus, insurance departments, and workers' compensation second injury funds, or by industry organizations that assist in the statistical analysis and ratemaking process.

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Although the federal government does not directly regulate the business of insurance, federal legislative and regulatory initiatives can impact the insurance industry in a variety of ways. These initiatives and legislation include tort reform proposals; proposals addressing natural catastrophe exposures; terrorism risk mechanisms; federal financial services reforms; various tax proposals affecting insurance companies; and possible regulatory limitations, impositions and restrictions arising from the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as the Patient Protection and Affordable Care Act, both enacted in 2010.

Various legislative and regulatory efforts to reform the tort liability system have, and will continue to, impact our industry. Although there has been some tort reform with positive impact to the insurance industry, new causes of action and theories of damages continue to be proposed in state court actions or by federal or state legislatures that continue to expand liability for insurers and their policyholders. For example, some state legislatures have from time to time considered legislation addressing direct actions against insurers related to bad faith claims. As a result of this unpredictability in the law, insurance underwriting is expected to continue to be difficult in commercial lines, professional liability and other specialty coverages.

The Dodd-Frank Wall Street Reform and Consumer Protection Act expands the federal presence in insurance oversight and may increase the regulatory requirements to which we may be subject. The Act's requirements include streamlining the state-based regulation of reinsurance and nonadmitted insurance (property or casualty insurance placed from insurers that are eligible to accept insurance, but are not licensed to write insurance in a particular state). The Act also establishes a new Federal Insurance Office within the U.S. Department of the Treasury with powers over all lines of insurance except health insurance, certain long-term care insurance and crop insurance, to, among other things, monitor aspects of the insurance industry, identify issues in the regulation of insurers that could contribute to a systemic crisis in the insurance industry or the overall financial system, coordinate federal policy on international insurance matters and preempt state insurance measures under certain circumstances. The Act calls for numerous studies and contemplates further regulation.

The Patient Protection and Affordable Care Act and the related amendments in the Health Care and Education Reconciliation Act may increase our operating costs and underwriting losses. This landmark legislation may lead to numerous changes in the health care industry that could create additional operating costs for us, particularly with respect to our workers' compensation and long term care products. These costs might arise through the increased use of health care services by our claimants or the increased complexities in health care bills that could require additional levels of review. In addition, due to the expected number of new participants in the health care system and the potential for additional malpractice claims, we may experience increased underwriting risk in the lines of our business that provide management and professional liability insurance to individuals and businesses engaged in the health care industry. The lines of our business that provide professional liability insurance to attorneys, accountants and other professionals who advise clients regarding the health care reform legislation may also experience increased underwriting risk due to the complexity of the legislation.

**Employee Relations**

As of December 31, 2010, we had approximately 8,000 employees and have experienced satisfactory labor relations. We have never had work stoppages due to labor disputes.

We have comprehensive benefit plans for substantially all of our employees, including retirement plans, savings plans, disability programs, group life programs and group health care programs. See Note J to the Consolidated Financial Statements included under Item 8 for further discussion of our benefit plans.

**Table of Contents****Direct Written Premiums by Geographic Concentration**

Set forth below is the distribution of our direct written premiums by geographic concentration.

**Direct Written Premiums**

<b>Years ended December 31</b>	<b>Percent of Total</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
California	9.3%	9.1%	9.2%
New York	6.8	6.8	6.9
Texas	6.5	6.6	6.2
Florida	6.1	6.2	6.5
Illinois	4.0	3.8	3.8
Missouri	4.0	3.6	3.1
New Jersey	3.5	3.7	3.8
Pennsylvania	3.4	3.2	3.3
All other states, countries or political subdivisions (a)	56.4	57.0	57.2
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

(a) No other individual state, country or political subdivision accounts for more than 3.0% of direct written premiums.

Approximately 6.9%, 7.0% and 7.4% of our direct written premiums were derived from outside of the United States for the years ended December 31, 2010, 2009 and 2008. Premiums from any one individual foreign country were not material to aggregate direct written premiums.



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**Property and Casualty Claim and Claim Adjustment Expenses**

The following loss reserve development table illustrates the change over time of reserves established for property and casualty claim and claim adjustment expenses at the end of the preceding ten calendar years for our property and casualty insurance companies. The table excludes our life subsidiaries, and as such, the carried reserves will not agree to the Consolidated Financial Statements included under Item 8. The first section shows the reserves as originally reported at the end of the stated year. The second section, reading down, shows the cumulative amounts paid as of the end of successive years with respect to the originally reported reserve liability. The third section, reading down, shows re-estimates of the originally recorded reserves as of the end of each successive year, which is the result of our property and casualty insurance subsidiaries' expanded awareness of additional facts and circumstances that pertain to the unsettled claims. The last section compares the latest re-estimated reserves to the reserves originally established, and indicates whether the original reserves were adequate or inadequate to cover the estimated costs of unsettled claims.

The loss reserve development table is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years. The development amounts in the table below include the impact of commutations, but exclude the impact of the provision for uncollectible reinsurance.

**Table of Contents****Schedule of Loss Reserve Development**

Calendar Year Ended	2000	2001 (a)	2002 (b)	2003	2004	2005	2006	2007	2008	2009	2010
(in millions)											
Originally reported gross reserves for unpaid premium and claim											
Investment expenses	\$ 26,510	\$ 29,649	\$ 25,719	\$ 31,284	\$ 31,204	\$ 30,694	\$ 29,459	\$ 28,415	\$ 27,475	\$ 26,712	\$ 25,400
Originally reported net recoverable	7,333	11,703	10,490	13,847	13,682	10,438	8,078	6,945	6,213	5,524	6,000
Originally reported net reserves for unpaid premium and claim											
Investment expenses	\$ 19,177	\$ 17,946	\$ 15,229	\$ 17,437	\$ 17,522	\$ 20,256	\$ 21,381	\$ 21,470	\$ 21,262	\$ 21,188	\$ 19,300
Cumulative net paid as of:											
End of year later	\$ 7,686	\$ 5,981	\$ 5,373	\$ 4,382	\$ 2,651	\$ 3,442	\$ 4,436	\$ 4,308	\$ 3,930	\$ 3,762	\$ 3,762
Two years later	11,992	10,355	8,768	6,104	4,963	7,022	7,676	7,127	6,746	-	-
Three years later	15,291	12,954	9,747	7,780	7,825	9,620	9,822	9,102	-	-	-
Four years later	17,333	13,244	10,870	10,085	9,914	11,289	11,312	-	-	-	-
Five years later	17,775	13,922	12,814	11,834	11,261	12,465	-	-	-	-	-
Six years later	18,970	15,493	14,320	12,988	12,226	-	-	-	-	-	-
Seven years later	20,297	16,769	15,291	13,845	-	-	-	-	-	-	-
Eight years later	21,382	17,668	16,022	-	-	-	-	-	-	-	-
Nine years later	22,187	18,286	-	-	-	-	-	-	-	-	-
Ten years later	22,826	-	-	-	-	-	-	-	-	-	-
Reserves estimated as of:											
End of initial year	\$ 19,177	\$ 17,946	\$ 15,229	\$ 17,437	\$ 17,522	\$ 20,256	\$ 21,381	\$ 21,470	\$ 21,262	\$ 21,188	\$ 19,300
End of year later	21,502	17,980	17,650	17,671	18,513	20,588	21,601	21,463	21,021	20,643	-
Two years later	21,555	20,533	18,248	19,120	19,044	20,975	21,706	21,259	20,472	-	-
Three years later	24,058	21,109	19,814	19,760	19,631	21,408	21,609	20,752	-	-	-
Four years later	24,587	22,547	20,384	20,425	20,212	21,432	21,286	-	-	-	-
Five years later	25,594	22,983	21,076	21,060	20,301	21,326	-	-	-	-	-
Six years later	26,023	23,603	21,769	21,217	20,339	-	-	-	-	-	-
Seven years later	26,585	24,267	21,974	21,381	-	-	-	-	-	-	-
Eight years later	27,207	24,548	22,168	-	-	-	-	-	-	-	-
Nine years later	27,510	24,765	-	-	-	-	-	-	-	-	-
Ten years later	27,702	-	-	-	-	-	-	-	-	-	-
Final net (deficiency) or surplus	\$ (8,525)	\$ (6,819)	\$ (6,939)	\$ (3,944)	\$ (2,817)	\$ (1,070)	\$ 95	\$ 718	\$ 790	\$ 545	\$ 545

Reconciliation to gross re-estimated reserves: reserves											
Estimated	\$ 27,702	\$ 24,765	\$ 22,168	\$ 21,381	\$ 20,339	\$ 21,326	\$ 21,286	\$ 20,752	\$ 20,472	\$ 20,643	\$
Estimated ceded coverable	11,397	16,911	16,279	14,639	13,507	10,846	8,541	7,180	6,168	5,559	
Total gross re-estimated reserves	\$ 39,099	\$ 41,676	\$ 38,447	\$ 36,020	\$ 33,846	\$ 32,172	\$ 29,827	\$ 27,932	\$ 26,640	\$ 26,202	\$
Total gross (deficiency) redundancy	\$ (12,589)	\$ (12,027)	\$ (12,728)	\$ (4,736)	\$ (2,642)	\$ (1,478)	\$ (368)	\$ 483	\$ 835	\$ 510	\$
(deficiency) redundancy related to:											
Asbestos	\$ (1,590)	\$ (818)	\$ (827)	\$ (177)	\$ (123)	\$ (113)	\$ (112)	\$ (107)	\$ (79)	\$ -	\$
Environmental pollution	(635)	(288)	(282)	(209)	(209)	(159)	(159)	(159)	(76)	-	
Total asbestos and environmental pollution	(2,225)	(1,106)	(1,109)	(386)	(332)	(272)	(271)	(266)	(155)	-	
Non-asbestos & environmental pollution	(6,300)	(5,713)	(5,830)	(3,558)	(2,485)	(798)	366	984	945	545	
Total net (deficiency) redundancy	\$ (8,525)	\$ (6,819)	\$ (6,939)	\$ (3,944)	\$ (2,817)	\$ (1,070)	\$ 95	\$ 718	\$ 790	\$ 545	\$

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- (a) Effective January 1, 2001, we established a new life insurance company, CNA Group Life Assurance Company (CNAGLA). Further, on January 1, 2001 \$1.1 billion of reserves were transferred from CCC to CNAGLA.
- (b) Effective October 31, 2002, we sold CNA Reinsurance Company Limited. As a result of the sale, net reserves were reduced by \$1.3 billion.
- (c) Effective January 1, 2010, we ceded approximately \$1.5 billion of net asbestos and environmental pollution (A&EP) claim and allocated claim adjustment expense reserves relating to our continuing operations under a retroactive reinsurance agreement with an aggregate limit of \$4 billion, as further discussed in Note F to the Consolidated Financial Statements included under Item 8.

Additional information regarding our property and casualty claim and claim adjustment expense reserves and reserve development is set forth in the MD&A included under Item 7 and in Notes A and F to the Consolidated Financial Statements included under Item 8.

**Available Information**

We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 (Exchange Act). The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, including CNA, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at [www.sec.gov](http://www.sec.gov).

We also make available free of charge on or through our internet website ([www.cna.com](http://www.cna.com)) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Copies of these reports may also be obtained, free of charge, upon written request to: CNA Financial Corporation, 333 S. Wabash Avenue, Chicago, IL 60604, Attn. Jonathan D. Kantor, Executive Vice President, General Counsel and Secretary.

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**ITEM 1A. RISK FACTORS**

Our business faces many risks. We have described below some of the more significant risks which we face. There may be additional risks that we do not yet know of or that we do not currently perceive to be significant that may also impact our business. Each of the risks and uncertainties described below could lead to events or circumstances that have a material adverse effect on our results of operations, equity, business and insurer financial strength and corporate debt ratings. You should carefully consider and evaluate all of the information included in this Report and any subsequent reports we may file with the SEC or make available to the public before investing in any securities we issue.

**If we determine that our recorded loss reserves are insufficient to cover our estimated ultimate unpaid liability for claims, we may need to increase our loss reserves.**

We maintain loss reserves to cover our estimated ultimate unpaid liability for claim and claim adjustment expenses, including the estimated cost of the claims adjudication process, for reported and unreported claims and for future policy benefits. Reserves represent our best estimate at a given point in time. Insurance reserves are not an exact calculation of liability but instead are complex estimates derived by us, generally utilizing a variety of reserve estimation techniques from numerous assumptions and expectations about future events, many of which are highly uncertain, such as estimates of claims severity, frequency of claims, mortality, morbidity, expected interest rates, inflation, claims handling, case reserving policies and procedures, underwriting and pricing policies, changes in the legal and regulatory environment and the lag time between the occurrence of an insured event and the time of its ultimate settlement. Many of these uncertainties are not precisely quantifiable and require significant judgment on our part. As trends in underlying claims develop, particularly in so-called "long tail" or long duration coverages, we are sometimes required to add to our reserves. This is called unfavorable net prior year development and results in a charge to our earnings in the amount of the added reserves, recorded in the period the change in estimate is made. These charges can be substantial. Additional information on our reserves is included in the MD&A under Item 7 and Note F to the Consolidated Financial Statements included under Item 8.

We are subject to the uncertain effects of emerging or potential claims and coverage issues that arise as industry practices and legal, judicial, social and other environmental conditions change. These issues have had, and may continue to have, a negative effect on our business by either extending coverage beyond the original underwriting intent or by increasing the number or size of claims, resulting in further increases in our reserves which can have a material adverse effect on our results of operations and equity. The effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict. Examples of emerging or potential claims and coverage issues include:

- the effects of recessionary economic conditions, which have resulted in an increase in the number and size of claims due to corporate failures; these claims include both directors and officers (D&O) and errors and omissions (E&O) insurance claims;

- class action litigation relating to claims handling and other practices; and

- mass tort claims, including bodily injury claims related to welding rods, benzene, lead, noise induced hearing loss, injuries from various medical products including pharmaceuticals, and various other chemical and radiation exposure claims.

In light of the many uncertainties associated with establishing the estimates and making the assumptions necessary to establish reserve levels, we review and change our reserve estimates in a regular and ongoing process as experience develops and further claims are reported and settled. If estimated reserves are insufficient for any reason, the required increase in reserves would be recorded as a charge against our earnings for the period in which reserves are determined to be insufficient. These charges could be substantial.

**Table of Contents****We have exposures related to asbestos and environmental pollution (A&EP) claims, which could result in additional losses.**

Our property and casualty insurance subsidiaries also have exposures related to asbestos and environmental pollution (A&EP) claims. Our experience has been that establishing claim and claim adjustment expense reserves for casualty coverages relating to A&EP claims are subject to uncertainties that are greater than those presented by other claims. Additionally, traditional actuarial methods and techniques employed to estimate the ultimate cost of claims for more traditional property and casualty exposures are less precise in estimating claim and claim adjustment expense reserves for A&EP. As a result, estimating the ultimate cost of both reported and unreported A&EP claims is subject to a higher degree of variability.

On August 31, 2010, we completed a retroactive reinsurance transaction under which substantially all of our legacy A&EP liabilities were ceded to National Indemnity Company, a subsidiary of Berkshire Hathaway Inc., subject to an aggregate limit of \$4 billion (Loss Portfolio Transfer). If the other parties to the Loss Portfolio Transfer do not fully perform their obligations, our liabilities for A&EP claims covered by the Loss Portfolio Transfer exceed the aggregate limit of \$4 billion, or we determine we have exposures to A&EP claims not covered by the Loss Portfolio Transfer, we may need to increase our recorded reserves which would result in a charge against our earnings. These charges could be substantial. Additional information on this transaction is included in Note F to the Consolidated Financial Statements included under Item 8.

**Catastrophe losses are unpredictable.**

Catastrophe losses are an inevitable part of our business. Various events can cause catastrophe losses. These events can be natural or man-made, and may include hurricanes, windstorms, earthquakes, hail, severe winter weather, fires, and acts of terrorism, and their frequency and severity are inherently unpredictable. In addition, longer-term natural catastrophe trends may be changing and new types of catastrophe losses may be developing due to climate change, a phenomenon that has been associated with extreme weather events linked to rising temperatures, and includes effects on global weather patterns, greenhouse gases, sea, land and air temperatures, sea levels, rain, and snow.

The extent of our losses from catastrophes is a function of both the total amount of our insured exposures in the affected areas and the frequency and severity of the events themselves. In addition, as in the case of catastrophe losses generally, it can take a long time for the ultimate cost to us to be finally determined. As our claim experience develops on a particular catastrophe, we may be required to adjust our reserves, or take unfavorable development, to reflect our revised estimates of the total cost of claims. Additional information on catastrophe losses is included in the MD&A under Item 7 and Note F to the Consolidated Financial Statements included under Item 8.

**Our premium writings and profitability are affected by the availability and cost of reinsurance.**

We purchase reinsurance to help manage our exposure to risk. Under our reinsurance arrangements, another insurer assumes a specified portion of our claim and claim adjustment expenses in exchange for a specified portion of policy premiums. Market conditions determine the availability and cost of the reinsurance protection we purchase, which affects the level of our business and profitability, as well as the level and types of risk we retain. If we are unable to obtain sufficient reinsurance at a cost we deem acceptable, we may be unwilling to bear the increased risk and would reduce the level of our underwriting commitments. Additional information on reinsurance is included in Note H to the Consolidated Financial Statements included under Item 8.

**We may not be able to collect amounts owed to us by reinsurers.**

We have significant amounts recoverable from reinsurers which are reported as receivables in our balance sheets and are estimated in a manner consistent with claim and claim adjustment expense reserves or future policy benefits reserves. The ceding of insurance does not, however, discharge our primary liability for claims. As a result, we are subject to credit risk relating to our ability to recover amounts due from reinsurers. Certain of our reinsurance carriers have experienced deteriorating financial condition or have been downgraded by rating agencies. In addition, reinsurers could dispute amounts which we believe are due to us. If we are not able to collect the amounts due to us from reinsurers, our incurred losses will be higher. Additional information on reinsurance is included in Note H to the Consolidated Financial Statements included under Item 8.

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**Our key assumptions used to determine reserves and deferred acquisition costs for our long term care product offerings could vary significantly from actual experience.**

Our reserves and deferred acquisition costs for our long term care product offerings are based on certain key assumptions including morbidity, which is the frequency and severity of illness, sickness and diseases contracted, policy persistency, which is the percentage of policies remaining in force, interest rates and future health care cost trends. If actual experience differs from these assumptions, the deferred acquisition cost asset may not be fully realized and the reserves may not be adequate, requiring us to add to reserves, or take unfavorable development.

**We have incurred and may continue to incur significant realized and unrealized investment losses and volatility in net investment income arising from volatility in the capital and credit markets.**

Our investment portfolio is exposed to various risks, such as interest rate, credit, and currency risks, many of which are unpredictable. Investment returns are an important part of our overall profitability. General economic conditions, changes in financial markets such as fluctuations in interest rates, long term periods of low interest rates, credit conditions and currency, commodity and stock prices, including the short and long-term effects of losses in relation to asset-backed securities, and many other factors beyond our control can adversely affect the value of our investments and the realization of investment income. Further, we invest a portion of our assets in equity securities and limited partnerships which are subject to greater market volatility than our fixed income investments. Limited partnership investments generally present greater market volatility, higher illiquidity, and greater risk than fixed income investments. As a result of all of these factors, we may not realize an adequate return on our investments, may incur losses on sales of our investments, and may be required to write down the value of our investments.

**Our valuation of investments and impairment of securities requires significant judgment.**

We exercise significant judgment in analyzing and validating fair values, primarily provided by third parties, for securities in our investment portfolio including those that are not regularly traded. We also exercise significant judgment in determining whether the impairment of particular investments is temporary or other-than-temporary. Securities with exposure to residential and commercial mortgage and other loan collateral can be particularly sensitive to fairly small changes in actual collateral performance and assumptions as to future collateral performance.

Due to the inherent uncertainties involved with these types of risks and the resulting judgments, we may incur unrealized losses and conclude that other-than-temporary write downs of our investments are required. Additional information on our investment portfolio is included in the MD&A under Item 7 and Notes B, C, and D to the Consolidated Financial Statements included under Item 8.

**We face intense competition in our industry and may be adversely affected by the cyclical nature of the property and casualty business.**

All aspects of the insurance industry are highly competitive and we must continuously allocate resources to refine and improve our insurance products and services. We compete with a large number of stock and mutual insurance companies and other entities for both distributors and customers. Insurers compete on the basis of factors including products, price, services, ratings and financial strength. The property and casualty market is cyclical and has experienced periods characterized by relatively high levels of price competition, less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively lower levels of competition, more selective underwriting standards and relatively high premium rates. During periods in which price competition is high, we may lose business to competitors offering competitive insurance products at lower prices. As a result, our premium levels and expense ratio could be materially adversely impacted.

**We are subject to capital adequacy requirements and, if we are unable to maintain or raise sufficient capital to meet these requirements, regulatory agencies may restrict or prohibit us from operating our business.**

Insurance companies such as us are subject to risk-based capital standards set by state regulators to help identify companies that merit further regulatory attention. These standards apply specified risk factors to various asset, premium and reserve components of our statutory capital and surplus reported in our statutory basis of accounting financial statements. Current rules require companies to maintain statutory capital and surplus at a specified minimum level determined using the risk-based capital formula. If we do not meet these minimum

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requirements, state regulators may restrict or prohibit us from operating our business. If we are required to record a material charge against earnings in connection with a change in estimates or circumstances or if we incur significant unrealized losses related to our investment portfolio, we may violate these minimum capital adequacy requirements unless we are able to raise sufficient additional capital. Examples of events leading us to record a material charge against earnings include impairment of our investments or unexpectedly poor claims experience.

While Loews has provided us with substantial amounts of capital in prior years, Loews may be restricted in its ability or may not be willing to provide additional capital support to us in the future. If we are in need of additional capital, we may be required to secure this funding from sources other than Loews. We may be limited in our ability to raise significant amounts of capital on favorable terms or at all.

**Our insurance subsidiaries, upon whom we depend for dividends in order to fund our working capital needs, are limited by state regulators in their ability to pay dividends.**

We are a holding company and are dependent upon dividends, loans and other sources of cash from our subsidiaries in order to meet our obligations. Ordinary dividend payments, or dividends that do not require prior approval by the insurance subsidiaries' domiciliary state departments of insurance are generally limited to amounts determined by formula which varies by state. The formula for the majority of the states is the greater of 10% of the prior year statutory surplus or the prior year statutory net income, less the aggregate of all dividends paid during the twelve months prior to the date of payment. Some states, however, have an additional stipulation that dividends cannot exceed the prior year's earned surplus. If we are restricted, by regulatory rule or otherwise, from paying or receiving inter-company dividends, we may not be able to fund our working capital needs and debt service requirements from available cash. As a result, we would need to look to other sources of capital which may be more expensive or may not be available at all.

**Rating agencies may downgrade their ratings of us and thereby adversely affect our ability to write insurance at competitive rates or at all.**

Ratings are an important factor in establishing the competitive position of insurance companies. Our insurance company subsidiaries, as well as our public debt, are rated by rating agencies, namely, A.M. Best Company (A.M. Best), Moody's Investors Service, Inc. (Moody's) and Standard & Poor's (S&P). Ratings reflect the rating agency's opinions of an insurance company's or insurance holding company's financial strength, capital adequacy, operating performance, strategic position and ability to meet its obligations to policyholders and debt holders.

Due to the intense competitive environment in which we operate, the uncertainty in determining reserves and the potential for us to take material unfavorable development in the future, and possible changes in the methodology or criteria applied by the rating agencies, the rating agencies may take action to lower our ratings in the future. If our property and casualty insurance financial strength ratings are downgraded below current levels, our business and results of operations could be materially adversely affected. The severity of the impact on our business is dependent on the level of downgrade and, for certain products, which rating agency takes the rating action. Among the adverse effects in the event of such downgrades would be the inability to obtain a material volume of business from certain major insurance brokers, the inability to sell a material volume of our insurance products to certain markets, and the required collateralization of certain future payment obligations or reserves.

In addition, it is possible that a lowering of the corporate debt ratings of Loews by certain of the rating agencies could result in an adverse impact on our ratings, independent of any change in our circumstances. We have entered into several settlement agreements and assumed reinsurance contracts that require collateralization of future payment obligations and assumed reserves if our ratings or other specific criteria fall below certain thresholds. The ratings triggers are generally more than one level below our current ratings. Additional information on our ratings and ratings triggers is included in the MD&A under Item 7.

**We are subject to extensive federal, state and local governmental regulations that restrict our ability to do business and generate revenues.**

The insurance industry is subject to comprehensive and detailed regulation and supervision throughout the United States. Most insurance regulations are designed to protect the interests of our policyholders rather than



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our investors. Each state in which we do business has established supervisory agencies that regulate the manner in which we do business. Their regulations relate to, among other things, the following:

standards of solvency including risk-based capital measurements;

restrictions on the nature, quality and concentration of investments;

restrictions on our ability to withdraw from unprofitable lines of insurance or unprofitable market areas;

the required use of certain methods of accounting and reporting;

the establishment of reserves for unearned premiums, losses and other purposes;

potential assessments for funds necessary to settle covered claims against impaired, insolvent or failed private or quasi-governmental insurers;

licensing of insurers and agents;

approval of policy forms;

limitations on the ability of our insurance subsidiaries to pay dividends to us; and

limitations on the ability to non-renew, cancel or change terms and conditions in policies.

Regulatory powers also extend to premium rate regulations which require that rates not be excessive, inadequate or unfairly discriminatory. The states in which we do business also require us to provide coverage to persons whom we would not otherwise consider eligible. Each state dictates the types of insurance and the level of coverage that must be provided to such involuntary risks. Our share of these involuntary risks is mandatory and generally a function of our respective share of the voluntary market by line of insurance in each state.

**Table of Contents****ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

The Chicago location, owned by CCC, a wholly-owned subsidiary of CNAF, houses our principal executive offices. Our subsidiaries own or lease office space in various cities throughout the United States and in other countries. The following table sets forth certain information with respect to our principal office locations.

<b>Location</b>	<b>Amount (Square Feet) of Building Owned and Occupied or Leased and Occupied by CNA</b>	<b>Principal Usage</b>
333 S. Wabash Avenue, Chicago, Illinois	763,322	Principal executive offices of CNAF
401 Penn Street, Reading, Pennsylvania	190,677	Property and casualty insurance offices
2405 Lucien Way, Maitland, Florida	116,948	Property and casualty insurance offices
40 Wall Street, New York, New York	114,096	Property and casualty insurance offices
1100 Ward Avenue, Honolulu, Hawaii	104,478	Property and casualty insurance offices
101 S. Phillips Avenue, Sioux Falls, South Dakota	83,616	Property and casualty insurance offices
600 N. Pearl Street, Dallas, Texas	65,752	Property and casualty insurance offices
1249 S. River Road, Cranbury, New Jersey	50,366	Property and casualty insurance offices
4267 Meridian Parkway, Aurora, Illinois	46,903	Data center
675 Placentia Avenue, Brea, California	46,571	Property and casualty insurance offices

We lease the office space described above except for the Chicago, Illinois building, the Reading, Pennsylvania building and the Aurora, Illinois building, which are owned. We consider that our properties are generally in good condition, are well maintained and are suitable and adequate to carry on our business.

**ITEM 3. LEGAL PROCEEDINGS**

Information on specific and significant legal proceedings is set forth in Note G to the Consolidated Financial Statements included under Item 8.

We are also a party to routine litigation incidental to our business, which, based on the facts and circumstances currently known, is not material to the business or financial condition of the Company.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is listed on the New York Stock Exchange and the Chicago Stock Exchange under the symbol CNA.

As of February 17, 2011, we had 269,309,618 shares of common stock outstanding. Approximately 90% of our outstanding common stock is owned by Loews. We had 1,519 stockholders of record as of February 17, 2011 according to the records maintained by our transfer agent.

Our Board of Directors has approved an authorization to purchase, in the open market or through privately negotiated transactions, our outstanding common stock, as our management deems appropriate. No repurchases were made in the fourth quarter of 2010.

The table below shows the high and low sales prices for our common stock based on the New York Stock Exchange Composite Transactions.

**Common Stock Information**

	2010			2009		
	High	Low	Dividends Declared	High	Low	Dividends Declared
Quarter:						
First	\$ 27.29	\$ 21.71	\$ -	\$ 17.43	\$ 6.41	\$ -
Second	29.53	23.24	-	17.59	8.83	-
Third	29.50	24.82	-	26.51	13.63	-
Fourth	28.79	25.43	-	25.01	20.48	-

The following graph compares the total return of our common stock, the Standard & Poor's (S&P) 500 Index and the S&P 500 Property & Casualty Insurance Index for the five year period from December 31, 2005 through December 31, 2010. The graph assumes that the value of the investment in our common stock and for each index was \$100 on December 31, 2005 and that dividends, if any, were reinvested.

**Stock Price Performance Graph**

<u>Company / Index</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
CNA Financial Corporation	100.00	123.19	103.91	51.47	75.14	84.69
S&P 500 Index	100.00	115.79	122.16	76.96	97.33	111.99
S&P 500 Property & Casualty Insurance Index	100.00	112.87	97.11	68.55	77.01	83.90

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The following table presents selected financial data. The table should be read in conjunction with Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8 Financial Statements and Supplementary Data of this Form 10-K.

**Selected Financial Data****As of and for the Years Ended**

<b>December 31</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
(In millions, except per share data)					
<b>Results of Operations:</b>					
Revenues	\$ 9,209	\$ 8,472	\$ 7,799	\$ 9,885	\$ 10,376
Income (loss) from continuing operations, net of tax	\$ 779	\$ 483	\$ (251)	\$ 905	\$ 1,181
Income (loss) from discontinued operations, net of tax	(21)	(2)	9	(6)	(29)
Net (income) loss attributable to noncontrolling interests, net of tax	(68)	(62)	(57)	(48)	(44)
<b>Net income (loss) attributable to CNA</b>	<b>\$ 690</b>	<b>\$ 419</b>	<b>\$ (299)</b>	<b>\$ 851</b>	<b>\$ 1,108</b>
<b>Basic Earnings (Loss) Per Share Attributable to CNA Common Stockholders:</b>					
Income (loss) from continuing operations attributable to CNA common stockholders	\$ 2.36	\$ 1.11	\$ (1.21)	\$ 3.15	\$ 4.17
Income (loss) from discontinued operations attributable to CNA common stockholders	(0.08)	(0.01)	0.03	(0.02)	(0.11)
Basic earnings (loss) per share attributable to CNA common stockholders	\$ 2.28	\$ 1.10	\$ (1.18)	\$ 3.13	\$ 4.06
<b>Diluted Earnings (Loss) Per Share Attributable to CNA Common Stockholders:</b>					
Income (loss) from continuing operations attributable to CNA common stockholders	\$ 2.36	\$ 1.11	\$ (1.21)	\$ 3.15	\$ 4.16
Income (loss) from discontinued operations attributable to CNA common stockholders	(0.08)	(0.01)	0.03	(0.02)	(0.11)
Diluted earnings (loss) per share attributable to CNA common stockholders	\$ 2.28	\$ 1.10	\$ (1.18)	\$ 3.13	\$ 4.05

Dividends declared per common share	\$ -	\$ -	\$ 0.45	\$ 0.35	\$ -
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**Financial Condition:**

Total investments	\$ 42,655	\$ 41,996	\$ 35,003	\$ 41,789	\$ 44,096
Total assets	55,331	55,298	51,688	56,759	60,283
Insurance reserves	37,590	38,263	38,771	40,222	41,080
Long and short term debt	2,651	2,303	2,058	2,157	2,156
Total CNA stockholders equity	10,954	10,660	6,877	10,150	9,768
Book value per common share	\$ 40.70	\$ 35.91	\$ 20.92	\$ 37.36	\$ 36.03

**Statutory Surplus:**

Combined Continental Casualty Companies

(a)	\$ 9,821(b)	\$ 9,338	\$ 7,819	\$ 8,348	\$ 8,056
Life company	498(b)	448	487	471	687

(a) Represents the combined statutory surplus of CCC and its subsidiaries, including the Life company, as determined in accordance with statutory accounting practices as further discussed in Note L to the Consolidated Financial Statements included under Item 8.

(b) Preliminary results.

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**ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Overview**

The following discussion should be read in conjunction with Item 1A Risk Factors, Item 6 Selected Financial Data and Item 8 Financial Statements and Supplementary Data of this Form 10-K. References to net operating income (loss), net realized investment gains (losses) and net income (loss) used in this MD&A reflect amounts attributable to CNA, unless otherwise noted.

***Agreement to Cede Asbestos and Environmental Pollution (A&EP) Liabilities to National Indemnity Company (NICO)***

As further discussed in Note F to the Consolidated Financial Statements included under Item 8, on August 31, 2010, we completed a transaction with NICO, a subsidiary of Berkshire Hathaway Inc., under which substantially all of our legacy A&EP liabilities were ceded to NICO (Loss Portfolio Transfer), subject to an aggregate limit of \$4 billion. We recognized an after-tax loss of \$365 million in the third quarter of 2010, of which \$344 million related to our continuing operations. Since a portion of the liabilities ceded related to our discontinued operations, we also recognized an after-tax loss for discontinued operations of \$21 million.

The net loss attributable to CNA of \$365 million related primarily to the risk margin necessary to secure the \$4 billion of reinsurance protection on such a volatile component of our reserves. However, we believe the benefits to CNA are compelling. The benefits include:

improves our earnings outlook and financial stability by significantly mitigating A&EP reserve risk going forward;

effectively eliminates credit risk on \$1.2 billion of third party A&EP reinsurance recoverables effective January 1, 2010; and

eliminates an area of uncertainty from the perspective of rating agencies.

**Table of Contents****Index to this MD&A**

Management's discussion and analysis of financial condition and results of operations is comprised of the following sections:

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**Table of Contents****CONSOLIDATED OPERATIONS****Results of Operations**

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

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Revenues</b>			
Net earned premiums	\$ 6,515	\$ 6,721	\$ 7,151
Net investment income	2,316	2,320	1,619
Other revenues	292	288	326
Total operating revenues	9,123	9,329	9,096
<b>Claims, Benefits and Expenses</b>			
Net incurred claims and benefits	4,955	5,267	5,703
Policyholders dividends	30	23	20
Amortization of deferred acquisition costs	1,387	1,417	1,467
Other insurance related expenses	797	781	694
Other expenses	928	444	477
Total claims, benefits and expenses	8,097	7,932	8,361
Operating income from continuing operations before income tax	1,026	1,397	735
Income tax expense on operating income	(297)	(353)	(145)
Net operating (income) loss, after-tax, attributable to noncontrolling interests	(69)	(62)	(57)
Net operating income from continuing operations attributable to CNA	660	982	533
Net realized investment gains (losses), net of participating policyholders interests	86	(857)	(1,297)
Income tax (expense) benefit on net realized investment gains (losses)	(36)	296	456
Net realized investment (gains) losses, after-tax, attributable to noncontrolling interests	1	-	-
Net realized investment gains (losses) attributable to CNA	51	(561)	(841)
Income (loss) from continuing operations attributable to CNA	711	421	(308)
Income (loss) from discontinued operations attributable to CNA, net of income tax (expense) benefit of \$0, \$0 and \$9	(21)	(2)	9

<b>Net income (loss) attributable to CNA</b>	\$ 690	\$ 419	\$ (299)
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**2010 Compared with 2009**

Net income improved \$271 million in 2010 as compared with 2009. This improvement was driven by significantly improved net realized investment results, partially offset by a decrease in net operating income, primarily driven by the loss associated with the Loss Portfolio Transfer. Excluding the loss associated with the Loss Portfolio Transfer, net income improved \$636 million in 2010 as compared with 2009.

Net realized investment results improved \$612 million in 2010 as compared with 2009. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income decreased \$322 million in 2010 as compared with 2009. Excluding the loss associated with the Loss Portfolio Transfer, net operating income increased \$22 million in 2010 as compared with 2009. Net operating income increased \$49 million for our core segments, CNA Specialty and CNA Commercial, primarily due to increased favorable net prior year development, partially offset by decreased current accident year underwriting results, including higher catastrophe losses, and decreased after-tax net investment income. Catastrophe losses were \$79 million after-tax in 2010, as compared to catastrophe losses of \$58 million after-tax in 2009. Net operating loss increased \$27 million for our non-core segments, as further discussed in the Life & Group Non-Core and Corporate & Other Non-Core segments of this MD&A.

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As further discussed in Note O to the Consolidated Financial Statements included under Item 8, we commenced a program during 2010 to significantly transform our Information Technology (IT) organization and delivery model. We anticipate that the total costs for this program will be approximately \$38 million, of which \$36 million was incurred during the year ended December 31, 2010. When the results of this program are fully operational, we anticipate significant annual savings relative to our current annual level of IT spending. A significant portion of the annual savings is anticipated to be achieved in 2011 with full annual savings in 2012. Some or all of these estimated savings may be invested in IT or other enhancements necessary to support our business strategies.

Favorable net prior year development of \$594 million and \$208 million was recorded in 2010 and 2009 related to our CNA Specialty, CNA Commercial and Corporate & Other Non-Core segments. Further information on net prior year development for 2010 and 2009 is included in Note F to the Consolidated Financial Statements included under Item 8. Net earned premiums decreased \$206 million in 2010 as compared with 2009 driven by a \$176 million decrease in CNA Commercial and an \$18 million decrease in CNA Specialty. See the Segment Results section of this MD&A for further discussion.

Net loss from discontinued operations increased \$19 million in 2010 as compared to 2009 due to the loss associated with the Loss Portfolio Transfer.

**2009 Compared with 2008**

Net results improved \$718 million in 2009 as compared with 2008. This improvement was due to increased net operating income and decreased net realized investment losses.

Net realized investment losses decreased \$280 million in 2009 as compared with 2008. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income improved \$449 million in 2009 as compared with 2008. Net operating income increased \$379 million for our core segments, CNA Specialty and CNA Commercial, and net operating loss decreased \$70 million for our non-core segments. This improvement was primarily due to higher net investment income and lower catastrophe losses. Net investment income in 2008 included indexed group annuity trading portfolio losses of \$146 million. This trading portfolio supported the indexed group annuity portion of our pension deposit business which was exited during 2008, and these losses were substantially offset by a corresponding decrease in the policyholders' funds reserves supported by the trading portfolio. Excluding the trading portfolio losses in 2008, net investment income increased \$555 million primarily driven by limited partnership income. Catastrophe losses were \$58 million after-tax in 2009, as compared to catastrophe impacts of \$239 million after-tax in 2008. Partially offsetting these favorable items was an unfavorable change in current accident year underwriting results excluding catastrophes.

Results for the year ended December 31, 2009 included expense of \$45 million related to our pension and postretirement plans, compared with a benefit of \$14 million for the year ended December 31, 2008.

In 2008, the amount due from policyholders related to losses under deductible policies within CNA Commercial Lines was reduced by \$90 million for insolvent insureds. The reduction of this amount, which was reflected as unfavorable net prior year reserve development in 2008, had no effect on 2008 results of operations as the Company had previously recognized provisions in prior years. These impacts were reported in Insurance claims and policyholders benefits in the 2008 Consolidated Statement of Operations.

Favorable net prior year development of \$208 million and \$80 million was recorded in 2009 and 2008 related to our CNA Specialty, CNA Commercial and Corporate & Other Non-Core segments. Excluding the impact of the \$90 million of unfavorable net prior year reserve development discussed above, which had no net impact on the results of operations, favorable net prior year development was \$170 million in 2008. Further information on net prior year development for 2009 and 2008 is included in Note F to the Consolidated Financial Statements included under Item 8.

Net earned premiums decreased \$430 million in 2009 as compared with 2008, driven by a \$58 million decrease in CNA Specialty and a \$355 million decrease in CNA Commercial. See the Segment Results section of this MD&A for further discussion.

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Results from discontinued operations decreased \$11 million in 2009 as compared to 2008. The 2008 results were primarily driven by the recognition in 2008 of a change in estimate of the tax benefit related to the 2007 sale of our United Kingdom discontinued operations subsidiary.

**Table of Contents****Critical Accounting Estimates**

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

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

The accounting estimates discussed below are considered by us to be critical to an understanding of our Consolidated Financial Statements as their application places the most significant demands on our judgment. Note A to the Consolidated Financial Statements included under Item 8 should be read in conjunction with this section to assist with obtaining an understanding of the underlying accounting policies related to these estimates. Due to the inherent uncertainties involved with these types of judgments, actual results could differ significantly from estimates and may have a material adverse impact on our results of operations and/or equity.

***Insurance Reserves***

Insurance reserves are established for both short and long-duration insurance contracts. Short-duration contracts are primarily related to property and casualty insurance policies where the reserving process is based on actuarial estimates of the amount of loss, including amounts for known and unknown claims. Long-duration contracts typically include traditional life insurance, payout annuities and long term care products and are estimated using actuarial estimates about mortality, morbidity and persistency as well as assumptions about expected investment returns. The reserve for unearned premiums on property and casualty and accident and health contracts represents the portion of premiums written related to the unexpired terms of coverage. The inherent risks associated with the reserving process are discussed in the Reserves Estimates and Uncertainties section below.

***Reinsurance and Insurance Receivables***

An exposure exists with respect to the collectibility of property and casualty and life reinsurance ceded to the extent that any reinsurer is unable to meet its obligations or disputes the liabilities we have ceded under reinsurance agreements. An allowance for uncollectible reinsurance is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, our past experience and current economic conditions. Further information on our reinsurance receivables are included in Note H to the Consolidated Financial Statements included under Item 8.

Additionally, an exposure exists with respect to amounts due from policyholders related to insurance contracts, including amounts due from insureds under high deductible policies. An allowance for uncollectible insurance receivables is recorded on the basis of periodic evaluations of balances due from insureds currently or in the future, management's experience and current economic conditions.

If actual experience differs from the estimates made by management in determining the allowances for uncollectible reinsurance and insurance receivables, net receivables as reflected on our Consolidated Balance Sheets may not be collected. Therefore, our results of operations and/or equity could be materially adversely impacted.

***Valuation of Investments and Impairment of Securities***

We classify our fixed maturity securities and equity securities as either available-for-sale or trading which are both carried at fair value. The determination of fair value requires us to make a significant number of assumptions and judgments, particularly with respect to asset-backed securities. Due to the level of uncertainty related to changes in the fair value of these assets, it is possible that changes in the near term could have an adverse material impact on our results of operations and/or equity.

Our investment portfolio is subject to market declines below amortized cost that may be other-than-temporary and therefore result in the recognition of impairment losses in earnings. Factors considered in the determination

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of whether or not a decline is other-than-temporary include a current intention to sell the security or an indication that a credit loss exists. Significant judgment exists regarding the evaluation of the financial condition and expected near-term and long-term prospects of the issuer, the relevant industry conditions and trends, and whether we expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. We have an Impairment Committee which reviews the investment portfolio on at least a quarterly basis, with ongoing analysis as new information becomes available. Further information on our process for evaluating impairments is included in Note B to the Consolidated Financial Statements included under Item 8.

***Long Term Care Products and Payout Annuity Contracts***

Reserves for our long term care products and payout annuity contracts and deferred acquisition costs for our long term care products are based on certain assumptions including morbidity, mortality, policy persistency and interest rates. The recoverability of deferred acquisition costs and the adequacy of the reserves are contingent on actual experience related to these key assumptions, which were generally established at time of issue, and other factors such as future health care cost trends. If actual experience differs from these assumptions, the deferred acquisition costs may not be fully realized and the reserves may not be adequate, requiring us to add to reserves, or take unfavorable development. Therefore, our results of operations and/or equity could be adversely impacted.

***Pension and Postretirement Benefit Obligations***

We make a significant number of assumptions in estimating the liabilities and costs related to our pension and postretirement benefit obligations to employees under our benefit plans. The assumptions that most impact these costs are the discount rate, the expected return on plan assets and the rate of compensation increases. These assumptions are evaluated relative to current economic factors such as inflation, interest rates and fiscal and monetary policies. Changes in these assumptions can have a material impact on pension obligations and pension expense.

To determine the discount rate assumption as of the year-end measurement date for our CNA Retirement Plan and CNA Health and Group Benefits Program, we considered the estimated timing of plan benefit payments and available yields on high quality fixed income debt securities. For this purpose, high quality is considered a rating of Aa or better by Moody's Investors Service, Inc. (Moody's) or a rating of AA or better from Standard & Poor's (S&P). We reviewed several yield curves constructed using the cash flow characteristics of the plans as well as bond indices as of the measurement date. The year-over-year change of those data points was also considered. Based on this review, management determined that 5.375% and 4.375% were the appropriate discount rates as of December 31, 2010 to calculate our accrued pension and postretirement liabilities. Accordingly, the 5.375% and 4.375% rates will also be used to determine our 2011 pension and postretirement expense. At December 31, 2009, the discount rates used to calculate our accrued pension and postretirement liabilities were 5.700% and 5.500%.

Further information on our pension and postretirement benefit obligations is included in Note J to the Consolidated Financial Statements included under Item 8.

***Income Taxes***

We account for income taxes under the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial statement and tax return basis of assets and liabilities. Any resulting future tax benefits are recognized to the extent that realization of such benefits is more likely than not, and a valuation allowance is established for any portion of a deferred tax asset that management believes will not be realized. The assessment of the need for a valuation allowance requires management to make estimates and assumptions about future earnings, reversal of existing temporary differences and available tax planning strategies. If actual experience differs from these estimates and assumptions, the recorded deferred tax asset may not be fully realized resulting in an increase to income tax expense in our results of operations. In addition, the ability to record deferred tax assets in the future could be limited, resulting in a higher effective tax rate in that future period.

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**Reserves Estimates and Uncertainties**

We maintain loss reserves to cover our estimated ultimate unpaid liability for claim and claim adjustment expenses, including the estimated cost of the claims adjudication process, for claims that have been reported but not yet settled (case reserves) and claims that have been incurred but not reported (IBNR). Claim and claim adjustment expense reserves are reflected as liabilities and are included on the Consolidated Balance Sheets under the heading Insurance Reserves. Adjustments to prior year reserve estimates, if necessary, are reflected in results of operations in the period that the need for such adjustments is determined. The carried case and IBNR reserves as of each balance sheet date are provided in the Segment Results section of this MD&A and in Note F to the Consolidated Financial Statements included under Item 8.

The level of reserves we maintain represents our best estimate, as of a particular point in time, of what the ultimate settlement and administration of claims will cost based on our assessment of facts and circumstances known at that time. Reserves are not an exact calculation of liability but instead are complex estimates that we derive, generally utilizing a variety of actuarial reserve estimation techniques, from numerous assumptions and expectations about future events, both internal and external, many of which are highly uncertain.

We are subject to the uncertain effects of emerging or potential claims and coverage issues that arise as industry practices and legal, judicial, social and other environmental conditions change. These issues have had, and may continue to have, a negative effect on our business by either extending coverage beyond the original underwriting intent or by increasing the number or size of claims. Examples of emerging or potential claims and coverage issues include:

- the effects of recessionary economic conditions, which have resulted in an increase in the number and size of claims due to corporate failures; these claims include both directors and officers (D&O) and errors and omissions (E&O) insurance claims;

- class action litigation relating to claims handling and other practices; and

- mass tort claims, including bodily injury claims related to welding rods, benzene, lead, noise induced hearing loss, injuries from various medical products including pharmaceuticals, and various other chemical and radiation exposure claims.

The impact of these and other unforeseen emerging or potential claims and coverage issues is difficult to predict and could materially adversely affect the adequacy of our claim and claim adjustment expense reserves and could lead to future reserve additions.

Our property and casualty insurance subsidiaries also have actual and potential exposures related to asbestos and environmental pollution (A&EP) claims. Our experience has been that establishing reserves for casualty coverages relating to A&EP claims and claim adjustment expenses are subject to uncertainties that are greater than those presented by other claims. Additionally, traditional actuarial methods and techniques employed to estimate the ultimate cost of claims for more traditional property and casualty exposures are less precise in estimating claim and claim adjustment reserves for A&EP. As a result, estimating the ultimate cost of both reported and unreported A&EP claims are subject to a higher degree of variability.

To mitigate the risks posed by our exposure to A&EP claims and claim adjustment expenses, as further discussed in Note F to the Consolidated Financial Statements included under Item 8, on August 31, 2010 we completed a transaction with NICO, a subsidiary of Berkshire Hathaway Inc., under which substantially all of our legacy A&EP liabilities were ceded to NICO effective January 1, 2010.

**Table of Contents*****Establishing Reserve Estimates***

In developing claim and claim adjustment expense ( loss or losses ) reserve estimates, our actuaries perform detailed reserve analyses that are staggered throughout the year. The data is organized at a product level. A product can be a line of business covering a subset of insureds such as commercial automobile liability for small or middle market customers, it can encompass several lines of business provided to a specific set of customers such as dentists, or it can be a particular type of claim such as construction defect. Every product is analyzed at least once during the year, with the exception of certain run-off products which are analyzed on a periodic basis. The analyses generally review losses gross of ceded reinsurance and apply the ceded reinsurance terms to the gross estimates to establish estimates net of reinsurance. In addition to the detailed analyses, we review actual loss emergence for all products each quarter.

The detailed analyses use a variety of generally accepted actuarial methods and techniques to produce a number of estimates of ultimate loss. Our actuaries determine a point estimate of ultimate loss by reviewing the various estimates and assigning weight to each estimate given the characteristics of the product being reviewed. The reserve estimate is the difference between the estimated ultimate loss and the losses paid to date. The difference between the estimated ultimate loss and the case incurred loss (paid loss plus case reserve) is IBNR. IBNR calculated as such includes a provision for development on known cases (supplemental development) as well as a provision for claims that have occurred but have not yet been reported (pure IBNR).

Most of our business can be characterized as long-tail. For long-tail business, it will generally be several years between the time the business is written and the time when all claims are settled. Our long-tail exposures include commercial automobile liability, workers compensation, general liability, medical professional liability, other professional liability coverages, assumed reinsurance run-off and products liability. Short-tail exposures include property, commercial automobile physical damage, marine and warranty. CNA Specialty and CNA Commercial contain both long-tail and short-tail exposures. Corporate & Other Non-Core contains long-tail exposures.

Various methods are used to project ultimate loss for both long-tail and short-tail exposures including, but not limited to, the following:

paid development;

incurred development;

loss ratio;

Bornhuetter-Ferguson using paid loss;

Bornhuetter-Ferguson using incurred loss;

frequency times severity; and

stochastic modeling.

The paid development method estimates ultimate losses by reviewing paid loss patterns and applying them to accident years with further expected changes in paid loss. Selection of the paid loss pattern requires consideration of several factors including the impact of inflation on claims costs, the rate at which claims professionals make claim payments and close claims, the impact of judicial decisions, the impact of underwriting changes, the impact of large claim payments and other factors. Claim cost inflation itself requires evaluation of changes in the cost of repairing or replacing property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors. Because this method assumes that losses are paid at a consistent rate, changes in any of these factors can impact the results. Since the method does not rely on case reserves, it is not directly influenced by changes in the adequacy of case reserves.

For many products, paid loss data for recent periods may be too immature or erratic for accurate predictions. This situation often exists for long-tail exposures. In addition, changes in the factors described above may result in inconsistent payment patterns. Finally, estimating the paid loss pattern subsequent to the most mature point available



in the data analyzed often involves considerable uncertainty for long-tail products such as workers compensation.

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The incurred development method is similar to the paid development method, but it uses case incurred losses instead of paid losses. Since the method uses more data (case reserves in addition to paid losses) than the paid development method, the incurred development patterns may be less variable than paid patterns. However, selection of the incurred loss pattern requires analysis of all of the factors above. In addition, the inclusion of case reserves can lead to distortions if changes in case reserving practices have taken place, and the use of case incurred losses may not eliminate the issues associated with estimating the incurred loss pattern subsequent to the most mature point available. The loss ratio method multiplies premiums by an expected loss ratio to produce ultimate loss estimates for each accident year. This method may be useful for immature accident periods or if loss development patterns are inconsistent, losses emerge very slowly, or there is relatively little loss history from which to estimate future losses. The selection of the expected loss ratio requires analysis of loss ratios from earlier accident years or pricing studies and analysis of inflationary trends, frequency trends, rate changes, underwriting changes, and other applicable factors. The Bornhuetter-Ferguson method using paid loss is a combination of the paid development method and the loss ratio method. This method normally determines expected loss ratios similar to the approach used to estimate the expected loss ratio for the loss ratio method and requires analysis of the same factors described above. This method assumes that only future losses will develop at the expected loss ratio level. The percent of paid loss to ultimate loss implied from the paid development method is used to determine what percentage of ultimate loss is yet to be paid. The use of the pattern from the paid development method requires consideration of all factors listed in the description of the paid development method. The estimate of losses yet to be paid is added to current paid losses to estimate the ultimate loss for each year. This method will react very slowly if actual ultimate loss ratios are different from expectations due to changes not accounted for by the expected loss ratio calculation.

The Bornhuetter-Ferguson method using incurred loss is similar to the Bornhuetter-Ferguson method using paid loss except that it uses case incurred losses. The use of case incurred losses instead of paid losses can result in development patterns that are less variable than paid patterns. However, the inclusion of case reserves can lead to distortions if changes in case reserving have taken place, and the method requires analysis of all the factors that need to be reviewed for the loss ratio and incurred development methods.

The frequency times severity method multiplies a projected number of ultimate claims by an estimated ultimate average loss for each accident year to produce ultimate loss estimates. Since projections of the ultimate number of claims are often less variable than projections of ultimate loss, this method can provide more reliable results for products where loss development patterns are inconsistent or too variable to be relied on exclusively. In addition, this method can more directly account for changes in coverage that impact the number and size of claims. However, this method can be difficult to apply to situations where very large claims or a substantial number of unusual claims result in volatile average claim sizes. Projecting the ultimate number of claims requires analysis of several factors including the rate at which policyholders report claims to us, the impact of judicial decisions, the impact of underwriting changes and other factors. Estimating the ultimate average loss requires analysis of the impact of large losses and claim cost trends based on changes in the cost of repairing or replacing property, changes in the cost of medical care, changes in the cost of wage replacement, judicial decisions, legislative changes and other factors.

Stochastic modeling produces a range of possible outcomes based on varying assumptions related to the particular product being modeled. For some products, we use models which rely on historical development patterns at an aggregate level, while other products are modeled using individual claim variability assumptions supplied by the claims department. In either case, multiple simulations are run and the results are analyzed to produce a range of potential outcomes. The results will typically include a mean and percentiles of the possible reserve distribution which aid in the selection of a point estimate.

For many exposures, especially those that can be considered long-tail, a particular accident year may not have a sufficient volume of paid losses to produce a statistically reliable estimate of ultimate losses. In such a case, our actuaries typically assign more weight to the incurred development method than to the paid development method. As claims continue to settle and the volume of paid loss increases, the actuaries may assign additional weight to the paid development method. For most of our products, even the incurred losses for accident years that are early in the claim settlement process will not be of sufficient volume to produce a reliable estimate of ultimate losses. In these cases, we will not assign any weight to the paid and incurred development methods.



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We will use the loss ratio, Bornhuetter-Ferguson and frequency times severity methods. For short-tail exposures, the paid and incurred development methods can often be relied on sooner primarily because our history includes a sufficient number of years to cover the entire period over which paid and incurred losses are expected to change. However, we may also use the loss ratio, Bornhuetter-Ferguson and frequency times severity methods for short-tail exposures.

For other more complex products where the above methods may not produce reliable indications, we use additional methods tailored to the characteristics of the specific situation.

### ***Periodic Reserve Reviews***

The reserve analyses performed by our actuaries result in point estimates. Each quarter, the results of the detailed reserve reviews are summarized and discussed with our senior management to determine the best estimate of reserves. This group considers many factors in making this decision. The factors include, but are not limited to, the historical pattern and volatility of the actuarial indications, the sensitivity of the actuarial indications to changes in paid and incurred loss patterns, the consistency of claims handling processes, the consistency of case reserving practices, changes in our pricing and underwriting, pricing and underwriting trends in the insurance market, and legal, judicial, social and economic trends.

Our recorded reserves reflect our best estimate as of a particular point in time based upon known facts, consideration of the factors cited above, and our judgment. The carried reserve may differ from the actuarial point estimate as the result of our consideration of the factors noted above as well as the potential volatility of the projections associated with the specific product being analyzed and other factors impacting claims costs that may not be quantifiable through traditional actuarial analysis. This process results in management's best estimate which is then recorded as the loss reserve.

Currently, our recorded reserves are modestly higher than the actuarial point estimate. For both CNA Commercial and CNA Specialty, the difference between our reserves and the actuarial point estimate is primarily driven by uncertainty with respect to immature accident years, claim cost inflation, changes in claims handling, tort reform roll-backs which may adversely impact claim costs, and the effects from the economy. For Corporate & Other Non-Core, the difference between our reserves and the actuarial point estimate is primarily driven by the potential tail volatility of run-off exposures.

The key assumptions fundamental to the reserving process are often different for various products and accident years. Some of these assumptions are explicit assumptions that are required of a particular method, but most of the assumptions are implicit and cannot be precisely quantified. An example of an explicit assumption is the pattern employed in the paid development method. However, the assumed pattern is itself based on several implicit assumptions such as the impact of inflation on medical costs and the rate at which claim professionals close claims. As a result, the effect on reserve estimates of a particular change in assumptions usually cannot be specifically quantified, and changes in these assumptions cannot be tracked over time.

Our recorded reserves are management's best estimate. In order to provide an indication of the variability associated with our net reserves, the following discussion provides a sensitivity analysis that shows the approximate estimated impact of variations in significant factors affecting our reserve estimates for particular types of business. These significant factors are the ones that we believe could most likely materially impact the reserves. This discussion covers the major types of business for which we believe a material deviation to our reserves is reasonably possible. There can be no assurance that actual experience will be consistent with the current assumptions or with the variation indicated by the discussion. In addition, there can be no assurance that other factors and assumptions will not have a material impact on our reserves.

Within CNA Specialty, we believe a material deviation to our net reserves is reasonably possible for professional liability and related business. This business includes professional liability coverages provided to various professional firms, including architects, real estate agents, small and mid-sized accounting firms, law firms and technology firms. This business also includes D&O, employment practices, fiduciary and fidelity coverages as well as insurance products serving the healthcare delivery system. The most significant factor affecting reserve estimates for this business is claim severity. Claim severity is driven by the cost of medical care, the cost of wage replacement, legal fees, judicial decisions, legislative changes and other factors. Underwriting and claim handling decisions such as the

classes of business written and individual claim settlement decisions can also impact claim severity. If the estimated claim severity increases by 9%, we estimate that the net reserves would increase by approximately \$450 million. If the estimated claim severity

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decreases by 3%, we estimate that net reserves would decrease by approximately \$150 million. Our net reserves for this business were approximately \$5.0 billion at December 31, 2010.

Within CNA Commercial, the two types of business for which we believe a material deviation to our net reserves is reasonably possible are workers' compensation and general liability.

For CNA Commercial workers' compensation, since many years will pass from the time the business is written until all claim payments have been made, claim cost inflation on claim payments is the most significant factor affecting workers' compensation reserve estimates. Workers' compensation claim cost inflation is driven by the cost of medical care, the cost of wage replacement, expected claimant lifetimes, judicial decisions, legislative changes and other factors. If estimated workers' compensation claim cost inflation increases by 100 basis points for the entire period over which claim payments will be made, we estimate that our net reserves would increase by approximately \$450 million. If estimated workers' compensation claim cost inflation decreases by 100 basis points for the entire period over which claim payments will be made, we estimate that our net reserves would decrease by approximately \$450 million. Our net reserves for CNA Commercial workers' compensation were approximately \$5.0 billion at December 31, 2010.

For CNA Commercial general liability, the most significant factor affecting reserve estimates is claim severity. Claim severity is driven by changes in the cost of repairing or replacing property, the cost of medical care, the cost of wage replacement, judicial decisions, legislation and other factors. If the estimated claim severity for general liability increases by 6%, we estimate that our net reserves would increase by approximately \$200 million. If the estimated claim severity for general liability decreases by 3%, we estimate that our net reserves would decrease by approximately \$100 million. Our net reserves for CNA Commercial general liability were approximately \$3.3 billion at December 31, 2010.

Given the factors described above, it is not possible to quantify precisely the ultimate exposure represented by claims and related litigation. As a result, we regularly review the adequacy of our reserves and reassess our reserve estimates as historical loss experience develops, additional claims are reported and settled and additional information becomes available in subsequent periods.

In light of the many uncertainties associated with establishing the estimates and making the assumptions necessary to establish reserve levels, we review our reserve estimates on a regular basis and make adjustments in the period that the need for such adjustments is determined. These reviews have resulted in our identification of information and trends that have caused us to change our reserves in prior periods and could lead to the identification of a need for additional material increases or decreases in claim and claim adjustment expense reserves, which could materially affect our results of operations, equity, business and insurer financial strength and corporate debt ratings positively or negatively. See the Ratings section of this MD&A for further information regarding our financial strength and corporate debt ratings.

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**Segment Results**

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

We revised our reporting segments in the fourth quarter of 2010 for certain mass tort claims to reflect the manner in which the Company is currently organized for purposes of making operating decisions and assessing performance, as further discussed in Note N to the Consolidated Financial Statements included under Item 8.

Our core property and casualty commercial insurance operations are reported in two business segments: CNA Specialty and CNA Commercial. CNA Specialty provides a broad array of professional, financial and specialty property and casualty products and services, primarily through insurance brokers and managing general underwriters. CNA Commercial includes property and casualty coverages sold to small businesses and middle market entities and organizations primarily through an independent agency distribution system. CNA Commercial also includes commercial insurance and risk management products sold to large corporations primarily through insurance brokers.

Our non-core operations are managed in two segments: Life & Group Non-Core and Corporate & Other Non-Core. Life & Group Non-Core primarily includes the results of the life and group lines of business that are in run-off. Corporate & Other Non-Core primarily includes certain corporate expenses, including interest on corporate debt, and the results of certain property and casualty business in run-off, including CNA Re and A&EP. Intersegment eliminations are also included in this segment.

Our property and casualty field structure consists of 44 underwriting locations across the country. There are three centralized processing operations which handle policy processing, billing and collection activities, and also act as call centers to optimize service. The claims structure consists of a centralized claim center designed to efficiently handle the high volume of low severity claims including property damage, liability, and workers compensation medical only claims, and 15 principal claim office locations around the country handling the more complex claims.

We utilize the net operating income financial measure to monitor our operations. Net operating income is calculated by excluding from net income (loss) attributable to CNA the after-tax effects of 1) net realized investment gains or losses, 2) income or loss from discontinued operations and 3) any cumulative effects of changes in accounting guidance. See further discussion regarding how we manage our business in Note N to the Consolidated Financial Statements included under Item 8. In evaluating the results of our CNA Specialty and CNA Commercial segments, we utilize the loss ratio, the expense ratio, the dividend ratio and the combined ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of insurance underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of policyholders dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios.

Changes in estimates of claim and allocated claim adjustment expense reserves and premium accruals, net of reinsurance, for prior years are defined as net prior year development within this MD&A. These changes can be favorable or unfavorable. Net prior year development does not include the impact of related acquisition expenses. Further information on our reserves is provided in Note F to the Consolidated Financial Statements included under Item 8.

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***CNA SPECIALTY***

**Business Overview**

CNA Specialty provides professional liability and other coverages through property and casualty products and services, both domestically and abroad, through a network of brokers, independent agencies and managing general underwriters. CNA Specialty provides solutions for managing the risks of its clients, including architects, lawyers, accountants, health care professionals, financial intermediaries and public and private companies. Product offerings also include surety and fidelity bonds and vehicle warranty services.

CNA Specialty includes the following business groups:

**Professional & Management Liability** provides management and professional liability insurance and risk management services and other specialized property and casualty coverages in the United States. This group provides professional liability coverages to various professional firms, including architects, real estate agents, small and mid-sized accounting firms, law firms and technology firms. Professional & Management Liability also provides D&O, employment practices, fiduciary and fidelity coverages. Specific areas of focus include small and mid-size firms as well as privately held firms and not-for-profit organizations, where tailored products for this client segment are offered. Products within Professional & Management Liability are distributed through brokers, agents and managing general underwriters. Professional & Management Liability, through CNA HealthPro, also offers insurance products to serve the healthcare delivery system. Products include professional liability and associated standard property and casualty coverages, and are distributed on a national basis through brokers, agents and managing general underwriters. Key customer segments include long term care facilities, allied health care providers, life sciences, dental professionals and mid-size and large health care facilities.

**International** provides similar management and professional liability insurance and other specialized property and casualty coverages in Canada and Europe.

**Surety** consists primarily of CNA Surety Corporation (CNA Surety) and its insurance subsidiaries and offers small, medium and large contract and commercial surety bonds. CNA Surety provides surety and fidelity bonds in all 50 states through a combined network of independent agencies. We own approximately 61% of CNA Surety.

**Warranty and Alternative Risks** provides extended service contracts and related products that provide protection from the financial burden associated with mechanical breakdown and other related losses, primarily for vehicles and portable electronic communication devices. These products are distributed through and administered by a wholly owned subsidiary, CNA National Warranty Corporation, or through third party administrators.



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The following table details results of operations for CNA Specialty.

**Results of Operations**

<b>Years ended December 31</b> (In millions, except ratios)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Net written premiums	\$ 2,691	\$ 2,684	\$ 2,719
Net earned premiums	2,679	2,697	2,755
Net investment income	591	526	354
Net operating income	625	591	414
Net realized investment gains (losses), after-tax	20	(123)	(167)
Net income	645	468	247
<b>Ratios</b>			
Loss and loss adjustment expense	54.0%	56.9%	61.7%
Expense	30.5	29.3	27.3
Dividend	0.5	0.3	0.5
 Combined	 85.0%	 86.5%	 89.5%

**2010 Compared with 2009**

Net written premiums for CNA Specialty increased \$7 million in 2010 as compared with 2009. Net written premiums increased in our professional management and liability lines of business. This increase was partially offset by continued decreased insured exposures and lower rates in our architects & engineers and CNA HealthPro lines of business due to current economic and competitive market conditions. These conditions may continue to put ongoing pressure on premium and income levels and the expense ratio. Net earned premiums decreased \$18 million as compared with the same period in 2009, due to the impact of decreased net written premiums in prior quarters.

CNA Specialty's average rate decreased 2% for 2010 and 2009 for policies that renewed in each period. Retention rates of 86% and 84% were achieved for those policies that were available for renewal in each period.

Net income improved \$177 million in 2010 as compared with 2009. This increase was due to improved net realized investment results and improved net operating income. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income improved \$34 million in 2010 as compared with 2009, primarily due to increased favorable net prior year development and improved net investment income, partially offset by decreased current accident year underwriting results.

The combined ratio improved 1.5 points in 2010 as compared with 2009. The loss ratio improved 2.9 points primarily due to increased favorable net prior year development, partially offset by the impact of a higher current accident year loss ratio. The expense ratio increased 1.2 points primarily related to higher underwriting expenses and higher commission rates. Underwriting expenses were unfavorably impacted by higher employee-related costs and IT Transformation costs. See the Consolidated Operations section of this MD&A for further discussion of IT Transformation costs.

Favorable net prior year development of \$344 million was recorded in 2010, compared to \$224 million in 2009. Further information on CNA Specialty net prior year development for 2010 and 2009 is included in Note F to the Consolidated Financial Statements included under Item 8.

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

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

<b>December 31</b> (In millions)	<b>2010</b>	<b>2009</b>
Gross Case Reserves	\$ 2,341	\$ 2,208
Gross IBNR Reserves	4,452	4,714
<b>Total Gross Carried Claim and Claim Adjustment Expense Reserves</b>	<b>\$ 6,793</b>	<b>\$ 6,922</b>
Net Case Reserves	\$ 1,992	\$ 1,781
Net IBNR Reserves	3,926	4,085
<b>Total Net Carried Claim and Claim Adjustment Expense Reserves</b>	<b>\$ 5,918</b>	<b>\$ 5,866</b>

**2009 Compared with 2008**

Net written premiums for CNA Specialty decreased \$35 million in 2009 as compared with 2008. The decrease in net written premiums was driven by our architects & engineers and surety bond lines of business, as economic conditions led to decreased insured exposures. Net written premiums were also unfavorably impacted by foreign exchange. Net earned premiums decreased \$58 million as compared with the same period in 2008, consistent with the trend of lower net written premiums.

CNA Specialty's average rate decreased 2% for 2009, as compared to a decrease of 4% for 2008 for policies that renewed in each period. Retention rates of 84% and 85% were achieved for those policies that were available for renewal in each period.

Net income improved \$221 million in 2009 as compared with 2008. This increase was due to improved net operating income and lower net realized investment losses. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income improved \$177 million in 2009 as compared with 2008, primarily due to higher net investment income and increased favorable net prior year development.

The combined ratio improved 3.0 points in 2009 as compared with 2008. The loss ratio improved 4.8 points, primarily due to increased favorable net prior year development. The expense ratio increased 2.0 points in 2009 as compared with 2008, primarily due to higher underwriting expenses and the lower net earned premium base. Underwriting expenses increased primarily due to higher employee-related costs.

Favorable net prior year development of \$224 million was recorded in 2009, compared to \$106 million in 2008. Further information on CNA Specialty net prior year development for 2009 and 2008 is included in Note F to the Consolidated Financial Statements included under Item 8.

**Table of Contents****CNA COMMERCIAL****Business Overview**

CNA Commercial works with an independent agency distribution system and a network of brokers to market a broad range of property and casualty insurance products and services to small, middle-market and large businesses and organizations domestically and abroad. Property products include standard and excess property coverages, as well as marine coverage, and boiler and machinery. Casualty products include standard casualty insurance products such as workers compensation, general and product liability, commercial auto and umbrella coverages. Most insurance programs are provided on a guaranteed cost basis; however, we also offer specialized loss-sensitive insurance programs to those customers viewed as higher risk and less predictable in exposure.

These property and casualty products are offered as part of our **Business, Commercial** and **International** insurance groups. Our Business insurance group serves our smaller commercial accounts and the Commercial insurance group serves our middle markets and larger risks. In addition, CNA Commercial provides total risk management services relating to claim and information services to the large commercial insurance marketplace, through a wholly-owned subsidiary, CNA ClaimPlus, Inc., a third party administrator. The International insurance group primarily consists of the commercial product lines of our operations in Europe, Canada, as well as Hawaii.

Also included in CNA Commercial is **CNA Select Risk (Select Risk)**, which includes our excess and surplus lines coverages. Select Risk provides specialized insurance for selected commercial risks on both an individual customer and program basis. Customers insured by Select Risk are generally viewed as higher risk and less predictable in exposure than those covered by standard insurance markets. Select Risk's products are distributed throughout the United States through specialist producers, program agents and brokers.

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

**Results of Operations**

<b>Years ended December 31</b> (In millions, except ratios)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Net written premiums	\$ 3,208	\$ 3,448	\$ 3,770
Net earned premiums	3,256	3,432	3,787
Net investment income	873	935	612
Net operating income	509	494	292
Net realized investment losses, after-tax	(15)	(236)	(341)
Net income (loss)	494	258	(49)
<b>Ratios</b>			
Loss and loss adjustment expense	66.8%	70.5%	73.1%
Expense	35.7	35.2	31.2
Dividend	0.4	0.3	-
 Combined	 102.9%	 106.0%	 104.3%

**2010 Compared with 2009**

Net written premiums for CNA Commercial decreased \$240 million in 2010 as compared with 2009. Premiums written were unfavorably impacted by decreased insured exposures and decreased new business as a result of competitive market conditions. Current economic conditions have led to decreased insured exposures, such as in the construction industry due to smaller payrolls and reduced project volume. These conditions may continue to put ongoing pressure on premium and income levels and the expense ratio. Net earned premiums decreased \$176 million in 2010 as compared with 2009, consistent with the trend of lower net written premiums.

CNA Commercial's average rate increased 1% for 2010, as compared to flat rates for 2009 for the policies that renewed during those periods. Retention rates of 79% and 81% were achieved for those policies that were available for renewal in each period.

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Net income improved \$236 million in 2010 as compared with 2009. This improvement was primarily due to improved net realized investment results. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Net operating income improved \$15 million in 2010 as compared with 2009. This increase was primarily due to increased favorable net prior year development, partially offset by lower net investment income, and higher catastrophe losses.

The combined ratio improved 3.1 points in 2010 as compared with 2009. The loss ratio improved 3.7 points, primarily due to increased favorable net prior year development, partially offset by the impact of higher catastrophe losses. Catastrophe losses were \$113 million, or 3.5 points of the loss ratio, for 2010, as compared to \$82 million, or 2.4 points of the loss ratio, for 2009.

The expense ratio increased 0.5 points in 2010 as compared with 2009, primarily due to the unfavorable impact of the lower net earned premium base. Underwriting expenses include the unfavorable impact of the IT Transformation costs. See the Consolidated Operations section of this MD&A for further discussion of IT Transformation costs.

Favorable net prior year development of \$256 million was recorded in 2010, compared to favorable net prior year development of \$143 million in 2009. Further information on CNA Commercial net prior year development for 2010 and 2009 is included in Note F to the Consolidated Financial Statements included under Item 8.

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

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

<b>December 31</b> (In millions)	<b>2010</b>	<b>2009</b>
Gross Case Reserves	\$ 6,390	\$ 6,555
Gross IBNR Reserves	6,132	6,688
<b>Total Gross Carried Claim and Claim Adjustment Expense Reserves</b>	<b>\$ 12,522</b>	<b>\$ 13,243</b>
Net Case Reserves	\$ 5,349	\$ 5,306
Net IBNR Reserves	5,292	5,691
<b>Total Net Carried Claim and Claim Adjustment Expense Reserves</b>	<b>\$ 10,641</b>	<b>\$ 10,997</b>

**2009 Compared with 2008**

Net written premiums for CNA Commercial decreased \$322 million in 2009 as compared with 2008. Written premiums declined in most lines primarily due to general economic conditions. Economic conditions led to decreased insured exposures, such as in small businesses and in the construction industry due to smaller payrolls and reduced project volume. Net earned premiums decreased \$355 million in 2009 as compared with 2008, consistent with the trend of lower net written premiums. Premiums were also impacted by unfavorable premium development recorded in 2009 and unfavorable foreign exchange.

CNA Commercial's average rate was flat for 2009, as compared to a decrease of 4% for 2008 for the policies that renewed during those periods. Retention rates of 81% were achieved for those policies that were available for renewal in each period.

Net results improved \$307 million in 2009 as compared with 2008. This improvement was due to increased net operating income and decreased net realized investment losses. See the Investments section of this MD&A for further

discussion of net investment income and net realized investment results.

Net operating income improved \$202 million in 2009 compared with 2008. This improvement was primarily driven by higher net investment income and lower catastrophe losses. Partially offsetting these favorable items was an unfavorable change in current accident year underwriting results excluding catastrophes.

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The combined ratio increased 1.7 points in 2009 as compared with 2008. The loss ratio improved 2.6 points primarily due to lower catastrophe losses, partially offset by the impact of higher current accident year non-catastrophe loss ratios and decreased favorable net prior year development. Catastrophe losses were \$82 million, or 2.4 points of the loss ratio, for 2009 as compared to \$343 million, or 9.0 points of the loss ratio, for 2008. The current accident year loss ratio, excluding catastrophe losses, was unfavorably impacted by loss experience in several lines of business, including workers compensation and renewable energy, as well as several significant property losses.

The expense ratio increased 4.0 points in 2009 as compared with 2008, primarily related to higher underwriting expenses, unfavorable changes in estimates for insurance-related assessments and the lower net earned premium base. Underwriting expenses increased primarily due to higher employee-related costs.

In 2008, the amount due from policyholders related to losses under deductible policies within CNA Commercial Lines was reduced by \$90 million for insolvent insureds. The reduction of this amount, which was reflected as unfavorable net prior year reserve development in 2008, had no effect on 2008 results of operations as the Company had previously recognized provisions in prior years. These impacts were reported in Insurance claims and policyholders benefits in the 2008 Consolidated Statement of Operations.

Favorable net prior year development of \$143 million was recorded in 2009, compared to favorable net prior year development of \$97 million in 2008. Excluding the impact of the \$90 million of unfavorable net prior year reserve development discussed above, which had no net impact on the 2008 results of operations, favorable net prior year development was \$187 million. Further information on CNA Commercial net prior year development for 2009 and 2008 is included in Note F to the Consolidated Financial Statements included under Item 8.

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

The Life & Group Non-Core segment primarily includes the results of the life and group lines of business that are in run-off. We continue to service our existing individual long term care commitments, our payout annuity business and our pension deposit business. We also retain a block of group reinsurance and life settlement contracts. These businesses are being managed as a run-off operation. Our group long term care business, while considered non-core, continues to be actively marketed. During 2008, we exited the indexed group annuity portion of our pension deposit business.

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

**Results of Operations**

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Net earned premiums	\$ 582	\$ 595	\$ 612
Net investment income	715	664	484
Net operating loss	(87)	(16)	(108)
Net realized investment gains (losses), after-tax	33	(153)	(236)
Net loss	(54)	(169)	(344)

**2010 Compared with 2009**

Net earned premiums for Life & Group Non-Core decreased \$13 million in 2010 as compared with 2009. Net earned premiums relate primarily to the individual and group long term care businesses.

Net loss decreased \$115 million in 2010 as compared with 2009. This improvement was primarily due to improved net realized investment results. See the Investments section of this MD&A for further discussion of net realized investment results. In addition, 2009 results included the unfavorable impact of a \$28 million after-tax legal accrual as discussed further below. The accrual was subsequently decreased in 2010, resulting in a favorable impact of \$12 million after-tax. Favorable reserve development arising from a commutation of an assumed reinsurance agreement in 2010 also contributed to the improvement.

These favorable impacts were partially offset by a \$61 million after-tax gain recognized in 2009, net of reinsurance, arising from a settlement reached with Willis Limited that resolved litigation related to the placement of personal accident reinsurance.

The favorable impacts were also partially offset by an increase to payout annuity benefit reserves resulting from unlocking assumptions due to loss recognition, unfavorable results in our long term care business and less favorable performance on our pension deposit business.

Certain of the separate account investment contracts related to our pension deposit business guarantee principal and an annual minimum rate of interest, for which we recorded an additional pretax liability of \$68 million in Policyholders funds during 2008 due to declines in the fair value of the investments supporting this business at that time. During 2009, we decreased this pretax liability by \$42 million, and during 2010, we decreased the pretax liability by \$24 million, based on increases in the fair value of these investments during those periods.

**2009 Compared with 2008**

Net earned premiums for Life & Group Non-Core decreased \$17 million in 2009 as compared with 2008.

Net loss decreased \$175 million in 2009 as compared with 2008. This improvement was primarily due to improved net realized investment results, and favorable performance on our remaining pension deposit business and a settlement reached with Willis Limited both as discussed above.

These favorable impacts were partially offset by unfavorable results in our long term care business and a \$28 million after-tax legal accrual recorded in the second quarter of 2009 related to a previously held limited partnership investment. The limited partnership investment supported the indexed group annuity portion of our pension deposit business.





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Net investment income for the year ended December 31, 2008 included trading portfolio losses of \$146 million, which were substantially offset by a corresponding decrease in the policyholders' funds reserves supported by the trading portfolio. This trading portfolio supported the indexed group annuity portion of our pension deposit business. During 2008, we settled these liabilities with policyholders with no material impact to results of operations. That business had a net loss of \$22 million for the year ended December 31, 2008.

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

Corporate & Other Non-Core primarily includes certain corporate expenses, including interest on corporate debt, and the results of certain property and casualty business in run-off, including CNA Re and A&EP. In 2010, we ceded substantially all of our legacy A&EP liabilities under the Loss Portfolio Transfer, as further discussed in Note F to the Consolidated Financial Statements included under Item 8.

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

**Results of Operations**

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Net investment income	\$ 137	\$ 195	\$ 169
Net operating loss	(387)	(87)	(65)
Net realized investment gains (losses), after-tax	13	(49)	(97)
Net loss	(374)	(136)	(162)

**2010 Compared with 2009**

Net loss increased \$238 million in 2010 as compared with 2009, driven by the after-tax net loss of \$344 million as a result of the Loss Portfolio Transfer, as previously discussed in this MD&A. Net results were also impacted by lower net investment income and higher interest expense. Partially offsetting these unfavorable items were decreased unfavorable net prior year development and improved net realized investment results. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

Unfavorable net prior year development of \$6 million was recorded in 2010, and unfavorable net prior year development of \$159 million was recorded in 2009 which included \$79 million for asbestos exposures and \$76 million for environmental pollution exposures. Further information on Corporate & Other Non-Core net prior year development for 2009 is included in Note F to the Consolidated Financial Statements included under Item 8.

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

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

<b>December 31</b> (In millions)	<b>2010</b>	<b>2009</b>
Gross Case Reserves	\$ 1,430	\$ 1,503
Gross IBNR Reserves	2,012	2,265
<b>Total Gross Carried Claim and Claim Adjustment Expense Reserves</b>	<b>\$ 3,442</b>	<b>\$ 3,768</b>
Net Case Reserves	\$ 461	\$ 935
Net IBNR Reserves	257	1,404
<b>Total Net Carried Claim and Claim Adjustment Expense Reserves</b>	<b>\$ 718</b>	<b>\$ 2,339</b>

**2009 Compared with 2008**

Net loss decreased \$26 million in 2009 as compared with 2008, primarily due to improved net realized investment results and higher net investment income. Partially offsetting these favorable items was increased unfavorable net prior year development primarily related to A&EP.

Unfavorable net prior year development of \$159 million was recorded in 2009, compared to unfavorable net prior year development of \$123 million in 2008. Further information on Corporate & Other Non-Core net prior year development for 2009 and 2008 is included in Note F to the Consolidated Financial Statements included under Item 8.

**Table of Contents****INVESTMENTS*****Net Investment Income***

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

**Net Investment Income**

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Fixed maturity securities	\$ 2,051	\$ 1,941	\$ 1,984
Short term investments	15	36	115
Limited partnerships	249	315	(379)
Equity securities	32	49	80
Mortgage loans	2	-	-
Trading portfolio indexed group annuity	-	-	(146)
Trading portfolio other	13	23	(3)
Other	8	6	19
Gross investment income	2,370	2,370	1,670
Investment expenses	(54)	(50)	(51)
<b>Net investment income</b>	<b>\$ 2,316</b>	<b>\$ 2,320</b>	<b>\$ 1,619</b>

Net investment income decreased \$4 million in 2010 as compared with 2009. This decrease was primarily driven by less favorable income from our limited partnership investments, substantially offset by an investment shift during 2010 from lower yielding short term and tax-exempt securities to higher yielding taxable fixed maturity securities. The unfavorable year-over-year comparison in income from our limited partnership investments was driven by significant returns from our limited partnership investments in 2009. Limited partnership investments generally present greater market volatility, higher illiquidity and greater risk than fixed income investments. The limited partnership investments are managed as an overall portfolio in an effort to mitigate the greater levels of volatility, illiquidity and risk that are present in the individual partnership investments.

Net investment income increased \$701 million in 2009 as compared with 2008. Excluding indexed group annuity trading portfolio losses of \$146 million in 2008, net investment income increased \$555 million primarily driven by improved results from limited partnership investments. This increase was partially offset by the impact of lower risk free and short term interest rates. Limited partnership income in 2009 was driven by improved performance across many limited partnerships and included individual partnership performance that ranged from a positive \$120 million to a negative \$59 million. The indexed group annuity trading portfolio losses in 2008 were substantially offset by a corresponding decrease in the policyholders' funds reserves supported by the trading portfolio, which was included in Insurance claims and policyholders' benefits on the Consolidated Statements of Operations. We exited the indexed group annuity business in 2008.

The fixed maturity investment portfolio and short term investments provided a pretax effective income yield of 5.3%, 5.1% and 5.6% for the years ended December 31, 2010, 2009 and 2008. Tax-exempt municipal bonds generated \$263 million, \$381 million and \$360 million of net investment income for the years ended December 31, 2010, 2009 and 2008.

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

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

**Net Realized Investment Gains (Losses)**

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Fixed maturity securities:			
U.S. Treasury and obligations of government agencies	\$ 3	\$ (53)	\$ 235
Asset-backed	44	(778)	(476)
States, municipalities and political subdivisions	(128)	(20)	53
Foreign government	2	38	7
Corporate and other bonds	164	(345)	(650)
Redeemable preferred stock	7	(9)	-
Total fixed maturity securities	92	(1,167)	(831)
Equity securities	(2)	243	(490)
Derivative securities	(1)	51	(19)
Short term investments and other	(3)	16	43
Net realized investment gains (losses), net of participating policyholders interests	86	(857)	(1,297)
Income tax (expense) benefit on net realized investment gains (losses)	(36)	296	456
Net realized investment (gains) losses, after-tax, attributable to noncontrolling interests	1	-	-
<b>Net realized investment gains (losses) attributable to CNA</b>	<b>\$ 51</b>	<b>\$ (561)</b>	<b>\$ (841)</b>

Net realized investment results improved \$612 million for 2010 as compared with 2009, driven by significantly lower other-than-temporary impairment (OTTI) losses recognized in earnings. Further information on our realized gains and losses, including our OTTI losses and impairment decision process, is set forth in Note B to the Consolidated Financial Statements included under Item 8. During the second quarter of 2009, the Company adopted updated accounting guidance, which amended the OTTI loss model for fixed maturity securities, as discussed in Note A to the Consolidated Financial Statements included under Item 8.

Net realized investment losses decreased \$280 million for 2009 as compared with 2008, driven by a realized investment gain related to a common stock holding and decreased OTTI losses recognized in earnings. Included in the 2009 net realized gains for equity securities was \$370 million related to the sale of our holdings of Verisk Analytics Inc., which began trading on October 7, 2009 after an initial public offering. Since our cost basis in this position was zero, the entire amount was recognized as a pretax realized investment gain.

Our fixed maturity portfolio consists primarily of high quality bonds, 91% and 90% of which were rated as investment grade (rated BBB- or higher) at December 31, 2010 and 2009. The classification between investment grade and non-investment grade is based on a ratings methodology that takes into account ratings from two major providers, S&P and Moody's, in that order of preference. If a security is not rated by these providers, we formulate an internal rating. For securities with credit support from third party guarantees, the rating reflects the greater of the underlying rating of the issuer or the insured rating.



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

**Fixed Maturity Ratings**

<b>December 31</b> (In millions)	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>
U.S. Government and Agencies	\$ 3,534	9%	\$ 3,705	10%
AAA rated	4,419	12	5,855	17
AA and A rated	15,665	42	12,464	35
BBB rated	10,425	28	10,122	28
Non-investment grade	3,534	9	3,466	10
<b>Total</b>	<b>\$ 37,577</b>	<b>100%</b>	<b>\$ 35,612</b>	<b>100%</b>

Non-investment grade fixed maturity securities, as presented in the table below, include high-yield securities rated below BBB- by bond rating agencies and other unrated securities that, according to our analysis, are below investment grade. Non-investment grade securities generally involve a greater degree of risk than investment grade securities. The amortized cost of our non-investment grade fixed maturity bond portfolio was \$3,490 million and \$3,637 million at December 31, 2010 and 2009. The following table summarizes the ratings of this portfolio at carrying value.

**Non-investment Grade**

<b>December 31</b> (In millions)	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>
BB	\$ 1,492	42%	\$ 1,352	39%
B	1,163	33	1,255	36
CCC - C	801	23	761	22
D	78	2	98	3
<b>Total</b>	<b>\$ 3,534</b>	<b>100%</b>	<b>\$ 3,466</b>	<b>100%</b>

Included within the fixed maturity portfolio are securities that contain credit support from third party guarantees from mono-line insurers. At December 31, 2010, \$428 million of the carrying value of the fixed maturity portfolio had a third party guarantee that increased the underlying average rating of those securities from AA- to AA+. Of this amount, over 94% was within the states, municipalities and political subdivisions securities sector. This third party credit support on states, municipalities, and political subdivisions securities is provided by two mono-line insurers, the largest exposure based on fair value being Assured Guaranty Ltd. at more than 99%.

At December 31, 2010 and 2009, approximately 98% and 99% of the fixed maturity portfolio was issued by U.S. Government and Agencies or was rated by S&P or Moody's. The remaining bonds were rated by other rating agencies or internally.

The carrying value of fixed maturity and equity securities that trade in illiquid private placement markets at December 31, 2010 was \$340 million, which represents approximately 0.8% of our total investment portfolio. These securities were in a net unrealized gain position of \$15 million at December 31, 2010.

The gross unrealized loss on available-for-sale fixed maturity securities was \$795 million at December 31, 2010. The following table provides the maturity profile for these available-for-sale fixed maturity securities. Securities not due at a single date are allocated based on weighted average life.

**Maturity Profile**



	<b>Percent of Fair Value</b>	<b>Percent of Unrealized Loss</b>
Due in one year or less	5%	4%
Due after one year through five years	19	11
Due after five years through ten years	26	24
Due after ten years	50	61
<b>Total</b>	100%	100%

**Table of Contents****Duration**

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

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

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

**Effective Durations**

	<b>December 31, 2010</b>		<b>December 31, 2009</b>	
	<b>Fair Value</b>	<b>Effective Duration</b>	<b>Fair Value</b>	<b>Effective Duration</b>
(In millions)		<b>(In years)</b>		<b>(In years)</b>
Segregated investments	\$ 11,516	10.9	\$ 10,376	11.2
Other interest sensitive investments	28,405	4.6	29,665	4.0
<b>Total Fair Value</b>	<b>\$ 39,921</b>	<b>6.4</b>	<b>\$ 40,041</b>	<b>5.8</b>

The investment portfolio is periodically analyzed for changes in duration and related price change risk. Additionally, we periodically review the sensitivity of the portfolio to the level of foreign exchange rates and other factors that contribute to market price changes. A summary of these risks and specific analysis on changes is included in Item 7A Quantitative and Qualitative Disclosures About Market Risk included herein.

**Table of Contents****Asset-Backed Exposure****Asset-Backed Distribution**

<b>December 31, 2010</b> (In millions)	<b>Security Type</b>			<b>Total</b>
	<b>RMBS (a)</b>	<b>CMBS (b)</b>	<b>Other ABS (c)</b>	
U.S. Government Agencies	\$ 3,367	\$ 30	\$ -	\$ 3,397
AAA	1,172	194	551	1,917
AA	206	257	154	617
A	190	246	26	462
BBB	228	116	19	363
Non-investment grade and equity tranches	927	150	13	1,090
<b>Total Fair Value</b>	<b>\$ 6,090</b>	<b>\$ 993</b>	<b>\$ 763</b>	<b>\$ 7,846</b>
<b>Total Amortized Cost</b>	<b>\$ 6,254</b>	<b>\$ 994</b>	<b>\$ 753</b>	<b>\$ 8,001</b>
Sub-prime (included above)				
Fair Value	\$ 483	\$ -	\$ -	\$ 483
Amortized Cost	\$ 527	\$ -	\$ -	\$ 527
Alt-A (included above)				
Fair Value	\$ 632	\$ -	\$ -	\$ 632
Amortized Cost	\$ 662	\$ -	\$ -	\$ 662

(a) Residential mortgage-backed securities (RMBS)

(b) Commercial mortgage-backed securities (CMBS)

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

The exposure to sub-prime residential mortgage (sub-prime) collateral and Alternative A residential mortgages that have lower than normal standards of loan documentation (Alt-A) collateral is measured by the original deal structure. Of the securities with sub-prime exposure, approximately 74% were rated investment grade, while 87% of the Alt-A securities were rated investment grade. At December 31, 2010, \$6 million of the carrying value of the sub-prime and Alt-A securities carried a third-party guarantee.

Pretax OTTI losses of \$27 million for securities with sub-prime and Alt-A exposure were included in the \$77 million of pretax OTTI losses related to asset-backed securities recognized in earnings on the Consolidated Statement of Operations for the year ended December 31, 2010. If additional deterioration in the underlying collateral occurs beyond our current expectations, additional OTTI losses may be recognized in earnings. See Note B to the Consolidated Financial Statements included under Item 8 for additional information related to unrealized losses on asset-backed securities.

**Short Term Investments**

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

**Short Term Investments**

<b>December 31, 2010</b>	<b>December 31, 2009</b>
----------------------------------	----------------------------------

(In millions)

Short term investments available-for-sale:

Commercial paper	\$	686	\$	185
U.S. Treasury securities		903		3,025
Money market funds		94		179
Other		532		560

**Total short term investments** \$ 2,215 \$ 3,949

**Table of Contents*****Separate Accounts***

The following table summarizes the bond ratings of the investments, at estimated fair value, supporting separate account products which guarantee principal and a minimum rate of interest, for which additional amounts may be recorded in Policyholders' funds should the aggregate contract value exceed the fair value of the related assets supporting the business at any point in time.

**Separate Account Bond Ratings**

<b>December 31</b> (In millions)	<b>2010</b>	<b>%</b>	<b>2009</b>	<b>%</b>
U.S. Government Agencies	\$ 53	13%	\$ 67	18%
AAA rated	18	5	17	5
AA and A rated	214	53	176	46
BBB rated	99	24	93	24
Non-investment grade	21	5	27	7
<b>Total</b>	<b>\$ 405</b>	<b>100%</b>	<b>\$ 380</b>	<b>100%</b>

At December 31, 2010 and 2009, approximately 97% of the separate account portfolio was issued by U.S. Government and affiliated agencies or was rated by S&P or Moody's. The remaining bonds were rated by other rating agencies or internally.

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES*****Cash Flows***

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

For 2010, net cash used by operating activities was \$89 million as compared with net cash provided by operating activities of \$1,258 million for 2009. As further discussed in Note F to the Consolidated Financial Statements included under Item 8 and previously referenced in this MD&A, on August 31, 2010, we completed the Loss Portfolio Transfer transaction. As a result of this transaction, operating cash flows were reduced by \$1.9 billion related to the initial net cash settlement. Additionally, during 2010 operating cash flows were increased by \$153 million related to net cash inflows primarily from sales of trading securities, because cash receipts and cash payments resulting from purchases and sales of trading securities are reported as cash flows related to operating activities. Operating cash flows were reduced by \$164 million in 2009 related to net cash outflows which increased the size of the trading portfolio held at December 31, 2009. Excluding the items above, net cash generated by our business operations was approximately \$1,650 million and \$1,422 million for 2010 and 2009.

For 2009, net cash provided by operating activities was \$1,258 million as compared with \$1,558 million in 2008. Cash provided by operating activities in 2008 was favorably impacted by increased net sales of trading securities to fund policyholders' withdrawals of investment contract products issued by us, which are reflected as financing cash flows. The primary source of these cash flows was the indexed group annuity portion of our pension deposit business which we exited in 2008. Additionally, during the second quarter of 2009 we resumed the use of a trading portfolio for income enhancement purposes. Operating cash flows were reduced by \$164 million related to net cash outflows which increased the size of the trading portfolio held at December 31, 2009. Cash provided by operating activities in 2009 was favorably impacted by decreased loss payments as compared to 2008, and tax recoveries in 2009 compared with tax payments in 2008.

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

Net cash provided by investing activities was \$767 million for 2010, as compared with net cash used by investing activities of \$1,093 million and \$1,908 million for 2009 and 2008. Cash flows from investing activities are impacted by various factors such as the anticipated payment of claims, financing activity, asset/liability management and individual security buy and sell decisions made in the normal course of portfolio management. Net cash provided by investing activities in 2010 primarily related to the sale of short term investments. The cash provided by investing activities was used to fund the initial net cash settlement with NICO referenced above.

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

Net cash flows used by financing activities were \$742 million and \$120 million in 2010 and 2009. Net cash flows provided by financing activities were \$347 million in 2008. Net cash used by financing activities in 2010 was primarily related to payments to redeem the outstanding 2008 Senior Preferred as discussed below and the repayment of \$150 million on a credit facility, partially offset by \$495 million in net proceeds from the issuance of ten-year senior notes.

***2008 Senior Preferred***

In 2008, we issued, and Loews purchased, 12,500 shares of CNAF non-voting cumulative senior preferred stock for \$1.25 billion. We used the majority of the proceeds to increase the statutory surplus of our principal insurance subsidiary, Continental Casualty Company (CCC), through the purchase of a \$1.0 billion surplus note of CCC. As of December 31, 2010, we have fully redeemed all 12,500 shares originally issued, through a series of redemptions during 2009 and 2010. The redemptions were funded by the issuance of debt and the partial repayment of the surplus note.

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Dividends of \$76 million, \$122 million and \$19 million on the 2008 Senior Preferred were declared and paid for the years ended December 31, 2010, 2009 and 2008.

***Liquidity***

We believe that our present cash flows from operations, investing activities and financing activities are sufficient to fund our current and expected working capital and debt obligation needs and we do not expect this to change in the near term. Additionally, we have the full limit of \$250 million available under a revolving credit facility.

We have an effective automatic shelf registration statement under which we may issue debt, equity or hybrid securities. In February of 2011, we issued \$400 million of 5.75% senior notes due August 15, 2021 in a public offering. Subsequently, we announced the redemption of the outstanding \$400 million aggregate principal amount of 6.00% senior notes due August 15, 2011, plus accrued and unpaid interest thereon, and other required payments. We anticipate the redemption to be completed on or about March 18, 2011.

***Dividends***

On February 4, 2011, our Board of Directors declared a quarterly dividend of \$0.10 per share, payable March 2, 2011 to shareholders of record on February 16, 2011. The declaration and payment of future dividends to holders of our common stock is at the discretion of our Board of Directors and will depend on many factors, including our earnings, financial condition, business needs, and regulatory constraints.

Our ability to pay dividends and other credit obligations is significantly dependent on receipt of dividends from our subsidiaries. The payment of dividends to us by our insurance subsidiaries without prior approval of the insurance department of each subsidiary's domiciliary jurisdiction is limited by formula. Dividends in excess of these amounts are subject to prior approval by the respective state insurance departments.

Further information on our dividends from subsidiaries is provided in Note L to the Consolidated Financial Statements included under Item 8.

***CNA Surety***

On November 1, 2010, we announced our proposal to acquire all of the outstanding shares of common stock of CNA Surety that are not currently owned by us for \$22 per share in cash. On February 4, 2011, CNA Surety announced that our proposal substantially undervalued CNA Surety; however, it would consider another proposal. We are evaluating CNA Surety's response and considering options that are in the best interests of our stockholders. There is no assurance that the acquisition will be completed or, if so, that the anticipated benefits of the acquisition will be realized.

**Table of Contents****Commitments, Contingencies, and Guarantees**

We have various commitments, contingencies and guarantees which arose in the ordinary course of business. The impact of these commitments, contingencies and guarantees should be considered when evaluating our liquidity and capital resources.

A summary of our commitments as of December 31, 2010 is presented in the following table.

**Contractual Commitments**

<b>December 31, 2010</b>					<b>More than 5</b>
(In millions)	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>years</b>
Debt (a)	\$ 3,831	\$ 570	\$ 357	\$ 798	\$ 2,106
Lease obligations	168	38	65	40	25
Claim and claim expense reserves (b)	27,238	5,769	7,850	4,126	9,493
Future policy benefits reserves (c)	13,101	173	602	320	12,006
Policyholder funds reserves (c)	137	23	13	5	96
Guaranteed payment contracts (d)	28	27	1	-	-
<b>Total (e)</b>	<b>\$ 44,503</b>	<b>\$ 6,600</b>	<b>\$ 8,888</b>	<b>\$ 5,289</b>	<b>\$ 23,726</b>

(a) Includes estimated future interest payments.

(b) Claim and claim adjustment expense reserves are not discounted and represent our estimate of the amount and timing of the ultimate settlement and administration of gross claims based on our assessment of facts and circumstances known as of December 31, 2010. See the Reserves Estimates and Uncertainties section of this MD&A for further information.

(c) Future policy benefits and policyholder funds reserves are not discounted and represent our estimate of the ultimate amount and timing of the settlement of benefits based on our assessment of facts and circumstances known as of December 31, 2010. Future policy benefit reserves of \$747 million and policyholder fund reserves of \$37 million related to business which has been 100% ceded to unaffiliated parties in connection with the sale of our individual life business in 2004 are not included. Additional information on future policy benefits and policyholder funds reserves is included in Note A to the Consolidated Financial Statements under Item 8.

(d) Primarily relating to outsourced services and software.

(e) Does not include expected estimated contribution of \$73 million to our pension and postretirement plans in 2011. Further information on our commitments, contingencies and guarantees is provided in Notes B, C, F, G, I and K to the Consolidated Financial Statements included under Item 8.



**Table of Contents*****Ratings***

Ratings are an important factor in establishing the competitive position of insurance companies. Our insurance company subsidiaries are rated by major rating agencies, and these ratings reflect the rating agency's opinion of the insurance company's financial strength, operating performance, strategic position and ability to meet our obligations to policyholders. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating. One or more of these agencies could take action in the future to change the ratings of our insurance subsidiaries.

The table below reflects the various group ratings issued by A.M. Best Company (A.M. Best), Moody's and S&P for the property and casualty and life companies. The table also includes the ratings for CNAF senior debt and The Continental Corporation (Continental) senior debt.

	Insurance Financial Strength Ratings		Corporate Debt Ratings	
	Property & Casualty CCC Group	Life CAC	CNAF Senior Debt	Continental Senior Debt
A.M. Best	A	A-	bbb	Not rated
Moody's	A3	Not rated	Baa3	Baa3
S&P	A-	Not rated	BBB-	BBB-

A.M. Best, Moody's and S&P currently maintain a stable outlook on the Company.

If our property and casualty insurance financial strength ratings were downgraded below current levels, our business and results of operations could be materially adversely affected. The severity of the impact on our business is dependent on the level of downgrade and, for certain products, which rating agency takes the rating action. Among the adverse effects in the event of such downgrades would be the inability to obtain a material volume of business from certain major insurance brokers, the inability to sell a material volume of our insurance products to certain markets and the required collateralization of certain future payment obligations or reserves. Downgrades of our corporate debt ratings could result in adverse effects upon our liquidity position, including negatively impacting our ability to access capital markets, and increasing our financing costs.

Further, additional collateralization may be required for certain settlement agreements and assumed reinsurance contracts, as well as derivative contracts, if our ratings or other specific criteria fall below certain thresholds.

In addition, it is possible that a lowering of the corporate debt ratings of Loews by certain of these agencies could result in an adverse impact on our ratings, independent of any change in our circumstances. None of the major rating agencies which rates Loews currently maintains a negative outlook or has Loews on negative Credit Watch.

**Accounting Standards Updates**

For discussion of accounting standards updates that have been adopted or will be adopted in the future, see Note A to the Consolidated Financial Statements included under Item 8.

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**FORWARD-LOOKING STATEMENTS**

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

**Company-Specific Factors**

the risks and uncertainties associated with our loss reserves, as outlined in the Critical Accounting Estimates and the Reserves Estimates and Uncertainties sections included in this MD&A, including the sufficiency of the reserves and the possibility for future increases;

the risk that the other parties to the transaction in which, subject to certain limitations, we ceded our legacy A&EP liabilities will not fully perform their obligations to CNA, the uncertainty in estimating loss reserves for A&EP liabilities and the possible continued exposure of CNA to liabilities for A&EP claims that are not covered under the terms of the transaction;

the performance of reinsurance companies under reinsurance contracts with us; and

the consummation of contemplated transactions.

**Industry and General Market Factors**

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

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

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

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

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

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

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**Regulatory Factors**

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

regulatory limitations, impositions and restrictions upon us, including the effects of assessments and other surcharges for guaranty funds and second-injury funds, other mandatory pooling arrangements and future assessments levied on insurance companies as well as the new federal financial regulatory reform of the insurance industry established by the Dodd-Frank Wall Street Reform and Consumer Protection Act;

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

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

**Impact of Catastrophic Events and Related Developments**

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

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

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

the unpredictability of the nature, targets, severity or frequency of potential terrorist events, as well as the uncertainty as to our ability to contain our terrorism exposure effectively; and

the occurrence of epidemics.

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

**Table of Contents****ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our financial instruments are exposed to various risks, such as interest rate risk, equity price risk, credit risk and foreign currency risk. Due to the level of risk associated with certain invested assets and the level of uncertainty related to changes in the value of these assets, it is possible that changes in these risks in the near term, including increases in interest rates and credit spread widening, could have an adverse material impact on our results of operations and/or equity.

Discussions herein regarding market risk focus on only one element of market risk, which is price risk. Price risk relates to changes in the level of prices due to changes in interest rates, equity prices, foreign exchange rates or other factors that relate to market volatility of the rate, index or price underlying the financial instrument. Our primary market risk exposures are due to changes in interest rates, although we have certain exposures to changes in equity prices and foreign currency exchange rates. The fair value of the financial instruments is generally adversely affected when interest rates rise, equity markets decline and the dollar strengthens against foreign currency.

Active management of market risk is integral to our operations. We may use the following tools to manage our exposure to market risk within defined tolerance ranges: (1) change the character of future investments purchased or sold, (2) use derivatives to offset the market behavior of existing assets and liabilities or assets expected to be purchased and liabilities to be incurred, or (3) rebalance our existing asset and liability portfolios.

***Sensitivity Analysis***

We monitor our sensitivity to interest rate changes (inclusive of credit spread) by revaluing financial assets and liabilities using a variety of different interest rates. The Company uses duration and convexity at the security level to estimate the change in fair value that would result from a change in each security's yield. Duration measures the price sensitivity of an asset to changes in the yield rate. Convexity measures how the duration of the asset changes with interest rates. The duration and convexity analysis takes into account the unique characteristics (e.g., call and put options and prepayment expectations) of each security in determining the hypothetical change in fair value. The analysis is performed at the security level and aggregated up to the asset category levels for reporting in the tables below.

The evaluation is performed by applying an instantaneous change in yield rates of varying magnitudes on a static balance sheet to determine the effect such a change in rates would have on our fair value at risk and the resulting effect on stockholders' equity. The analysis presents the sensitivity of the fair value of our financial instruments to selected changes in market rates and prices. The range of change chosen reflects our view of changes that are reasonably possible over a one-year period. The selection of the range of values chosen to represent changes in interest rates should not be construed as our prediction of future market events, but rather an illustration of the impact of such events.

The sensitivity analysis estimates the decline in the fair value of our interest sensitive assets and liabilities that were held on December 31, 2010 and 2009 due to an instantaneous change in the yield of the security at the end of the period of 100 and 150 basis points.

The sensitivity analysis also assumes an instantaneous 10% and 20% decline in the foreign currency exchange rates versus the United States dollar from their levels at December 31, 2010 and 2009, with all other variables held constant.

Equity price risk was measured assuming an instantaneous 10% and 25% decline in the Standard & Poor's 500 Index (S&P 500) from its level at December 31, 2010 and 2009, with all other variables held constant. Our equity holdings were assumed to be highly and positively correlated with the S&P 500.

The value of limited partnerships can be affected by changes in equity markets as well as changes in interest rates. A model was developed to analyze the observed changes in the value of limited partnerships held by the Company over a multiple year period along with the corresponding changes in various equity indices and interest rates. The result of the model allowed us to estimate the change in value of limited partnerships when equity markets decline by 10% and 25% and interest rates increase by 100 and 150 basis points.

Our sensitivity analysis has also been applied to the assets supporting our separate account business because certain of our separate account products guarantee principal and a minimum rate of interest. All or a portion of these decreases related to the separate account assets may be offset by decreases in related separate account



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liabilities to customers, but that is dependent on the position of the separate account in relation to the specific guarantees at the time of the interest rate or price decline. Similarly, increases in the fair value of the separate account investments would also be offset by increases in the same related separate account liabilities by the same approximate amounts.

The following tables present the estimated effects on the fair value of our financial instruments at December 31, 2010 and 2009, due to an increase in yield rates of 100 basis points, a 10% decline in foreign currency exchange rates and a 10% decline in the S&P 500.

**Market Risk Scenario 1**

		Increase (Decrease)		
		Foreign		
	Market	Interest	Currency	Equity
	Value	Rate	Risk	Price
<b>December 31, 2010</b>		Risk	Risk	Risk
(In millions)				
General account:				
Fixed maturity securities available-for-sale:				
U.S. Treasury and obligations of government agencies	\$ 137	\$ (4)	\$ -	\$ -
Asset-backed	7,846	(376)	(2)	-
States, municipalities and political subdivisions	7,889	(799)	-	-
Foreign government	620	(18)	(60)	-
Corporate and other bonds	21,025	(1,216)	(100)	-
Redeemable preferred stock	54	(3)	-	(2)
<b>Total fixed maturity securities available-for-sale</b>	<b>37,571</b>	<b>(2,416)</b>	<b>(162)</b>	<b>(2)</b>
Fixed maturity securities trading	6	-	-	-
Equity securities available-for-sale	440	(26)	-	(44)
Short term investments	2,215	(7)	(21)	-
Limited partnerships	2,309	1	-	(52)
Other invested assets	114	(7)	-	-
<b>Total general account</b>	<b>42,655</b>	<b>(2,455)</b>	<b>(183)</b>	<b>(98)</b>
Separate accounts:				
Fixed maturity securities	405	(18)	-	-
Equity securities	22	-	-	(2)
Short term investments	19	-	-	-
<b>Total separate accounts</b>	<b>446</b>	<b>(18)</b>	<b>-</b>	<b>(2)</b>
	(2)	-	2	-

Derivative financial instruments, included in Other liabilities

<b>Total securities</b>	\$ 43,099	\$ (2,473)	\$ (181)	\$ (100)
<b>Long term debt (carrying value)</b>	\$ 2,251	\$ (127)	\$ -	\$ -

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**Table of Contents****Market Risk Scenario 1**

	Market Value	Interest Rate Risk	Increase (Decrease)	
			Foreign Currency Risk	Equity Price Risk
<b>December 31, 2009</b> (In millions)				
General account:				
Fixed maturity securities available-for-sale:				
U.S. Treasury and obligations of government agencies	\$ 199	\$ (5)	\$ -	\$ -
Asset-backed	8,353	(232)	(2)	-
States, municipalities and political subdivisions	7,124	(700)	-	-
Foreign government	479	(11)	(44)	-
Corporate and other bonds	19,229	(1,131)	(87)	-
Redeemable preferred stock	54	(3)	-	(2)
<b>Total fixed maturity securities available-for-sale</b>	<b>35,438</b>	<b>(2,082)</b>	<b>(133)</b>	<b>(2)</b>
Fixed maturity securities trading	174	(17)	-	-
Equity securities available-for-sale	644	-	-	(65)
Short term investments	3,949	(12)	(32)	-
Limited partnerships	1,787	1	-	(59)
Other invested assets	4	20	-	-
<b>Total general account</b>	<b>41,996</b>	<b>(2,090)</b>	<b>(165)</b>	<b>(126)</b>
Separate accounts:				
Fixed maturity securities	380	(15)	-	-
Equity securities	32	-	-	(3)
Short term investments	6	-	-	-
<b>Total separate accounts</b>	<b>418</b>	<b>(15)</b>	<b>-</b>	<b>(3)</b>
Derivative financial instruments, included in Other liabilities	(11)	1	-	-
<b>Total securities</b>	<b>\$ 42,403</b>	<b>\$ (2,104)</b>	<b>\$ (165)</b>	<b>\$ (129)</b>
<b>Long term debt (carrying value)</b>	<b>\$ 2,303</b>	<b>\$ (109)</b>	<b>\$ -</b>	<b>\$ -</b>



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The following tables present the estimated effects on the fair value of our financial instruments at December 31, 2010 and 2009, due to an increase in yield rates of 150 basis points, a 20% decline in foreign currency exchange rates and a 25% decline in the S&P 500.

**Market Risk Scenario 2**

	Market Value	Interest Rate Risk	Increase (Decrease)	
			Foreign Currency Risk	Equity Price Risk
<b>December 31, 2010</b> (In millions)				
General account:				
Fixed maturity securities available-for-sale:				
U.S. Treasury and obligations of government agencies	\$ 137	\$ (6)	\$ -	\$ -
Asset-backed States, municipalities and political subdivisions	7,846	(570)	(5)	-
Foreign government	7,889	(1,153)	-	-
Corporate and other bonds	620	(26)	(119)	-
Redeemable preferred stock	21,025	(1,784)	(199)	-
	54	(5)	-	(5)
<b>Total fixed maturity securities available-for-sale</b>	<b>37,571</b>	<b>(3,544)</b>	<b>(323)</b>	<b>(5)</b>
Fixed maturity securities trading	6	-	-	-
Equity securities available-for-sale	440	(44)	(1)	(110)
Short term investments	2,215	(10)	(42)	-
Limited partnerships	2,309	1	-	(130)
Other invested assets	114	(11)	1	-
<b>Total general account</b>	<b>42,655</b>	<b>(3,608)</b>	<b>(365)</b>	<b>(245)</b>
Separate accounts:				
Fixed maturity securities	405	(26)	-	-
Equity securities	22	-	-	(5)
Short term investments	19	-	-	-
<b>Total separate accounts</b>	<b>446</b>	<b>(26)</b>	<b>-</b>	<b>(5)</b>
Derivative financial instruments, included in Other liabilities	(2)	-	3	-
<b>Total securities</b>	<b>\$ 43,099</b>	<b>\$ (3,634)</b>	<b>\$ (362)</b>	<b>\$ (250)</b>

<b>Long term debt (carrying value)</b>	\$ 2,251	\$ (187)	\$ -	\$ -
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**Table of Contents****Market Risk Scenario 2**

	<b>Market Value</b>	<b>Interest Rate Risk</b>	<b>Increase (Decrease)</b>	
			<b>Foreign Currency Risk</b>	<b>Equity Price Risk</b>
<b>December 31, 2009</b> (In millions)				
General account:				
Fixed maturity securities available-for-sale:				
U.S. Treasury and obligations of government agencies	\$ 199	\$ (7)	\$ -	\$ -
Asset-backed	8,353	(318)	(4)	-
States, municipalities and political subdivisions	7,124	(1,013)	-	-
Foreign government	479	(17)	(89)	-
Corporate and other bonds	19,229	(1,641)	(172)	-
Redeemable preferred stock	54	(5)	-	(5)
<b>Total fixed maturity securities available-for-sale</b>	<b>35,438</b>	<b>(3,001)</b>	<b>(265)</b>	<b>(5)</b>
Fixed maturity securities trading	174	(19)	-	-
Equity securities available-for-sale	644	-	(1)	(161)
Short term investments	3,949	(19)	(64)	-
Limited partnerships	1,787	1	-	(148)
Other invested assets	4	30	-	-
<b>Total general account</b>	<b>41,996</b>	<b>(3,008)</b>	<b>(330)</b>	<b>(314)</b>
Separate accounts:				
Fixed maturity securities	380	(22)	-	-
Equity securities	32	-	-	(8)
Short term investments	6	-	-	-
<b>Total separate accounts</b>	<b>418</b>	<b>(22)</b>	<b>-</b>	<b>(8)</b>
Derivative financial instruments, included in Other liabilities	(11)	-	-	-
<b>Total securities</b>	<b>\$ 42,403</b>	<b>\$ (3,030)</b>	<b>\$ (330)</b>	<b>\$ (322)</b>

<b>Long term debt (carrying value)</b>	\$ 2,303	\$ (160)	\$ -	\$ -
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**Table of Contents****ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****CNA Financial Corporation****Consolidated Statements of Operations**

<b>Years ended December 31</b> (In millions, except per share data)	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Revenues</b>			
Net earned premiums	\$ 6,515	\$ 6,721	\$ 7,151
Net investment income	2,316	2,320	1,619
Net realized investment gains (losses), net of participating policyholders interests:			
Other-than-temporary impairment losses	(254)	(1,657)	(1,484)
Portion of other-than-temporary impairment losses recognized in Other comprehensive income	22	305	-
Net other-than-temporary impairment losses recognized in earnings	(232)	(1,352)	(1,484)
Other net realized investment gains	318	495	187
Net realized investment gains (losses), net of participating policyholders interests	86	(857)	(1,297)
Other revenues	292	288	326
Total revenues	9,209	8,472	7,799
<b>Claims, Benefits and Expenses</b>			
Insurance claims and policyholders benefits	4,985	5,290	5,723
Amortization of deferred acquisition costs	1,387	1,417	1,467
Other operating expenses (Note F)	1,568	1,097	1,037
Interest	157	128	134
Total claims, benefits and expenses	8,097	7,932	8,361
Income (loss) from continuing operations before income tax	1,112	540	(562)
Income tax (expense) benefit	(333)	(57)	311
Income (loss) from continuing operations	779	483	(251)
Income (loss) from discontinued operations, net of income tax (expense) benefit of \$0, \$0 and \$9 (Note F)	(21)	(2)	9

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Net income (loss)	758	481	(242)
Net (income) loss attributable to noncontrolling interests	(68)	(62)	(57)
<b>Net income (loss) attributable to CNA</b>	<b>\$ 690</b>	<b>\$ 419</b>	<b>\$ (299)</b>
<b>Income (Loss) Attributable to CNA Common Stockholders</b>			
Income (loss) from continuing operations attributable to CNA	\$ 711	\$ 421	\$ (308)
Dividends on 2008 Senior Preferred	(76)	(122)	(19)
Income (loss) from continuing operations attributable to CNA common stockholders	635	299	(327)
Income (loss) from discontinued operations attributable to CNA common stockholders	(21)	(2)	9
<b>Income (loss) attributable to CNA common stockholders</b>	<b>\$ 614</b>	<b>\$ 297</b>	<b>\$ (318)</b>

The accompanying Notes are an integral part of these Consolidated Financial Statements.



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<b>Years ended December 31</b> (In millions, except per share data)	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Basic and Diluted Earnings (Loss) Per Share Attributable to CNA Common Stockholders</b>			
Income (loss) from continuing operations attributable to CNA common stockholders	\$ 2.36	\$ 1.11	\$ (1.21)
Income (loss) from discontinued operations attributable to CNA common stockholders	(0.08)	(0.01)	0.03
<b>Basic and diluted earnings (loss) per share attributable to CNA common stockholders</b>	<b>\$ 2.28</b>	<b>\$ 1.10</b>	<b>\$ (1.18)</b>
<b>Weighted Average Outstanding Common Stock and Common Stock Equivalents</b>			
Basic	269.1	269.0	269.4
Diluted	269.5	269.1	269.4

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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

Years ended December 31 (In millions)	2010		2009		2008	
	Tax	After-tax	Tax	After-tax	Tax	After-tax
<b>Other Comprehensive Income (Loss)</b>						
Changes in:						
Net unrealized gains (losses) on investments with other-than-temporary impairments	\$ (47)	\$ 86	\$ 52	\$ (95)	\$ -	\$ -
Net unrealized gains (losses) on other investments	(269)	505	(2,024)	3,741	1,926	(3,553)
Net unrealized gains (losses) on investments	(316)	591	(1,972)	3,646	1,926	(3,553)
Net unrealized gains (losses) on discontinued operations and other	(2)	9	(2)	9	6	(6)
Foreign currency translation adjustment	-	49	-	117	-	(153)
Pension and postretirement benefits	(18)	35	(8)	15	194	(363)
Allocation to participating policyholders	-	(23)	-	(40)	-	32
Other comprehensive income (loss)	\$ (336)	661	\$ (1,982)	3,747	\$ 2,126	(4,043)
Net income (loss)		758		481		(242)
Comprehensive income (loss)		1,419		4,228		(4,285)
Changes in:						
Net unrealized (gains) losses on investments attributable to noncontrolling interests		(10)		(24)		11
Pension and postretirement benefits attributable to noncontrolling interests		(2)		(2)		5
Other comprehensive (income) loss attributable to noncontrolling interests		(12)		(26)		16

Net (income) loss attributable to noncontrolling interests	(68)	(62)	(57)
Comprehensive (income) loss attributable to noncontrolling interests	(80)	(88)	(41)
<b>Total comprehensive income (loss) attributable to CNA</b>	<b>\$ 1,339</b>	<b>\$ 4,140</b>	<b>\$ (4,326)</b>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

**Table of Contents****CNA Financial Corporation  
Consolidated Balance Sheets**

<b>December 31</b>	<b>2010</b>	<b>2009</b>
(In millions, except share data)		
<b>Assets</b>		
Investments:		
Fixed maturity securities at fair value (amortized cost of \$36,427 and \$35,602)	\$ 37,577	\$ 35,612
Equity securities at fair value (cost of \$422 and \$633)	440	644
Limited partnership investments	2,309	1,787
Other invested assets	27	4
Mortgage loans	87	-
Short term investments	2,215	3,949
Total investments	42,655	41,996
Cash	77	140
Reinsurance receivables (less allowance for uncollectible receivables of \$125 and \$351)	7,079	6,581
Insurance receivables (less allowance for uncollectible receivables of \$160 and \$202)	1,557	1,656
Accrued investment income	425	416
Deferred acquisition costs	1,079	1,108
Deferred income taxes	667	1,333
Property and equipment at cost (less accumulated depreciation of \$543 and \$498)	333	360
Goodwill and other intangible assets	141	141
Other assets (includes \$139 and \$320 due from Loews Corporation)	868	1,144
Separate account business	450	423
<b>Total assets</b>	<b>\$ 55,331</b>	<b>\$ 55,298</b>
<b>Liabilities and Equity</b>		
Liabilities:		
Insurance reserves:		
Claim and claim adjustment expenses	\$ 25,496	\$ 26,816
Unearned premiums	3,203	3,274
Future policy benefits	8,718	7,981
Policyholders funds	173	192
Participating policyholders funds	60	56
Short term debt	400	-
Long term debt	2,251	2,303
Other liabilities	3,056	3,087
Separate account business	450	423
<b>Total liabilities</b>	<b>43,807</b>	<b>44,132</b>

Commitments and contingencies (Notes B, C, G, I, and K)

## Equity:

Preferred stock (12,500,000 shares authorized)		
2008 Senior Preferred (no par value; \$100,000 stated value; no shares and 10,000 shares issued and outstanding held by Loews Corporation)	-	1,000
Common stock (\$2.50 par value; 500,000,000 shares authorized; 273,040,243 shares issued; 269,139,198 and 269,026,759 shares outstanding)	683	683
Additional paid-in capital	2,200	2,177
Retained earnings	7,876	7,264
Accumulated other comprehensive income (loss)	326	(325)
Treasury stock (3,901,045 and 4,013,484 shares), at cost	(105)	(109)
Notes receivable for the issuance of common stock	(26)	(30)
<b>Total CNA stockholders equity</b>	10,954	10,660
Noncontrolling interests	570	506
<b>Total equity</b>	11,524	11,166
<b>Total liabilities and equity</b>	\$ 55,331	\$ 55,298

The accompanying Notes are an integral part of these Consolidated Financial Statements.

**Table of Contents****CNA Financial Corporation  
Consolidated Statements of Cash Flows**

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Cash Flows from Operating Activities</b>			
Net income (loss)	\$ 758	\$ 481	\$ (242)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:			
(Income) loss from discontinued operations	21	2	(9)
Loss on disposal of property and equipment	-	14	1
Deferred income tax expense (benefit)	327	177	(174)
Trading portfolio activity	153	(164)	644
Net realized investment (gains) losses, net of participating policyholders' interests	(86)	857	1,297
Equity method investees	(136)	(223)	446
Amortization of investments	(117)	(198)	(278)
Depreciation	78	86	78
Changes in:			
Receivables, net	(406)	976	987
Accrued investment income	(15)	(60)	(26)
Deferred acquisition costs	29	17	36
Insurance reserves	(805)	(612)	(590)
Other assets	142	99	(241)
Other liabilities	53	(174)	(372)
Other, net	5	3	9
<b>Total adjustments</b>	<b>(757)</b>	<b>800</b>	<b>1,808</b>
<b>Net cash flows provided by operating activities-continuing operations</b>	<b>\$ 1</b>	<b>\$ 1,281</b>	<b>\$ 1,566</b>
<b>Net cash flows used by operating activities-discontinued operations</b>	<b>\$ (90)</b>	<b>\$ (23)</b>	<b>\$ (8)</b>
<b>Net cash flows provided (used) by operating activities-total</b>	<b>\$ (89)</b>	<b>\$ 1,258</b>	<b>\$ 1,558</b>
<b>Cash Flows from Investing Activities</b>			
Purchases of fixed maturity securities	\$ (16,704)	\$ (24,189)	\$ (48,404)
Proceeds from fixed maturity securities:			
Sales	12,514	19,245	41,749
Maturities, calls and redemptions	3,340	3,448	4,092
Purchases of equity securities	(99)	(269)	(205)

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Proceeds from sales of equity securities	341	901	220
Origination of mortgage loans	(87)	-	-
Change in short term investments	1,629	(327)	1,032
Change in other investments	(263)	140	(295)
Purchases of property and equipment	(53)	(63)	(104)
Dispositions	66	-	-
Other, net	7	(2)	(11)
<b>Net cash flows provided (used) by investing activities-continuing operations</b>	<b>\$ 691</b>	<b>\$ (1,116)</b>	<b>\$ (1,926)</b>
<b>Net cash flows provided by investing activities-discontinued operations</b>	<b>\$ 76</b>	<b>\$ 23</b>	<b>\$ 18</b>
<b>Net cash flows provided (used) by investing activities-total</b>	<b>\$ 767</b>	<b>\$ (1,093)</b>	<b>\$ (1,908)</b>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Cash Flows from Financing Activities</b>			
Dividends paid to Loews for 2008 Senior Preferred	\$ (76)	\$ (122)	\$ (19)
Dividends paid to common stockholders	-	-	(122)
Proceeds from the issuance of debt	495	350	250
Principal payments on debt	(150)	(100)	(350)
Policyholders' investment contract net deposits (withdrawals)	(6)	(11)	(604)
Payments to redeem 2008 Senior Preferred	(1,000)	(250)	-
Proceeds from the issuance of 2008 Senior Preferred	-	-	1,250
Stock options exercised	11	1	1
Purchase of treasury stock	-	-	(70)
Other, net	(16)	12	11
<b>Net cash flows provided (used) by financing activities-continuing operations</b>	<b>\$ (742)</b>	<b>\$ (120)</b>	<b>\$ 347</b>
<b>Net cash flows provided (used) by financing activities-discontinued operations</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net cash flows provided (used) by financing activities-total</b>	<b>\$ (742)</b>	<b>\$ (120)</b>	<b>\$ 347</b>
Effect of foreign exchange rate changes on cash-continuing operations	1	10	(13)
Net change in cash	\$ (63)	\$ 55	\$ (16)
Net cash transactions from continuing operations to discontinued operations	(14)	-	17
Net cash transactions to discontinued operations from continuing operations	14	-	(17)
<b>Cash, beginning of year</b>	<b>140</b>	<b>85</b>	<b>101</b>
<b>Cash, end of year</b>	<b>\$ 77</b>	<b>\$ 140</b>	<b>\$ 85</b>
Cash-continuing operations	\$ 77	\$ 140	\$ 85
Cash-discontinued operations	-	-	-
<b>Cash-total</b>	<b>\$ 77</b>	<b>\$ 140</b>	<b>\$ 85</b>



The accompanying Notes are an integral part of these Consolidated Financial Statements.  
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**Table of Contents****CNA Financial Corporation  
Consolidated Statements of Stockholders' Equity**

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Preferred Stock</b>			
Balance, beginning of period	\$ 1,000	\$ 1,250	\$ -
Issuance of 2008 Senior Preferred	-	-	1,250
Redemption of 2008 Senior Preferred	(1,000)	(250)	-
Balance, end of period	-	1,000	1,250
<b>Common Stock</b>			
Balance, beginning and end of period	683	683	683
<b>Additional Paid-in Capital</b>			
Balance, beginning of period	2,177	2,174	2,169
Stock based compensation	1	2	5
Other	22	1	-
Balance, end of period	2,200	2,177	2,174
<b>Retained Earnings</b>			
Balance, beginning of period	7,264	6,845	7,285
Cumulative effect adjustment from change in other-than-temporary impairment accounting guidance as of April 1, 2009, net of tax	-	122	-
Cumulative effect adjustment from change in credit derivatives accounting guidance as of July 1, 2010, net of tax	(2)	-	-
Dividends paid to common stockholders	-	-	(122)
Dividends paid to Loews Corporation for 2008 Senior Preferred	(76)	(122)	(19)
Net income (loss) attributable to CNA	690	419	(299)
Balance, end of period	7,876	7,264	6,845
<b>Accumulated Other Comprehensive Income (Loss)</b>			
Balance, beginning of period	(325)	(3,924)	103
Cumulative effect adjustment from change in other-than-temporary impairment accounting guidance as of April 1, 2009, net of tax	-	(122)	-
Cumulative effect adjustment from change in credit derivatives accounting guidance as of July 1, 2010, net of tax	2	-	-
Other comprehensive income (loss) attributable to CNA	649	3,721	(4,027)

Balance, end of period	326	(325)	(3,924)
<b>Treasury Stock</b>			
Balance, beginning of period	(109)	(109)	(39)
Stock-based compensation and other	4	-	-
Purchase of treasury stock	-	-	(70)
Balance, end of period	(105)	(109)	(109)
<b>Notes Receivable for the Issuance of Common Stock</b>			
Balance, beginning of period	(30)	(42)	(51)
Decrease in notes receivable for the issuance of common stock	4	12	9
Balance, end of period	(26)	(30)	(42)
<b>Total CNA Stockholders Equity</b>	10,954	10,660	6,877
<b>Noncontrolling Interests</b>			
Balance, beginning of period	506	420	385
Net income	68	62	57
Other comprehensive income (loss)	12	26	(16)
Other	(16)	(2)	(6)
Balance, end of period	570	506	420
<b>Total Equity</b>	\$ 11,524	\$ 11,166	\$ 7,297

The accompanying Notes are an integral part of these Consolidated Financial Statements.

**Table of Contents****Notes to Consolidated Financial Statements****Note A. Summary of Significant Accounting Policies*****Basis of Presentation***

The Consolidated Financial Statements 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 the remaining life & 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 61% of the outstanding common stock of CNA Surety as of December 31, 2010. Loews Corporation (Loews) owned approximately 90% of the outstanding common stock of CNAF as of December 31, 2010.

The accompanying Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). All significant intercompany amounts have been eliminated. The preparation of 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 Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

***Business***

The Company's core property and casualty insurance operations are reported in two business segments: CNA Specialty and CNA Commercial. The Company's non-core operations are managed in two segments: Life & Group Non-Core and Corporate & Other Non-Core. In the fourth quarter of 2010, the Company revised its segments, as further discussed in Note N.

The Company serves a wide variety of customers, including small, medium and large businesses; associations; professionals; and groups and individuals with a broad range of insurance and risk management products and services. Core insurance products include commercial property and casualty coverages. Non-core insurance products, which primarily have been placed in run-off, include life and accident and health insurance; retirement products and annuities; and property and casualty reinsurance. CNA services include risk management, information services, warranty and claims administration. The Company's products and services are marketed through independent agents, brokers, and managing general underwriters.

***Insurance Operations***

**Premiums:** Insurance premiums on property and casualty insurance contracts are recognized in proportion to the underlying risk insured which principally are earned ratably over the duration of the policies. Premiums on accident and health insurance contracts are earned ratably over the policy year in which they are due. The reserve for unearned premiums on these contracts represents the portion of premiums written relating to the unexpired terms of coverage.

Insurance receivables are presented at unpaid balances net of an allowance for uncollectible receivables, which is recorded on the basis of periodic evaluations of balances due currently or in the future from insureds, including amounts due from insureds related to losses under high deductible policies, management's experience and current economic conditions. Amounts are considered past due based on policy payment terms. Insurance receivables and any related allowance are written off after collection efforts have been exhausted or a negotiated settlement is reached.

Property and casualty contracts that are retrospectively rated contain provisions that result in an adjustment to the initial policy premium depending on the contract provisions and loss experience of the insured during the experience period. For such contracts, the Company estimates the amount of ultimate premiums that the Company may earn upon completion of the experience period and recognizes either an asset or a liability for the difference between the initial policy premium and the estimated ultimate premium. The Company adjusts such estimated ultimate premium amounts during the course of the experience period based on actual results to date.

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The resulting adjustment is recorded as either a reduction of or an increase to the earned premiums for the period.

**Claim and claim adjustment expense reserves:** Claim and claim adjustment expense reserves, except reserves for structured settlements not associated with asbestos and environmental pollution (A&EP), workers' compensation lifetime claims, accident and health claims and certain claims associated with discontinued operations, are not discounted and are based on 1) case basis estimates for losses reported on direct business, adjusted in the aggregate for ultimate loss expectations; 2) estimates of incurred but not reported losses; 3) estimates of losses on assumed reinsurance; 4) estimates of future expenses to be incurred in the settlement of claims; 5) estimates of salvage and subrogation recoveries and 6) estimates of amounts due from insureds related to losses under high deductible policies. Management considers current conditions and trends as well as past Company and industry experience in establishing these estimates. The effects of inflation, which can be significant, are implicitly considered in the reserving process and are part of the recorded reserve balance. Ceded claim and claim adjustment expense reserves are reported as a component of Reinsurance receivables on the Consolidated Balance Sheets. See Note P for further discussion on claim and claim adjustment expense reserves for discontinued operations.

Claim and claim adjustment expense reserves are presented net of anticipated amounts due from insureds related to losses under deductible policies of \$1.4 billion and \$1.5 billion as of December 31, 2010 and 2009. A significant portion of these amounts are supported by collateral. The Company also has an allowance for uncollectible deductible amounts, which is presented as a component of the allowance for doubtful accounts included in Insurance receivables on the Consolidated Balance Sheets.

Structured settlements have been negotiated for certain property and casualty insurance claims. Structured settlements are agreements to provide fixed periodic payments to claimants. Certain structured settlements are funded by annuities purchased from CAC for which the related annuity obligations are reported in future policy benefits reserves. Obligations for structured settlements not funded by annuities are included in claim and claim adjustment expense reserves and carried at present values determined using interest rates ranging from 4.6% to 7.5% at both December 31, 2010 and 2009. At December 31, 2010 and 2009, the discounted reserves for unfunded structured settlements were \$713 million and \$746 million, net of discount of \$1.1 billion in both periods.

Workers' compensation lifetime claim reserves are calculated using mortality assumptions determined through statutory regulation and economic factors. Accident and health claim reserves are calculated using mortality and morbidity assumptions based on Company and industry experience. Workers' compensation lifetime claim reserves and accident and health claim reserves are discounted at interest rates ranging from 3.0% to 6.5% at both December 31, 2010 and 2009. At December 31, 2010 and 2009, such discounted reserves totaled \$1.9 billion and \$1.7 billion, net of discount of \$487 million and \$482 million.

**Future policy benefits reserves:** Reserves for long term care products are computed using the net level premium method, which incorporates actuarial assumptions as to interest rates, mortality, morbidity, persistency, withdrawals and expenses. Actuarial assumptions generally vary by plan, age at issue and policy duration, and include a margin for adverse deviation. Interest rates range from 6.0% to 8.6% at December 31, 2010 and 2009, and mortality, morbidity and withdrawal assumptions were generally established at the time of issue. Expense assumptions include the estimated effects of inflation and expenses to be incurred beyond the premium paying period.

**Policyholders' funds reserves:** Policyholders' funds reserves primarily include reserves for investment contracts without life contingencies. For these contracts, policyholder liabilities are equal to the accumulated policy account values, which consist of an accumulation of deposit payments plus credited interest, less withdrawals and amounts assessed through the end of the period. During 2008, the Company exited the indexed group annuity portion of its pension deposit business and settled the related liabilities with policyholders with no material impact to results of operations. Cash flows related to the settlement of the liabilities with policyholders were presented on the Consolidated Statements of Cash Flows in Cash flows from financing activities, as Policyholders' investment contract net deposits (withdrawals). Cash flows related to proceeds from the liquidation of the related assets supporting the policyholder liabilities were presented on the Consolidated Statements of Cash Flows in Cash flows from operating activities, as Trading portfolio activity.

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**Guaranty fund and other insurance-related assessments:** Liabilities for guaranty fund and other insurance-related assessments are accrued when an assessment is probable, when it can be reasonably estimated, and when the event obligating the entity to pay an imposed or probable assessment has occurred. Liabilities for guaranty funds and other insurance-related assessments are not discounted and are included as part of Other liabilities on the Consolidated Balance Sheets. As of December 31, 2010 and 2009, the liability balances were \$160 million and \$167 million. As of December 31, 2010 and 2009, included in Other assets on the Consolidated Balance Sheets were \$3 million and \$5 million of related assets for premium tax offsets. This asset is limited to the amount that is able to be offset against premium tax on future premium collections from business written or committed to be written.

**Reinsurance:** Reinsurance accounting allows for contractual cash flows to be reflected as premiums and losses. To qualify for reinsurance accounting, reinsurance agreements must include risk transfer. To meet risk transfer requirements, a reinsurance contract must include both insurance risk, consisting of underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity.

Reinsurance receivables related to paid losses are presented at unpaid balances. Reinsurance receivables related to unpaid losses are estimated in a manner consistent with claim and claim adjustment expense reserves or future policy benefits reserves. Reinsurance receivables are reported net of an allowance for uncollectible amounts on the Consolidated Balance Sheets. The cost of reinsurance is primarily accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies or over the reinsurance contract period. The ceding of insurance does not discharge the primary liability of the Company.

The allowance for uncollectible reinsurance receivables is estimated on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions. Changes in the allowance for uncollectible reinsurance receivables are presented as a component of Insurance claims and policyholders' benefits on the Consolidated Statements of Operations.

Amounts are considered past due based on the reinsurance contract terms. Reinsurance receivables related to paid losses and any related allowance are written off after collection efforts have been exhausted or a negotiated settlement is reached with the reinsurer. Reinsurance receivables related to paid losses from insolvent insurers are written off when the settlement due from the estate can be reasonably estimated. At the time reinsurance receivables related to paid losses are written off, any required adjustment to reinsurance receivables related to unpaid losses is recorded as a component of Insurance claims and policyholders' benefits on the Consolidated Statements of Operations.

Reinsurance contracts that do not effectively transfer the underlying economic risk of loss on policies written by the Company are recorded using the deposit method of accounting, which requires that premium paid or received by the ceding company or assuming company be accounted for as a deposit asset or liability. At December 31, 2010 and 2009, the Company had \$23 million and \$21 million recorded as deposit assets and \$114 million and \$112 million recorded as deposit liabilities. Income on reinsurance contracts accounted for under the deposit method is recognized using an effective yield based on the anticipated timing of payments and the remaining life of the contract. When the anticipated timing of payments changes, the effective yield is recalculated to reflect actual payments to date and the estimated timing of future payments. The deposit asset or liability is adjusted to the amount that would have existed had the new effective yield been applied since the inception of the contract. This adjustment is reflected in Other revenues or Other operating expenses on the Consolidated Statements of Operations as appropriate.

**Participating insurance:** Policyholder dividends are accrued using an estimate of the amount to be paid based on underlying contractual obligations under policies and applicable state laws. Limitations exist on the amount of income from participating life insurance contracts that may be distributed to stockholders, and therefore the share of income on these policies that cannot be distributed to stockholders is excluded from Stockholders' equity by a charge to operations and other comprehensive income and the establishment of a corresponding liability.

**Deferred acquisition costs:** Acquisition costs include commissions, premium taxes and certain underwriting and policy issuance costs which vary with and are related primarily to the acquisition of business. Such costs related to property and casualty business are deferred and amortized ratably over the period the related premiums are earned.

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Deferred acquisition costs related to accident and health insurance are amortized over the premium-paying period of the related policies using assumptions consistent with those used for computing future policy benefit reserves for such contracts. Assumptions as to anticipated premiums are made at the date of policy issuance or acquisition and are consistently applied during the lives of the contracts. Deviations from estimated experience are included in results of operations when they occur. For these contracts, the amortization period is typically the estimated life of the policy.

The Company evaluates deferred acquisition costs for recoverability. Anticipated investment income is considered in the determination of the recoverability of deferred acquisition costs. Adjustments, if necessary, are recorded in current results of operations. Deferred acquisition costs are presented net of ceding commissions and other ceded acquisition costs. Unamortized deferred acquisition costs relating to contracts that have been substantially changed by a modification in benefits, features, rights or coverages that were not anticipated in the original contract are not deferred and are included as a charge to operations in the period during which the contract modification occurred.

**Investments in life settlement contracts and related revenue recognition:** Prior to 2002, the Company purchased investments in life settlement contracts. A life settlement contract is a contract between the owner of a life insurance policy (the policy owner) and a third-party investor (investor). Under a life settlement contract, the Company obtained the ownership and beneficiary rights of an underlying life insurance policy.

The Company accounts for its investments in life settlement contracts using the fair value method. Under the fair value method, each life settlement contract is carried at its fair value at the end of each reporting period. The change in fair value, life insurance proceeds received and periodic maintenance costs, such as premiums, necessary to keep the underlying policy in force, are recorded in Other revenues on the Consolidated Statements of Operations. The fair value of the Company's investments in life settlement contracts were \$129 million and \$130 million at December 31, 2010 and 2009, and are included in Other assets on the Consolidated Balance Sheets. The cash receipts and payments related to life settlement contracts are included in Cash flows from operating activities on the Consolidated Statements of Cash Flows.

The following table details the values for life settlement contracts. The determination of fair value is discussed in Note D.

<b>December 31, 2010</b>	<b>Number of Life Settlement Contracts</b>	<b>Fair Value of Life Settlement Contracts (In millions)</b>	<b>Face Amount of Life Insurance Policies (In millions)</b>
Estimated maturity during:			
2011	80	\$ 21	\$ 55
2012	70	17	49
2013	70	14	45
2014	60	12	41
2015	60	10	39
Thereafter	563	55	369
<b>Total</b>	<b>903</b>	<b>\$ 129</b>	<b>\$ 598</b>

The Company uses an actuarial model to estimate the aggregate face amount of life insurance that is expected to mature in each future year and the corresponding fair value. This model projects the likelihood of the insured's death for each inforce policy based upon the Company's estimated mortality rates, which may vary due to the relatively small size of the portfolio of life settlement contracts. The number of life settlement contracts presented in the table above is based upon the average face amount of inforce policies estimated to mature in each future year.

The increase in fair value recognized for the years ended December 31, 2010, 2009 and 2008 on contracts still being held was \$10 million, \$10 million and \$17 million. The gains recognized during the years ended December 31, 2010, 2009 and 2008 on contracts that matured were \$19 million, \$24 million and \$30 million.

***Separate Account Business:*** Separate account assets and liabilities represent contract holder funds related to investment and annuity products for which the policyholder assumes substantially all the risk and reward. The assets are segregated into accounts with specific underlying investment objectives and are legally segregated from the Company. All assets of the separate account business are carried at fair value with an equal amount



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recorded for separate account liabilities. Fee income accruing to the Company related to separate accounts is primarily included within Other revenue on the Consolidated Statements of Operations.

Certain of the separate account investment contracts related to the Company's pension deposit business guarantee principal and an annual minimum rate of interest, for which additional amounts may be recorded in Policyholders funds should the aggregate contract value exceed the fair value of the related assets supporting the business at any point in time. Most of these contracts are subject to a fair value adjustment if terminated by the policyholder. During 2008, the Company recorded \$68 million of additional Policyholders' funds liabilities due to declines in the fair value of the related separate account assets. During 2009, the Company decreased this pretax liability by \$42 million, and during 2010, the Company decreased this pretax liability by \$24 million, based on increases in the fair value of separate account assets during those periods. If the fair value of the related assets supporting the business increases to a level that exceeds the aggregate contract value, the amount of any such increase will accrue to the Company's benefit to the extent of any remaining additional liability in Policyholders' funds.

***Investments***

**Valuation of investments:** The Company classifies its fixed maturity securities and its equity securities as either available-for-sale or trading, and as such, they are carried at fair value. Changes in fair value of trading securities are reported within Net investment income on the Consolidated Statements of Operations. Changes in fair value related to available-for-sale securities are reported as a component of Other comprehensive income. To the extent that unrealized gains on fixed income securities supporting certain annuities with life contingencies would result in a premium deficiency if those gains were realized, the related increase in insurance reserves for future policy benefits is recorded, net of tax, as a reduction of unrealized net capital gains through Other comprehensive income. The amortized cost of fixed maturity securities classified as available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity, which are included in Net investment income on the Consolidated Statements of Operations. Investment valuations are adjusted and losses may be recognized as Net realized investment losses on the Consolidated Statements of Operations when a decline in value is determined by the Company to be other-than-temporary. See the Accounting Standards Update section of this note for further information regarding the Company's recognition and presentation of other-than-temporary impairments.

For asset-backed securities included in fixed maturity securities, the Company recognizes income using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in the securities is adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the securities. Such adjustments are reflected in Net investment income on the Consolidated Statements of Operations. Interest income on lower rated beneficial interests in securitized financial assets is determined using the prospective yield method.

The Company's carrying value of investments in limited partnerships is its share of the net asset value of each partnership, as determined by the General Partner. Certain partnerships for which results are not available on a timely basis are reported on a lag, primarily one month. Changes in net asset values are accounted for under the equity method and recorded within Net investment income on the Consolidated Statements of Operations.

Mortgage loans are commercial in nature and are carried at unpaid principal balance, net of unamortized fees and any valuation allowance. Mortgage loans are considered to be impaired loans when it is probable that contractual principal and interest payments will not be collected. A valuation allowance is established for impaired loans to the extent that the present value of expected future cash flows discounted at the loan's original effective interest rate exceeds the carrying value of the loan. Interest income from mortgage loans is recognized on an accrual basis using the effective yield method. Accrual of income is generally suspended for mortgage loans that are impaired and collection of principal and interest payments is unlikely. Mortgage loans are considered past due when full principal or interest payments have not been received according to contractual terms.

Other invested assets include certain derivative securities and securities for which the fair value option was elected as a result of the adoption of the updated embedded credit derivative accounting guidance. See the Accounting Standards Update section of this note for further information regarding the Company's recognition and presentation of securities with embedded credit derivatives.



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Short term investments are carried at fair value.

**Realized investment gains (losses):** All securities sold resulting in investment gains and losses are recorded on the trade date, except for bank loan participations which are recorded on the date that the legal agreements are finalized. Realized investment gains and losses are determined on the basis of the cost or amortized cost of the specific securities sold.

***Income Taxes***

The Company and its eligible subsidiaries (CNA Tax Group) are included in the consolidated federal income tax return of Loews and its eligible subsidiaries. The Company accounts for income taxes under the asset and liability method. Under the asset and liability method, deferred income taxes are recognized for temporary differences between the financial statement and tax return bases of assets and liabilities, based on enacted tax rates and other provisions of the tax law. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not, and a valuation allowance is established for any portion of a deferred tax asset that management believes will not be realized.

***Pension and Postretirement Benefits***

The Company recognizes the overfunded or underfunded status of its defined benefit plans in Other assets or Other liabilities on the Consolidated Balance Sheets. Changes in funded status related to prior service costs and credits and actuarial gains and losses are recognized in the year in which the changes occur through Other comprehensive income. Annual service cost, interest cost, expected return on plan assets, amortization of prior service costs and credits, and amortization of actuarial gains and losses are recognized on the Consolidated Statements of Operations. Effective January 1, 2009, due to the significant number of inactive participants in the plan, the Company amortizes actuarial gains/losses over the average remaining life expectancy of the inactive participants for the CNA Retirement Plan. Previously, the Company amortized actuarial gains/losses over the average remaining service period of the active participants. This change resulted in an increase to net income of \$20 million, net of taxes, for the year ended December 31, 2009.

***Stock-Based Compensation***

The Company records compensation expense using the fair value method for all awards it grants, modifies, repurchases or cancels primarily on a straight-line basis over the requisite service period, generally four years.

***Foreign Currency***

Foreign currency translation gains and losses are reflected in Stockholders' equity as a component of Accumulated other comprehensive income. The Company's foreign subsidiaries' balance sheet accounts are translated at the exchange rates in effect at each year end and income statement accounts are either translated at the exchange rate on the date of the transaction or at the average exchange rates. Foreign currency transaction losses of \$19 million, \$14 million and \$35 million were included in determining net income (loss) for the years ended December 31, 2010, 2009 and 2008.

***Property and Equipment***

Property and equipment are carried at cost less accumulated depreciation. Depreciation is based on the estimated useful lives of the various classes of property and equipment and is determined principally on the straight-line method. Furniture and fixtures are depreciated over seven years. Office equipment is depreciated over five years. The estimated lives for data processing equipment and software range from three to five years. Leasehold improvements are depreciated over the corresponding lease terms. The Company's owned buildings are depreciated over a period not to exceed fifty years. Capitalized improvements are depreciated over the remaining useful lives of the buildings.

***Goodwill and Other Intangible Assets***

Goodwill and other indefinite-lived intangible assets of \$141 million as of December 31, 2010 and 2009 primarily represent the excess of purchase price over the fair value of the net assets of acquired entities and businesses. As of December 31, 2010 and 2009, \$139 million of the balance related to CNA Surety. Goodwill and indefinite-lived intangible assets are tested for impairment annually or when certain triggering events require such tests.

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**Earnings (Loss) Per Share Data**

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

For the years ended December 31, 2010 and 2009, approximately 380 thousand and 120 thousand potential shares attributable to exercises under stock-based employee compensation plans were included in the calculation of diluted earnings per share. For those same periods, approximately 1.2 million and 1.7 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 year ended December 31, 2008, as a result of the net loss, none of the 1.6 million potential shares attributable to exercises under stock-based employee compensation plans were included in the calculation of loss per share as the effect would have been antidilutive.

**Supplementary Cash Flow Information**

Cash payments made for interest were \$145 million, \$124 million and \$139 million for the years ended December 31, 2010, 2009 and 2008. Cash refunds received for income taxes amounted to \$175 million and \$117 million for the years ended December 31, 2010 and 2009. Cash payments made for income taxes were \$120 million for the year ended December 31, 2008.

**Table of Contents****Accounting Standards Updates*****Adopted******Variable Interest Entities***

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

***Scope Exception Related to Credit Derivatives***

In March 2010, the FASB issued updated accounting guidance which amended the accounting and reporting requirements related to derivatives to provide clarifying language regarding when embedded credit derivative features, including those in synthetic collateralized debt and loan obligations, are considered embedded derivatives subject to potential bifurcation. Transition provisions include an option at adoption to measure an investment in its entirety at fair value with subsequent changes in fair value recognized in earnings (the fair value option). The adoption of this updated accounting guidance as of July 1, 2010 resulted in a cumulative effect adjustment of \$2 million, net of tax, which was reclassified to Retained earnings from Accumulated other comprehensive income (AOCI) on the Consolidated Statement of Equity and was attributable to gross unrealized losses on securities with embedded credit derivative features for which the fair value option was elected. These securities are included in Other invested assets on the Consolidated Balance Sheet at December 31, 2010. Subsequent fair value changes are included in Other net realized investment gains on the Consolidated Statement of Operations.

***Recognition and Presentation of Other-Than-Temporary Impairments***

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

The remaining fixed maturity securities in an unrealized loss position are evaluated to determine if a credit loss exists. If the Company does not expect to recover the entire amortized cost basis of a fixed maturity security, the security is deemed to be other-than-temporarily impaired for credit reasons. For these securities, the updated accounting guidance requires the bifurcation of OTTI losses into a credit component and a non-credit component. 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 AOCI from Retained earnings on the Consolidated Statement of Equity. The cumulative effect adjustment represents the non-credit component of those previously impaired fixed maturity securities that were 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.

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***Recently issued accounting standard to be adopted***

***Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts***

In October 2010, the FASB issued updated accounting guidance which limits the capitalization of costs incurred to acquire or renew insurance contracts to those that are incremental direct costs of successful contract acquisitions. The updated accounting guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011 with prospective or retrospective application allowed. The Company is currently assessing the impact this updated accounting guidance will have on its financial condition and results of operations, and expects that amounts capitalized under the updated guidance will be less than under the Company's current accounting practice.

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**Table of Contents****Note B. Investments**

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

**Net Investment Income**

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Fixed maturity securities	\$2,051	\$1,941	\$1,984
Short term investments	15	36	115
Limited partnerships	249	315	(379)
Equity securities	32	49	80
Mortgage loans	2	-	-
Trading portfolio indexed group annuity (a)	-	-	(146)
Trading portfolio other (b)	13	23	(3)
Other	8	6	19
Gross investment income	2,370	2,370	1,670
Investment expenses	(54)	(50)	(51)
<b>Net investment income</b>	<b>\$2,316</b>	<b>\$2,320</b>	<b>\$1,619</b>

(a) The losses related to the indexed group annuity trading portfolio, including net unrealized 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 Consolidated Statements of Operations.

(b) There were no net unrealized gains (losses) related to changes in fair value on trading securities still held included in net investment income for the year ended December 31, 2010. The net unrealized losses related to changes in fair value on trading securities still held included in net investment income were \$5 million and \$3 million for the years ended December 31, 2009 and 2008.

As of December 31, 2010, the Company held seven non-income producing fixed maturity securities aggregating \$3 million of fair value. As of December 31, 2009, the Company held three non-income producing fixed maturity securities aggregating \$1 million of fair value. As of December 31, 2010 and 2009, no investments exceeded 10% of stockholders' equity, other than investments in U.S. Treasury and U.S. Government agency securities.

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

**Net Realized Investment Gains (Losses)**

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Net realized investment gains (losses):			
Fixed maturity securities:			
Gross realized gains	\$ 475	\$ 500	\$ 532
Gross realized losses	(383)	(1,667)	(1,363)
Net realized investment gains (losses) on fixed maturity securities	92	(1,167)	(831)

Equity securities:			
Gross realized gains	50	473	22
Gross realized losses	(52)	(230)	(512)
Net realized investment gains (losses) on equity securities	(2)	243	(490)
Derivatives	(1)	51	(19)
Short term investments and other (a)	(3)	16	43
<b>Net realized investment gains (losses), net of participating policyholders interests</b>	<b>\$ 86</b>	<b>\$ (857)</b>	<b>\$ (1,297)</b>

(a) Includes net unrealized losses of \$1 million for the year ended December 31, 2010, related to changes in fair value on securities for which the fair value option was elected as a result of the adoption of the updated embedded credit derivative accounting guidance as of July 1, 2010.



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Net change in unrealized gains (losses) on investments is presented in the following table.

**Net Change in Unrealized Gains (Losses)**

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Net change in unrealized gains (losses) on investments:			
Fixed maturity securities	\$ 1,140	\$ 5,278	\$ (5,137)
Equity securities	7	156	(347)
Other	(1)	(4)	5
Total net change in unrealized gains (losses) on investments	\$ 1,146	\$ 5,430	\$ (5,479)

In 2010, the Company recorded additional future policy benefit reserves due to an increase in unrealized appreciation on fixed income securities supporting certain annuities with life contingencies, which resulted in a decrease to net unrealized gains on investments of \$150 million, net of tax.

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

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Fixed maturity securities available-for-sale:			
U.S. Treasury and obligations of government agencies	\$ -	\$ -	\$ 29
Asset-backed:			
Residential mortgage-backed	71	461	222
Commercial mortgage-backed	3	193	208
Other asset-backed	3	31	35
Total asset-backed	77	685	465
States, municipalities and political subdivisions	62	79	1
Foreign government	-	-	2
Corporate and other bonds	68	357	583
Redeemable preferred stock	-	9	1
Total fixed maturity securities available-for-sale	207	1,130	1,081
Equity securities available-for-sale:			
Common stock	11	5	140
Preferred stock	14	217	263
Total equity securities available-for-sale	25	222	403

**Net OTTI losses recognized in earnings** \$ 232 \$1,352 \$1,484

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

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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 OTTI in Other comprehensive income.

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

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

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

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

**Summary of Fixed Maturity and Equity Securities**

<b>December 31, 2010</b> (In millions)	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>	<b>Unrealized OTTI Losses (Gains)</b>
Fixed maturity securities available-for-sale:					
U.S. Treasury and obligations of government agencies	\$ 122	\$ 16	\$ 1	\$ 137	\$ -
Asset-backed:					
Residential mortgage-backed	6,254	101	265	6,090	114
Commercial mortgage-backed	994	40	41	993	(2)
Other asset-backed	753	18	8	763	-
Total asset-backed	8,001	159	314	7,846	112
States, municipalities and political subdivisions	8,157	142	410	7,889	-
Foreign government	602	18	-	620	-
Corporate and other bonds	19,492	1,603	70	21,025	-
Redeemable preferred stock	47	7	-	54	-
Total fixed maturity securities available-for-sale	36,421	1,945	795	37,571	\$ 112
Total fixed maturity securities trading	6	-	-	6	
Equity securities available-for-sale:					
Common stock	90	25	-	115	
Preferred stock	332	2	9	325	
Total equity securities available-for-sale	422	27	9	440	
<b>Total</b>	<b>\$ 36,849</b>	<b>\$ 1,972</b>	<b>\$ 804</b>	<b>\$ 38,017</b>	

**Table of Contents****Summary of Fixed Maturity and Equity Securities**

<b>December 31, 2009</b> (In millions)	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>	<b>Unrealized OTTI Losses</b>
Fixed maturity securities available-for-sale:					
U.S. Treasury and obligations of government agencies	\$ 184	\$ 16	\$ 1	\$ 199	\$ -
Asset-backed:					
Residential mortgage-backed	7,469	72	604	6,937	246
Commercial mortgage-backed	709	10	135	584	3
Other asset-backed	858	14	40	832	-
Total asset-backed	9,036	96	779	8,353	249
States, municipalities and political subdivisions	7,280	203	359	7,124	-
Foreign government	467	14	2	479	-
Corporate and other bonds	18,410	1,107	288	19,229	26
Redeemable preferred stock	51	4	1	54	-
Total fixed maturity securities available-for-sale	35,428	1,440	1,430	35,438	\$ 275
Total fixed maturity securities trading	174	-	-	174	
Equity securities available-for-sale:					
Common stock	61	14	2	73	
Preferred stock	572	40	41	571	
Total equity securities available-for-sale	633	54	43	644	
<b>Total</b>	<b>\$ 36,235</b>	<b>\$ 1,494</b>	<b>\$ 1,473</b>	<b>\$ 36,256</b>	

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The following tables summarize the estimated fair value and gross unrealized losses of available-for-sale fixed maturity and equity securities by the length of time in which the securities have continuously been in a gross unrealized loss position.

**Securities in a Gross Unrealized Loss Position**

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

**Table of Contents****Securities in a Gross Unrealized Loss Position**

	Less than 12 Months		Greater than 12 Months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
<b>December 31, 2009</b> (In millions)						
Fixed maturity securities available-for-sale:						
U.S. Treasury and obligations of government agencies	\$ 21	\$ 1	\$ -	\$ -	\$ 21	\$ 1
Asset-backed:						
Residential mortgage-backed	1,945	43	3,069	561	5,014	604
Commercial mortgage-backed	21	1	456	134	477	135
Other asset-backed	170	1	119	39	289	40
Total asset-backed	2,136	45	3,644	734	5,780	779
States, municipalities and political subdivisions	1,036	30	2,086	329	3,122	359
Foreign government	154	1	7	1	161	2
Corporate and other bonds	2,395	44	1,948	244	4,343	288
Redeemable preferred stock	3	-	14	1	17	1
Total fixed maturity securities available-for-sale	5,745	121	7,699	1,309	13,444	1,430
Equity securities available-for-sale:						
Common stock	8	1	12	1	20	2
Preferred stock	-	-	426	41	426	41
Total equity securities available-for-sale	8	1	438	42	446	43
<b>Total</b>	<b>\$ 5,753</b>	<b>\$ 122</b>	<b>\$ 8,137</b>	<b>\$ 1,351</b>	<b>\$ 13,890</b>	<b>\$ 1,473</b>

Activity for the year ended December 31, 2010 and for the period from April 1, 2009 to December 31, 2009 related to the pretax fixed maturity credit loss component reflected within Retained earnings for securities still held at December 31, 2010 and December 31, 2009 was as follows.

**Period from**

(In millions)	<b>Year ended December 31, 2010</b>	<b>April 1, 2009 to December 31, 2009</b>
Beginning balance of credit losses on fixed maturity securities	\$ 164	\$ 192
Additional credit losses for which an OTTI loss was previously recognized	37	93
Credit losses for which an OTTI loss was not previously recognized	11	183
Reductions for securities sold during the period	(62)	(239)
Reductions for securities the Company intends to sell or more likely than not will be required to sell	(9)	(65)
Ending balance of credit losses on fixed maturity securities	\$ 141	\$ 164

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 December 31, 2010 Securities in a Gross Unrealized Loss Position table above are required to be recorded. A discussion of some of the factors reviewed in making that determination is presented below.

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



**Table of Contents***Asset-Backed Securities*

The fair value of total asset-backed holdings at December 31, 2010 was \$7,846 million which was comprised of 2,086 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, 165 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 214 structured securities that have at least one trade lot in a gross unrealized loss position. In addition, there were 61 agency mortgage-backed pass-through securities which are guaranteed by agencies of the U.S. Government that have at least one trade lot in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 7% of amortized cost.

Commercial mortgage-backed securities include 36 securities that have at least one trade lot in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 8% of amortized cost.

Other asset-backed securities include 15 securities that have at least one trade lot in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 4% of amortized cost.

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

**Gross Unrealized Losses by Ratings Distribution****December 31, 2010**

(In millions)

	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>	<b>Gross Unrealized Losses</b>
U.S. Government Agencies	\$ 1,506	\$ 1,461	\$ 45
AAA	1,225	1,158	67
AA	426	389	37
A	217	201	16
BBB	217	188	29
Non-investment grade and equity tranches	1,003	883	120
<b>Total</b>	<b>\$ 4,594</b>	<b>\$ 4,280</b>	<b>\$ 314</b>

The Company believes the unrealized losses are primarily attributable to broader economic conditions, changes in interest rates, liquidity concerns and wider than historical bid/ask spreads, and is not indicative of the quality of the underlying collateral. The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost. Generally, non-investment grade securities consist of investments which were investment grade at the time of purchase but have subsequently been downgraded and primarily consist of holdings senior to the equity tranche. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of principal and interest, collateral shortfalls, or substantial changes in future cash flow expectations; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at December 31, 2010.

*States, Municipalities and Political Subdivisions*

The fair value of total states, municipalities and political subdivisions holdings at December 31, 2010 was \$7,889 million. These holdings consist of both tax-exempt and taxable special revenue and assessment bonds, representing 71% of the overall category, followed by general obligation political subdivision bonds at 19% and state general obligation bonds at 10%.

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The unrealized losses on the Company's investments in this category are primarily due to the impact of interest rate increases on securities held, as well as market conditions for tax-exempt bonds. Securities with maturity dates that exceed 20 years comprise 66% of the gross unrealized losses. The holdings for all securities in this category include 568 securities that have at least one trade lot in a gross unrealized loss position. The aggregate severity of the total gross unrealized losses was approximately 9% of amortized cost.

The following table summarizes the ratings distribution of states, municipalities and political subdivisions securities in a gross unrealized loss position at December 31, 2010.

**Gross Unrealized Losses by Ratings Distribution****December 31, 2010**

(In millions)

	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
AAA	\$ 995	\$ 940	\$ 55
AA	2,612	2,327	285
A	802	742	60
BBB	69	60	9
Non-investment grade	16	15	1
<b>Total</b>	<b>\$ 4,494</b>	<b>\$ 4,084</b>	<b>\$ 410</b>

The largest exposures at December 31, 2010 as measured by gross unrealized losses were several separate issues of Puerto Rico sales tax revenue bonds with gross unrealized losses of \$101 million and several separate issues of New Jersey transit revenue bonds with gross unrealized losses of \$64 million. All of these securities are rated investment grade.

The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of principal and interest; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at December 31, 2010.

**Contractual Maturity**

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

**Contractual Maturity**

	December 31, 2010		December 31, 2009	
	Cost or Amortized Cost	Estimated Fair Value	Cost or Amortized Cost	Estimated Fair Value
(In millions)				
Due in one year or less	\$ 1,515	\$ 1,506	\$ 1,240	\$ 1,219
Due after one year through five years	11,198	11,653	10,046	10,244
Due after five years through ten years	10,022	10,425	10,646	10,538
Due after ten years	13,686	13,987	13,496	13,437

<b>Total</b>	\$36,421	\$ 37,571	\$35,428	\$ 35,438
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**Table of Contents*****Auction Rate Securities***

The fair value of auction rate securities held at December 31, 2010 was \$357 million, \$316 million of which are collateralized by student loans and guaranteed by the Federal Family Education Loan Program (FFELP). There were gross unrealized losses of \$16 million and no gross unrealized gains on these securities, primarily as a result of continued failed auctions and the resultant impact on liquidity. The average rating on these holdings was AAA. At December 31, 2010, all auction rate securities were paying at the applicable coupon rate in accordance with the terms of the security agreements.

***Limited Partnerships***

The carrying value of limited partnerships as of December 31, 2010 and 2009 was \$2,309 million and \$1,787 million, which includes undistributed earnings of \$723 million and \$507 million. Limited partnerships comprising 45% of the total carrying value are reported on a current basis through December 31, 2010 with no reporting lag, 41% are reported on a one month lag and the remainder are reported on more than a one month lag. As of December 31, 2010 and 2009, the Company had 75 and 70 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, 85% and 89% at December 31, 2010 and 2009 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 49% are equity related, 27% pursue a multi-strategy approach, 19% are focused on distressed investments and 5% are fixed income related at December 31, 2010.

Limited partnerships representing 11% and 7% at December 31, 2010 and 2009 were invested in private equity. The remaining were invested in various other partnerships including real estate. The ten largest limited partnership positions held totaled \$1,321 million and \$1,178 million as of December 31, 2010 and 2009. Based on the most recent information available regarding the Company's percentage ownership of the individual limited partnerships, the carrying value reflected on the Consolidated Balance Sheets represents approximately 4% of the aggregate partnership equity at December 31, 2010 and 2009, and the related income reflected on the Consolidated Statements of Operations represents approximately 3% and 4% of the changes in partnership equity for all limited partnership investments for the years ended December 31, 2010 and 2009. The individual partnership that was the largest contributor to income in 2010 had a carrying value of \$198 million and \$165 million at December 31, 2010 and December 31, 2009 with related income of \$45 million, \$120 million, and \$(51) million for the years ended December 31, 2010, 2009, and 2008. The Company owned approximately 6% of this limited partnership at December 31, 2010.

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.

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

***Commercial Mortgage Loans***

As of December 31, 2010, the carrying value of mortgage loans was \$87 million, 40% of which are credit tenant loans where lease payments directly service the loan. Risks related to the recoverability of loan balances include declines in the estimated cash flows from underlying property leases and creditworthiness of tenants of credit tenant loan properties. The Company identifies loans for evaluation of impairment primarily based on the collection experience of each loan. As of December 31, 2010, there were no loans past due or in non-accrual status, and no valuation allowance was recorded.

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***Investment Commitments***

As of December 31, 2010, the Company had committed approximately \$182 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases and sales. The purchase and sale of these investments are recorded on the date that the legal agreements are finalized and cash settlement is made. As of December 31, 2010, the Company had commitments to purchase \$196 million and sell \$102 million of such investments.

As of December 31, 2010, the Company had mortgage loan commitments of \$12 million representing signed loan applications received and accepted. The mortgage loans are recorded once funded.

***Investments on Deposit***

Securities with carrying values of approximately \$2.9 billion and \$2.7 billion were deposited by the Company's insurance subsidiaries under requirements of regulatory authorities as of December 31, 2010 and 2009.

Cash and securities with carrying values of approximately \$6 million and \$9 million were deposited with financial institutions as collateral for letters of credit as of December 31, 2010 and 2009. In addition, cash and securities were deposited in trusts with financial institutions to secure reinsurance and other obligations with various third parties. The carrying values of these deposits were approximately \$298 million and \$311 million as of December 31, 2010 and 2009.

**Table of Contents****Note C. Derivative Financial Instruments**

A derivative is typically defined as an instrument whose value is derived from an underlying instrument, index or rate, has a notional amount, requires little or no initial investment and can be net settled. Derivatives include, but are not limited to, the following types of financial instruments: interest rate swaps, interest rate caps and floors, put and call options, warrants, futures, forwards, commitments to purchase securities, credit default swaps and combinations of the foregoing.

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

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

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

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

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

Foreign currency risk arises from the possibility that changes in foreign currency exchange rates will impact the fair value of financial instruments denominated in a foreign currency. The Company's foreign transactions are primarily denominated in 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





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

**Credit Ratings of Underlying Reference Obligations**

<b>December 31, 2010</b>	<b>Fair Value of Credit Default Swaps</b>	<b>Maximum Amount of Future Payments under Credit Default Swaps</b>	<b>Weighted Average Years to Maturity</b>
(In millions)			
BB rated	\$ 1	\$ 5	2.5
B rated	-	3	1.5
<b>Total</b>	<b>\$ 1</b>	<b>\$ 8</b>	<b>2.1</b>

**Credit Ratings of Underlying Reference Obligations**

<b>December 31, 2009</b>	<b>Fair Value of Credit Default Swaps</b>	<b>Maximum Amount of Future Payments under Credit Default Swaps</b>	<b>Weighted Average Years to Maturity</b>
(In millions)			
B rated	\$ -	\$ 8	3.1
<b>Total</b>	<b>\$ -</b>	<b>\$ 8</b>	<b>3.1</b>

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized fair value of the asset related to the instruments recognized on the Consolidated 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 \$2 million and \$7 million at December 31, 2010 and 2009. The fair value of cash collateral received from counterparties was \$1 million at December 31, 2010 and December 31, 2009.

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



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

**Recognized Gains (Losses)**

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Without hedge designation</b>			
Interest rate swaps	\$ -	\$ 61	\$ (59)
Credit default swaps purchased protection	(1)	(47)	86
Credit default swaps sold protection	-	3	(35)
Total return swaps	-	(2)	-
Futures sold, not yet purchased	-	21	(11)
Currency forwards	-	-	2
Options embedded in convertible debt securities	-	-	1
Equity warrants	-	-	(2)
Options written	-	15	-
<b>Total</b>	<b>(1)</b>	<b>51</b>	<b>(18)</b>
<b>Trading activities</b>			
Futures purchased	-	-	(131)
Futures sold, not yet purchased	(1)	(2)	1
<b>Total</b>	<b>\$ (2)</b>	<b>\$ 49</b>	<b>\$ (148)</b>

The Company's derivative activities in the trading portfolio in 2010 and 2009 are associated with a trading portfolio utilized 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 Consolidated Statements of Operations. During 2008, the Company exited the indexed group annuity portion of its pension deposit business.

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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 Consolidated Balance Sheets follows. The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and may not be representative of the potential for gain or loss on these instruments.

**Derivative Financial Instruments**

<b>December 31, 2010</b> (In millions)	<b>Contractual/ Notional Amount</b>	<b>Estimated Fair Value</b>	
		<b>Asset</b>	<b>(Liability)</b>
<b>Without hedge designation</b>			
Credit default swaps purchased protection	\$ 20	\$ -	\$ (2)
Credit default swaps sold protection	8	1	-
Currency forwards	18	-	-
Equity warrants	3	-	-
<b>Total</b>	<b>49</b>	<b>1</b>	<b>(2)</b>
<b>Trading activities</b>			
Futures sold, not yet purchased	-	-	-
<b>Total</b>	<b>\$ 49</b>	<b>\$ 1</b>	<b>\$ (2)</b>

**Derivative Financial Instruments**

<b>December 31, 2009</b> (In millions)	<b>Contractual/ Notional Amount</b>	<b>Estimated Fair Value</b>	
		<b>Asset</b>	<b>(Liability)</b>
<b>Without hedge designation</b>			
Credit default swaps purchased protection	\$ 116	\$ -	\$ (11)
Credit default swaps sold protection	8	-	-
Equity warrants	2	-	-
<b>Total</b>	<b>126</b>	<b>-</b>	<b>(11)</b>
<b>Trading activities</b>			
Futures sold, not yet purchased	132	-	-
<b>Total</b>	<b>\$ 258</b>	<b>\$ -</b>	<b>\$ (11)</b>

During the year ended December 31, 2010 new derivative transactions entered into totaled approximately \$2.4 billion in notional value while derivative termination activity totaled approximately \$2.6 billion. The activity during the year ended December 31, 2010 was primarily attributable to interest rate futures and forward commitments for mortgage-backed securities. During the year ended December 31, 2009 new derivative transactions entered into totaled approximately \$19 billion in notional value while derivative termination activity totaled approximately \$20 billion. The activity during the year ended December 31, 2009 was primarily attributable to interest rate futures,

interest rate options and interest rate swaps.

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**Note D. Fair Value**

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

Level 1 Quoted prices for identical instruments in active markets.

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

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

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

**Table of Contents****Assets and Liabilities Measured at Fair Value**

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

<b>December 31, 2010</b> (in millions)	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Assets/(Liabilities) at Fair Value</b>
<b>Assets</b>				
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	\$ 76	\$ 61	\$ -	\$ 137
Asset-backed:				
Residential mortgage-backed	-	5,323	767	6,090
Commercial mortgage-backed	-	920	73	993
Other asset-backed	-	404	359	763
<b>Total asset-backed</b>	<b>-</b>	<b>6,647</b>	<b>1,199</b>	<b>7,846</b>
States, municipalities and political subdivisions	-	7,623	266	7,889
Foreign government	115	505	-	620
Corporate and other bonds	-	20,407	624	21,031
Redeemable preferred stock	3	48	3	54
<b>Total fixed maturity securities</b>	<b>194</b>	<b>35,291</b>	<b>2,092</b>	<b>37,577</b>
Equity securities	288	126	26	440
Derivative and other financial instruments, included in Other invested assets	-	-	27	27
Short term investments	1,214	974	27	2,215
Life settlement contracts, included in Other assets	-	-	129	129
Discontinued operations investments, included in Other liabilities	11	60	-	71
Separate account business	28	381	41	450
<b>Total assets</b>	<b>\$ 1,735</b>	<b>\$ 36,832</b>	<b>\$ 2,342</b>	<b>\$ 40,909</b>
<b>Liabilities</b>				
Derivative financial instruments, included in Other liabilities	\$ -	\$ -	\$ (2)	\$ (2)
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (2)</b>	<b>\$ (2)</b>





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<b>December 31, 2009</b> (in millions)	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Assets/(Liabilities) at Fair Value</b>
<b>Assets</b>				
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	\$ 247	\$ 54	\$ -	\$ 301
Asset-backed:				
Residential mortgage-backed	-	6,308	629	6,937
Commercial mortgage-backed	-	461	123	584
Other asset-backed	-	484	348	832
<b>Total asset-backed</b>	<b>-</b>	<b>7,253</b>	<b>1,100</b>	<b>8,353</b>
States, municipalities and political subdivisions	-	6,424	756	7,180
Foreign government	139	340	-	479
Corporate and other bonds	-	18,636	609	19,245
Redeemable preferred stock	3	49	2	54
<b>Total fixed maturity securities</b>	<b>389</b>	<b>32,756</b>	<b>2,467</b>	<b>35,612</b>
Equity securities	503	130	11	644
Short term investments	3,552	397	-	3,949
Life settlement contracts, included in Other assets	-	-	130	130
Discontinued operations investments, included in Other liabilities	19	106	16	141
Separate account business	43	342	38	423
<b>Total assets</b>	<b>\$4,506</b>	<b>\$33,731</b>	<b>\$2,662</b>	<b>\$ 40,899</b>
<b>Liabilities</b>				
Derivative financial instruments, included in Other liabilities	\$ -	\$ -	\$ (11)	\$ (11)
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (11)</b>	<b>\$ (11)</b>

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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 years ended December 31, 2010 and 2009.

	Balance at January 1, 2010	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) recognized in net income*	Net change in comprehensive income	Purchases, sales, and settlements	Transfers into Level 3	Transfers out of Level 3	Balance at December 31, 2010	Unrealized gains (losses) on Level 3 assets and liabilities held at December 31, 2010 recognized in net income*
<b>Level 3</b> (in millions)								
Fixed maturity securities:								
Asset-backed:								
Residential mortgage-backed	\$ 629	\$ (10)	\$ 15	\$ 181	\$ -	\$ (48)	\$ 767	\$ (13)
Commercial mortgage-backed	123	10	13	(8)	7	(72)	73	(2)
Other asset-backed	348	6	30	30	-	(55)	359	(1)
<b>Total asset-backed</b>	<b>1,100</b>	<b>6</b>	<b>58</b>	<b>203</b>	<b>7</b>	<b>(175)</b>	<b>1,199</b>	<b>(16)</b>
States, municipalities and political subdivisions	756	-	15	(507)	2	-	266	-
Corporate and other bonds	609	9	56	45	60	(155)	624	(4)
Redeemable preferred stock	2	6	2	(7)	-	-	3	-
<b>Total fixed maturity securities</b>	<b>2,467</b>	<b>21</b>	<b>131</b>	<b>(266)</b>	<b>69</b>	<b>(330)</b>	<b>2,092</b>	<b>(20)</b>

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Equity securities	11	(4)	1	17	8	(7)	26	(5)
Derivative and other financial instruments, net	(11)	(1)	-	37	-	-	25	(1)
Short term investments	-	-	-	37	1	(11)	27	-
Life settlement contracts	130	29	-	(30)	-	-	129	10
Discontinued operations investments	16	-	1	(2)	-	(15)	-	-
Separate account business	38	-	-	3	-	-	41	-
<b>Total</b>	\$ 2,651	\$ 45	\$ 133	\$ (204)	\$ 78	\$ (363)	\$ 2,340	\$ (16)

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	Balance at January 1, 2009	Net realized investment gains (losses) and net change in unrealized appreciation (depreciation) recognized in net income*	Net change in unrealized appreciation (depreciation) other comprehensive income	Purchases, sales, issuances and settlements	Transfers into Level 3	Transfers out of Level 3	Balance at December 31, 2009	Unrealized gains (losses) on Level 3 assets and liabilities held at December 31, 2009 recognized in net income*
<b>Level 3</b> (in millions)								
Fixed maturity securities:								
Asset-backed:								
Residential mortgage-backed	\$ 782	\$ (32)	\$ 117	\$ (52)	\$ 71	\$ (257)	\$ 629	\$ (12)
Commercial mortgage-backed	186	(170)	185	(24)	28	(82)	123	(175)
Other asset-backed	139	(26)	56	180	153	(154)	348	-
Total asset-backed	1,107	(228)	358	104	252	(493)	1,100	(187)
States, municipalities and political subdivisions	750	-	72	(66)	-	-	756	-
Foreign government	6	-	-	-	-	(6)	-	-
Corporate and other bonds	616	(10)	126	75	23	(221)	609	(11)
Redeemable preferred stock	13	(9)	9	7	-	(18)	2	(9)
Total fixed maturity securities	2,492	(247)	565	120	275	(738)	2,467	(207)

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Equity securities	210	-	(1)	5	-	(203)	11	-
Derivative financial instruments, net	(87)	14	-	62	-	-	(11)	(10)
Short term investments	-	-	1	7	-	(8)	-	-
Life settlement contracts	129	34	-	(33)	-	-	130	10
Discontinued operations investments	15	(4)	7	(2)	-	-	16	-
Separate account business	38	(1)	5	(1)	-	(3)	38	-
<b>Total</b>	<b>\$ 2,797</b>	<b>\$ (204)</b>	<b>\$ 577</b>	<b>\$ 158</b>	<b>\$ 275</b>	<b>\$ (952)</b>	<b>\$ 2,651</b>	<b>\$ (207)</b>

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

Major Category of Assets and Liabilities	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 not held in a trading portfolio and fair value option financial instruments	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 of Level 3 based on the availability of observable market information used to verify pricing sources or used in pricing models. The availability of observable market information varies based on market conditions and trading volume and may cause securities to move in and out of Level 3 from reporting period to reporting period. There were no significant transfers between Level 1 and Level 2 during the year ended December 31, 2010. The Company's policy is to recognize transfers between levels at the beginning of quarterly reporting periods.

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

**Fixed Maturity Securities**

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

**Equity Securities**

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

**Derivative and Other Financial Instruments**

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

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Level 3 securities which contain embedded derivatives for which the fair value option has been elected and are priced using either broker/dealer quotes or internal models with inputs that are not market observable.

**Short Term Investments**

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

**Life Settlement Contracts**

The fair values of life settlement contracts are determined as the present value of the anticipated death benefits less anticipated premium payments based on contract terms that are distinct for each insured, as well as 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 Consolidated Balance Sheets are listed in the table below.

**Financial Assets and Liabilities**

December 31 (In millions)	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial assets</b>				
Notes receivable for the issuance of common stock	\$ 26	\$ 26	\$ 30	\$ 29
Mortgage loans	87	86	-	-
<b>Financial liabilities</b>				
Premium deposits and annuity contracts	\$ 104	\$ 105	\$ 105	\$ 106
Short term debt	400	411	-	-
Long term debt	2,251	2,376	2,303	2,290

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

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

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

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

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



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

**Table of Contents****Note E. Income Taxes**

The CNA Tax Group is included in the consolidated federal income tax return of Loews and its eligible subsidiaries. Loews and the Company have agreed that for each taxable year, the Company will 1) be paid by Loews the amount, if any, by which the Loews consolidated federal income tax liability is reduced by virtue of the inclusion of the CNA Tax Group in the Loews consolidated federal income tax return, or 2) pay to Loews an amount, if any, equal to the federal income tax that would have been payable by the CNA Tax Group filing a separate consolidated tax return. In the event that Loews should have a net operating loss in the future computed on the basis of filing a separate consolidated tax return without the CNA Tax Group, the Company may be required to repay tax recoveries previously received from Loews. This agreement may be cancelled by either party upon 30 days written notice.

For the years ended December 31, 2010 and 2009, the Company received from Loews \$298 million and \$196 million related to federal income taxes. For the year ended December 31, 2008, the Company paid Loews \$65 million related to federal income taxes. As of December 31, 2010 and 2009, Other assets on the Consolidated Balance Sheets include \$139 million and \$320 million recoverable from Loews related to tax balances.

For 2008 through 2010, the IRS invited Loews and the Company to participate in the Compliance Assurance Process (CAP), which is a voluntary program for a limited number of large corporations. Under CAP, the IRS conducts a real time audit and works contemporaneously with the Company to resolve any issues prior to the filing of the tax return. Loews and the Company agreed to participate. The Company believes that this approach should reduce tax-related uncertainties, if any. The Loews consolidated federal income tax return for 2009 is currently under examination by the IRS.

At December 31, 2010 and 2009, there is no unrecognized tax benefit.

The Company recognizes interest accrued related to: 1) unrecognized tax benefits in Interest expense and 2) tax refund claims in Other revenues on the Consolidated Statements of Operations. The Company recognizes penalties (if any) in Income tax (expense) benefit on the Consolidated Statements of Operations. During 2009, the Company recognized \$2 million of interest income and no penalties. During 2010 and 2008, the Company recognized no interest and no penalties. There are no amounts accrued for interest or penalties at December 31, 2010 and 2009.

A reconciliation between the Company's federal income tax (expense) benefit at statutory rates and the recorded income tax (expense) benefit, excluding discontinued operations, is as follows.

**Tax Reconciliation**

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Income tax (expense) benefit at statutory rates	\$ (389)	\$ (189)	\$ 198
Tax benefit from tax exempt income	84	119	118
Foreign taxes and credits	(25)	19	(2)
Other tax expense, including IRS settlements	(3)	(6)	(3)
<b>Effective income tax (expense) benefit</b>	<b>\$ (333)</b>	<b>\$ (57)</b>	<b>\$ 311</b>

Provision has been made for the expected U.S. federal income tax liabilities applicable to undistributed earnings of subsidiaries, except for certain subsidiaries for which the Company intends to invest the undistributed earnings indefinitely, or recover such undistributed earnings tax-free. At December 31, 2010, the Company has not provided deferred taxes of \$209 million, if sold through a taxable sale, on \$598 million of undistributed earnings related to a domestic affiliate. Additionally, at December 31, 2010, the Company has not provided deferred taxes of \$3 million on \$9 million of undistributed earnings related to foreign subsidiaries.

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The current and deferred components of the Company's income tax (expense) benefit, excluding taxes on discontinued operations, are as follows.

**Current and Deferred Taxes**

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Current tax (expense) benefit	\$ (6)	\$ 120	\$ 137
Deferred tax (expense) benefit	(327)	(177)	174
<b>Total income tax (expense) benefit</b>	<b>\$ (333)</b>	<b>\$ (57)</b>	<b>\$ 311</b>

Total income tax presented above includes foreign tax expense of approximately \$50 million, \$39 million and \$26 million related to income from continuing foreign operations of approximately \$91 million, \$126 million and \$85 million for the years ended December 31, 2010, 2009 and 2008.

The deferred tax effects of the significant components of the Company's deferred tax assets and liabilities are set forth in the table below.

**Components of Net Deferred Tax Asset**

<b>December 31</b> (In millions)	<b>2010</b>	<b>2009</b>
<b>Deferred Tax Assets:</b>		
Insurance reserves:		
Property and casualty claim and claim adjustment expense reserves	\$ 525	\$ 606
Unearned premium reserves	127	111
Receivables	95	185
Employee benefits	258	279
Life settlement contracts	64	72
Investment valuation differences	70	316
Net loss and tax credits carried forward	84	56
Other assets	124	153
<b>Gross deferred tax assets</b>	<b>1,347</b>	<b>1,778</b>
<b>Deferred Tax Liabilities:</b>		
Deferred acquisition costs	284	297
Net unrealized gains	314	5
Other liabilities	82	143
<b>Gross deferred tax liabilities</b>	<b>680</b>	<b>445</b>
<b>Net deferred tax asset</b>	<b>\$ 667</b>	<b>\$ 1,333</b>

At December 31, 2010, the CNA Tax Group has loss carryforwards of approximately \$90 million which expire in 2014 and 2030, and tax credit carryforwards of \$53 million of which \$49 million expire in 2019 and 2020.

Although realization of deferred tax assets is not assured, management believes it is more likely than not that the recognized net deferred tax asset will be realized through recoupment of ordinary and capital taxes paid in prior carryback years and through future earnings, reversal of existing temporary differences and available tax planning strategies. As a result, no valuation allowance was recorded at December 31, 2010 or 2009.

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**Note F. Claim and Claim Adjustment Expense Reserves**

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

Establishing claim and claim adjustment expense reserves, including claim and claim adjustment expense reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the cost of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims, such as property damage claims, tend to be more reasonably estimable than long-tail claims, such as workers' compensation, general liability and professional liability claims. Adjustments to prior year reserve estimates, if necessary, are reflected in the results of operations in the period that the need for such adjustments is determined. There can be no assurance that the Company's ultimate cost for insurance losses will not exceed current estimates.

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company's results of operations and/or equity. The Company reported catastrophe losses, net of reinsurance, of \$121 million, \$89 million and \$358 million for the years ended December 31, 2010, 2009 and 2008 for events occurring in those years. Catastrophe losses in 2010 related primarily to wind and thunderstorms.

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The table below provides a reconciliation between beginning and ending claim and claim adjustment expense reserves, including claim and claim adjustment expense reserves of the life company.

**Reconciliation of Claim and Claim Adjustment Expense Reserves**

<b>As of and for the years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Reserves, beginning of year:			
Gross	\$26,816	\$27,593	\$28,588
Ceded	5,594	6,288	7,056
Net reserves, beginning of year	21,222	21,305	21,532
Reduction of net reserves due to the Loss Portfolio Transfer transaction	(1,381)	-	-
Reduction of net reserves due to sale of subsidiary	(98)	-	-
Net incurred claim and claim adjustment expenses:			
Provision for insured events of current year	4,741	4,793	5,193
Decrease in provision for insured events of prior years	(544)	(240)	(5)
Amortization of discount	123	122	123
Total net incurred (a)	4,320	4,675	5,311
Net payments attributable to:			
Current year events	908	917	1,034
Prior year events	3,776	3,939	4,318
Total net payments	4,684	4,856	5,352
Foreign currency translation adjustment	(5)	98	(186)
Net reserves, end of year	19,374	21,222	21,305
Ceded reserves, end of year	6,122	5,594	6,288
<b>Gross reserves, end of year</b>	<b>\$25,496</b>	<b>\$26,816</b>	<b>\$27,593</b>

(a) Total net incurred above does not agree to Insurance claims and policyholders' benefits as reflected on the Consolidated Statements of Operations due to expenses incurred related to uncollectible reinsurance and loss

deductible receivables, and benefit expenses related to future policy benefits and policyholders' funds, which are not reflected in the table above.

The changes in provision for insured events of prior years (net prior year claim and claim adjustment expense reserve development) were as follows.

**Reserve Development**

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Core (Non-A&EP)	\$ (545)	\$ (396)	\$ (117)
A&EP	-	155	110
Property and casualty reserve development	(545)	(241)	(7)
Life reserve development in life company	1	1	2
<b>Total</b>	<b>\$ (544)</b>	<b>\$ (240)</b>	<b>\$ (5)</b>

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The following tables summarize the gross and net carried reserves as of December 31, 2010 and 2009.

**December 31, 2010****Gross and Net Carried****Claim and Claim Adjustment Expense Reserves**

	<b>CNA Specialty</b>	<b>CNA Commercial</b>	<b>Life &amp; Group Non-Core</b>	<b>Corporate &amp; Other Non-Core</b>	<b>Total</b>
(In millions)					
Gross Case Reserves	\$ 2,341	\$ 6,390	\$ 2,403	\$ 1,430	\$ 12,564
Gross IBNR Reserves	4,452	6,132	336	2,012	12,932
<b>Total Gross Carried Claim and Claim Adjustment Expense Reserves</b>	<b>\$ 6,793</b>	<b>\$ 12,522</b>	<b>\$ 2,739</b>	<b>\$ 3,442</b>	<b>\$ 25,496</b>
Net Case Reserves	\$ 1,992	\$ 5,349	\$ 1,831	\$ 461	\$ 9,633
Net IBNR Reserves	3,926	5,292	266	257	9,741
<b>Total Net Carried Claim and Claim Adjustment Expense Reserves</b>	<b>\$ 5,918</b>	<b>\$ 10,641</b>	<b>\$ 2,097</b>	<b>\$ 718</b>	<b>\$ 19,374</b>

**December 31, 2009****Gross and Net Carried****Claim and Claim Adjustment Expense Reserves**

	<b>CNA Specialty</b>	<b>CNA Commercial</b>	<b>Life &amp; Group Non-Core</b>	<b>Corporate &amp; Other Non-Core</b>	<b>Total</b>
(In millions)					
Gross Case Reserves	\$ 2,208	\$ 6,555	\$ 2,502	\$ 1,503	\$ 12,768
Gross IBNR Reserves	4,714	6,688	381	2,265	14,048
<b>Total Gross Carried Claim and Claim Adjustment Expense Reserves</b>	<b>\$ 6,922</b>	<b>\$ 13,243</b>	<b>\$ 2,883</b>	<b>\$ 3,768</b>	<b>\$ 26,816</b>
Net Case Reserves	\$ 1,781	\$ 5,306	\$ 1,765	\$ 935	\$ 9,787
Net IBNR Reserves	4,085	5,691	255	1,404	11,435
<b>Total Net Carried Claim and Claim Adjustment Expense Reserves</b>	<b>\$ 5,866</b>	<b>\$ 10,997</b>	<b>\$ 2,020</b>	<b>\$ 2,339</b>	<b>\$ 21,222</b>



***A&EP Reserves***

On August 31, 2010, CCC together with several of the Company's insurance subsidiaries completed a transaction with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., under which substantially all of the Company's legacy A&EP liabilities were ceded to NICO.

Under the terms of the NICO transaction, effective January 1, 2010 the Company ceded approximately \$1.6 billion of net A&EP claim and allocated claim adjustment expense reserves to NICO under a retroactive reinsurance agreement with an aggregate limit of \$4 billion (Loss Portfolio Transfer). Included in the \$1.6 billion of net A&EP claim and allocated claim adjustment expense reserves was approximately \$90 million of net claim and allocated claim adjustment expense reserves relating to the Company's discontinued operations. The \$1.6 billion of claim and allocated claim adjustment expense reserves ceded to NICO is net of \$1.2 billion of ceded claim and allocated claim adjustment expense reserves under existing third party reinsurance contracts. The NICO aggregate reinsurance limit also covers credit risk on the existing third party reinsurance related to these liabilities.

The Company paid NICO a reinsurance premium of \$2 billion and transferred to NICO billed third party reinsurance receivables related to A&EP claims with a net book value of \$215 million (net of an allowance of \$100 million for uncollectible reinsurance receivables on billed third party reinsurance receivables, as discussed further below). As of August 31, 2010, NICO deposited approximately \$2.2 billion in a collateral trust account as security for its obligations to the Company. This \$2.2 billion will be reduced by the amount of net A&EP claim and allocated claim adjustment expense payments. In addition, Berkshire Hathaway Inc. guaranteed the payment obligations of NICO up to the full aggregate reinsurance limit as well as certain of NICO's

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performance obligations under the trust agreement. NICO is responsible for claims handling and billing and collection from third party reinsurers related to the Company's A&EP claims.

The following table displays the impact of the Loss Portfolio Transfer on the Consolidated Statement of Operations.

**Impact on Consolidated Statement of Operations**

	<b>2010</b>
(In millions)	
Other operating expenses	\$ 529
Income tax benefit	185
Loss from continuing operations, included in the Corporate & Other Non-Core segment	(344)
Loss from discontinued operations	(21)
<b>Net loss attributable to CNA</b>	<b>\$ (365)</b>

In connection with the transfer of billed third party reinsurance receivables related to A&EP claims and the coverage of credit risk afforded under the terms of the Loss Portfolio Transfer, the Company reduced its allowance for uncollectible reinsurance receivables on billed third party reinsurance receivables and ceded claim and allocated claim adjustment expense reserves by \$200 million. This reduction is reflected in Other operating expenses presented above. In its most recent actuarial ground up review of pollution exposure completed in the fourth quarter of 2010, the Company noted adverse development in various pollution accounts due to increases in average account severity. As a result of this review, the Company recorded \$80 million of gross unfavorable pollution-related claim and claim adjustment expense reserve development for the year ended December 31, 2010, which has been ceded under the Loss Portfolio Transfer resulting in no net prior year development. The gross A&EP claim and allocated claim adjustment expense reserves ceded under the Loss Portfolio Transfer and other existing third party reinsurance agreements were \$2.5 billion at December 31, 2010. The remaining amount available under the \$4 billion aggregate limit of the Loss Portfolio Transfer was \$2.3 billion on an incurred basis at December 31, 2010. The net ultimate losses paid under the Loss Portfolio Transfer were \$154 million through December 31, 2010.

The Loss Portfolio Transfer is considered a retroactive reinsurance contract. In the event that the cumulative claim and allocated claim adjustment expenses ceded under the Loss Portfolio Transfer exceed the consideration paid, the resulting gain from such excess would be deferred. A cumulative amortization adjustment would be recognized in earnings in the period such excess arises so that the resulting deferred gain would reflect the balance that would have existed if the revised estimate was available at the inception date of the Loss Portfolio Transfer.

**Net Prior Year Development**

Changes in estimates of claim and allocated claim adjustment expense reserves and premium accruals, net of reinsurance, for prior years are defined as net prior year development. These changes can be favorable or unfavorable. The following tables and discussion include the net prior year development recorded for CNA Specialty, CNA Commercial and Corporate & Other Non-Core segments for the years ended December 31, 2010, 2009 and 2008. The net prior year development presented below includes premium development due to its direct relationship to claim and claim adjustment expense reserve development. The net prior year development presented below includes the impact of commutations and write-offs, but excludes the impact of increases or decreases in the allowance for uncollectible reinsurance. See Note H for further discussion of the provision for uncollectible reinsurance.

Favorable net prior year development of \$2 million and \$53 million was recorded in the Life & Group Non-Core segment for the years ended December 31, 2010 and 2009, and unfavorable net prior year development of \$15 million was recorded for the year ended December 31, 2008. Included in the 2009 favorable development is the impact of a settlement reached in 2009 with Willis Limited that resolved litigation related to the placement of personal accident

reinsurance between 1997 and 1999. Under this settlement agreement, Willis

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Limited agreed to pay the Company a total of \$130 million, which is reported as a loss recovery of \$94 million, net of reinsurance.

**2010 Net Prior Year Development**

(In millions)	CNA Specialty	CNA Commercial	Corporate & Other Non- Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&EP)	\$ (341)	\$ (304)	\$ 8	\$ (637)
A&EP	-	-	-	-
Pretax (favorable) unfavorable net prior year development before impact of premium development	(341)	(304)	8	(637)
Pretax (favorable) unfavorable premium development	(3)	48	(2)	43
<b>Total pretax (favorable) unfavorable net prior year development</b>	<b>\$ (344)</b>	<b>\$ (256)</b>	<b>\$ 6</b>	<b>\$ (594)</b>

**2009 Net Prior Year Development**

(In millions)	CNA Specialty	CNA Commercial	Corporate & Other Non- Core	Total
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&EP)	\$ (218)	\$ (230)	\$ 4	\$ (444)
A&EP	-	-	155	155
Pretax (favorable) unfavorable net prior year development before impact of premium development	(218)	(230)	159	(289)
Pretax (favorable) unfavorable premium development	(6)	87	-	81
<b>Total pretax (favorable) unfavorable net prior year development</b>	<b>\$ (224)</b>	<b>\$ (143)</b>	<b>\$ 159</b>	<b>\$ (208)</b>

**2008 Net Prior Year Development**

(In millions)	<b>CNA Specialty</b>	<b>CNA Commercial</b>	<b>Corporate &amp; Other Non- Core</b>	<b>Total</b>
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&EP)	\$ (97)	\$ (102)	\$ 14	\$ (185)
A&EP	-	-	110	110
Pretax (favorable) unfavorable net prior year development before impact of premium development	(97)	(102)	124	(75)
Pretax (favorable) unfavorable premium development	(9)	5	(1)	(5)
<b>Total pretax (favorable) unfavorable net prior year development</b>	<b>\$ (106)</b>	<b>\$ (97)</b>	<b>\$ 123</b>	<b>\$ (80)</b>

**Table of Contents****CNA Specialty**

The following table provides further detail of the net prior year claim and allocated claim adjustment expense reserve development (development) recorded for the CNA Specialty segment for the years ended December 31, 2010, 2009 and 2008.

<b>Years Ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:			
Medical Professional Liability	\$ (98)	\$ (62)	\$ (28)
Other Professional Liability	(129)	(98)	(3)
Surety	(103)	(51)	(36)
Warranty	-	-	(9)
Other	(11)	(7)	(21)
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	\$ (341)	\$ (218)	\$ (97)

**2010**

Favorable development for medical professional liability was primarily due to lower than expected frequency of large losses, primarily in accident years 2007 and prior, partially offset by unfavorable development in accident years 2008 and 2009 due to increased frequency of large losses related to medical products.

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

Favorable development for surety coverages was primarily due to a decrease in the estimated loss on a large national contractor in accident year 2005 and lower than expected claim emergence in accident years 2008 and prior.

**2009**

Favorable development 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 and favorable changes on individually reviewed accounts.

Favorable development for other professional liability was primarily in financial institutions, accountants and lawyers, directors & officers, and life agents coverages. For financial institutions, favorable development was due to favorable experience on a number of large claims in accident years 2003 and prior and decreased frequency of large claims in accident years 2007 and prior. Favorable development in accountants and lawyers was due to better than expected large claim frequency in accident years 2004 through 2006. Favorable development in directors & officers and life agents coverages was due to lower than expected large claim frequency. Additionally, favorable development in the Company's European affiliate was primarily due to favorable emergence relative to expectations in non-financial directors & officers and errors & omissions coverages.

Favorable development for surety coverages was driven by claim activity substantially below expectations, primarily in accident years 2004 through 2007.

**2008**

Favorable development for medical professional liability was primarily due to better than expected frequency of large losses in accident years 2005 and 2006 for health care facilities and medical technology firms.

Favorable development was recorded for other professional liability, primarily in financial institutions within the Company's European affiliate due to decreased severity in accident year 2006 and prior, and in small

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accounting firms related to favorable outcomes on individual claims in accident years 2004 through 2006. Additionally, unfavorable development was recorded related to other professional liability, primarily reflecting an increase in the frequency of large claims related to large law firms in accident years 1998 through 2005 and fidelity claims in accident year 2007.

Favorable development for surety coverages was due to better than expected frequency in accident years 2002 through 2006.

Other favorable development related to HealthPro property coverages and was due to lower frequency of claims in accident years 2004 through 2007.

**CNA Commercial**

The following table provides further detail of the net prior year claim and allocated claim adjustment expense reserve development (development) recorded for the CNA Commercial segment for the years ended December 31, 2010, 2009 and 2008.

<b>Years Ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:			
Commercial Auto	\$ (88)	\$ (9)	\$ 21
General Liability	(59)	(100)	(444)
Workers Compensation	47	69	487
Property and Other	(204)	(190)	(166)
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	\$ (304)	\$ (230)	\$ (102)

**2010**

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

Favorable development for general liability and umbrella coverages was primarily due to better than expected loss emergence in accident years 2006 and prior. Unfavorable development was primarily driven by increased claim frequency in accident years 2004 and prior for excess workers compensation and in accident years 2008 and 2009 for a portion of the Company's primary casualty surplus lines book. Unfavorable development was also recorded for accident years prior to 2001 related to mass tort claims primarily as a result of increased defense costs on specific mass tort accounts, including amounts related to unallocated claim adjustment expenses.

Unfavorable development in workers compensation was related to increased severity of indemnity losses relative to expectations on claims related to Defense Base Act contractors primarily in accident years 2008 and prior.

Favorable development was recorded for property and marine coverages. Favorable development on catastrophe claims was due to lower than expected incurred loss emergence, primarily in accident years 2008 and 2009. Favorable non-catastrophe development was due to lower than expected severity in accident years 2009 and prior. Favorable development in marine business was primarily due to decreased claim frequency and favorable cargo salvage recoveries in recent accident years as well as lower than expected severity for excess liability in accident years 2005 and prior. Favorable property and marine development in the Company's European operation was due to lower than expected frequency of large claims primarily in accident year 2009.

In addition to the net prior year claim and allocated claim adjustment expense reserve development discussed above, the Company recorded premium development due to changes in ultimate premium estimates relating to retrospectively rated policies and premium changes on policies with auditable exposure.





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Favorable development was recorded in auto coverages, primarily driven by decreased frequency in the Company's Hawaiian affiliate.

Favorable development was recorded for general liability coverages. Favorable development in construction defect exposures was due to decreased frequency and severity trends in accident years 2003 and prior. Favorable development in non-construction defect exposures was primarily due to claims closing favorable to expectations in accident years 2006 and prior. Favorable development in our Canadian affiliate's casualty programs was primarily driven by severity emerging favorable to prior expectations. Unfavorable development was recorded due to higher than anticipated litigation costs related to mass tort exposures, primarily in accident years 1997 and prior.

Unfavorable workers' compensation development was due to increased paid and incurred severity primarily in the small and middle markets businesses in accident years 2004, 2007 and 2008. Unfavorable development was recorded related to increased severity of indemnity losses relative to expectations on workers' compensation claims related to Defense Base Act contractors primarily in accident years 2004 through 2008.

Favorable development was recorded for property coverages. Favorable catastrophe development was driven by the favorable settlement of several claims primarily in accident years 2005 and 2007, and better than expected frequency and severity on claims in accident year 2008. Favorable non-catastrophe development primarily related to large property and marine coverages in accident years 2007 and 2008. Favorable development was recorded in the Company's European affiliate's property, cargo, and personal accident and travel businesses driven by both frequency and severity emerging favorably to prior expectations, particularly in accident years 2007 and 2008.

In addition to the net prior year claim and allocated claim adjustment expense reserve development discussed above, the Company recorded unfavorable premium development related to changes in estimated ultimate premium on retrospectively rated coverages, an estimated liability for an assessment related to a reinsurance association driven by large workers' compensation policies, and less premium processing on auditable policies due to reduced exposures in the current economic environment.

**2008**

Favorable development was recorded for general liability coverages. Favorable development in 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. Claim 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. Lower construction defect frequency is due to underwriting initiatives designed to limit the exposure to future construction defect claims. Favorable development in non-construction defect exposures 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 in an excess and surplus program covering facilities that provide services to developmentally disabled individuals was primarily due to decreased frequency and severity of claims in accident years 2000 through 2004. Unfavorable development for 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.

Unfavorable development was recorded for workers' compensation primarily due to 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 for large account business was also driven by workers' compensation claim cost inflation primarily in accident years 2001 and prior.

In 2008, the amount due from policyholders related to losses under deductible policies within CNA Commercial was reduced for insolvent insureds. The reduction, which was reflected as unfavorable development, had no effect on 2008 results of operations as the Company had previously recognized provisions in prior years. These impacts were reported in Insurance claims and policyholders' benefits in the 2008 Consolidated Statement of Operations.

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Favorable development was recorded in property coverages primarily due to decreased frequency and severity in recent years, including favorable outcomes on claims relating to catastrophes primarily in accident year 2005.

**Corporate & Other Non-Core**

**2009**

Unfavorable development was recorded related to asbestos. The Company noted adverse development in various asbestos accounts due to increases in average claim severity and defense expense arising from increased trial activity. Additionally, the Company has not seen a decline in the overall emergence of new accounts during the last few years. Unfavorable development was recorded related to environmental pollution. The Company noted adverse development in various pollution accounts due to changes in the liabilities attributed to our policyholders and adverse changes in case law impacting insurers' coverage obligations. These changes in turn increased the Company's account estimates on certain accounts. In addition, the frequency of environmental pollution claims did not decline at the rate previously anticipated.

**2008**

Unfavorable development was recorded related to environmental pollution. The Company noted adverse development in various pollution accounts due to changes in liability and/or coverage circumstances. These changes in turn increased the Company's estimates for incurred but not reported claims. In addition, unfavorable development was recorded related to commutations of ceded reinsurance arrangements. This unfavorable development was substantially offset by a release of a previously established allowance for uncollectible reinsurance.

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**Note G. Legal Proceedings and Contingent Liabilities**

***Insurance Brokerage Antitrust Litigation***

In August 2005, CNAF and certain insurance subsidiaries were joined as defendants, along with other insurers and brokers, in multidistrict litigation pending in the United States District Court for the District of New Jersey, In re Insurance Brokerage Antitrust Litigation, Civil No. 04-5184 (GEB). The plaintiffs' consolidated class action complaint alleges 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 appealed the dismissal of their complaint to the Third Circuit Court of Appeals. In August 2010, the Court of Appeals affirmed the District Court's dismissal of the antitrust claims and the RICO claims against CNAF and certain insurance subsidiaries, but vacated the dismissal of those claims against other parties. The Court of Appeals also vacated and remanded the dismissal of the state law claims against CNAF and certain insurance subsidiaries and other parties to allow for further proceedings before the District Court. During the fourth quarter of 2010, CNAF and certain insurance subsidiaries filed a motion to dismiss the state law claims. 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.

***Other Litigation***

The Company is also a party to routine litigation incidental to its business, which, based on the facts and circumstances currently known, is not material to the business or financial condition of the Company.

**Table of Contents****Note H. Reinsurance**

The Company cedes insurance to reinsurers to limit its maximum loss, provide greater diversification of risk, minimize exposures on larger risks and to exit certain lines of business. The ceding of insurance does not discharge the primary liability of the Company. Therefore, a credit exposure exists with respect to property and casualty and life reinsurance ceded to the extent that any reinsurer is unable to meet its obligations or to the extent that the reinsurer disputes the liabilities assumed under reinsurance agreements. Property and casualty reinsurance coverages are tailored to the specific risk characteristics of each product line and the Company's retained amount varies by type of coverage. Reinsurance contracts are purchased to protect specific lines of business such as property and workers compensation. Corporate catastrophe reinsurance is also purchased for property and workers' compensation exposure. Currently most reinsurance contracts are purchased on an excess of loss basis. The Company also utilizes facultative reinsurance in certain lines. In addition, the Company assumes reinsurance as a member of various reinsurance pools and associations.

The following table summarizes the amounts receivable from reinsurers at December 31, 2010 and 2009.

**Components of Reinsurance Receivables**

<b>December 31</b> (In millions)	<b>2010</b>	<b>2009</b>
Reinsurance receivables related to insurance reserves:		
Ceded claim and claim adjustment expenses	\$ 6,122	\$ 5,594
Ceded future policy benefits	822	859
Ceded policyholders' funds	37	39
Reinsurance receivables related to paid losses	223	440
<b>Reinsurance receivables</b>	<b>7,204</b>	<b>6,932</b>
Allowance for uncollectible reinsurance	(125)	(351)
<b>Reinsurance receivables, net of allowance for uncollectible reinsurance</b>	<b>\$ 7,079</b>	<b>\$ 6,581</b>

The Company has established an allowance for uncollectible reinsurance receivables. In 2010, the Company reduced its allowance for uncollectible reinsurance receivables on billed third party reinsurance receivables and ceded claim and allocated claim adjustment expense reserves by \$200 million in connection with the Loss Portfolio Transfer as further discussed in Note F. The impact of this reduction was included in the loss recorded on the Loss Portfolio Transfer in Other operating expenses on the Consolidated Statement of Operations. The additional reduction in the allowance during 2010 primarily related to write-offs of reinsurance receivable balances and was presented as a component of Insurance claims and policyholders' benefits on the Consolidated Statement of Operations.

The Company attempts to mitigate its credit risk related to reinsurance by entering into reinsurance arrangements with reinsurers that have credit ratings above certain levels and by obtaining collateral. The primary methods of obtaining collateral are through reinsurance trusts, letters of credit and funds withheld balances. Such collateral was approximately \$4.0 billion and \$1.9 billion at December 31, 2010 and 2009. On a more limited basis, the Company may enter into reinsurance agreements with reinsurers that are not rated, primarily captive reinsurers.

The Company's largest recoverables from a single reinsurer at December 31, 2010, including prepaid reinsurance premiums, were approximately \$2.8 billion from subsidiaries of Berkshire Hathaway Group, \$1.1 billion from subsidiaries of Swiss Re Group, \$600 million from subsidiaries of Munich Re Group and \$450 million from subsidiaries of the Hartford Insurance Group. The recoverable from the Berkshire Hathaway Group includes amounts related to third party reinsurance for which a subsidiary of Berkshire Hathaway has assumed the credit risk under the terms of the Loss Portfolio Transfer as discussed in Note F.



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The effects of reinsurance on earned premiums and written premiums for the years ended December 31, 2010, 2009 and 2008 are shown in the following tables.

**Components of Earned Premiums**

(In millions)	Direct	Assumed	Ceded	Net	Assumed/ Net %
<b>2010 Earned Premiums</b>					
Property and casualty	\$ 7,716	\$ 66	\$ 1,849	\$ 5,933	1.1%
Accident and health	534	49	2	581	8.4
Life	60	-	59	1	-
<b>Total earned premiums</b>	<b>\$ 8,310</b>	<b>\$ 115</b>	<b>\$ 1,910</b>	<b>\$ 6,515</b>	<b>1.8%</b>
<b>2009 Earned Premiums</b>					
Property and casualty	\$ 8,028	\$ 67	\$ 1,968	\$ 6,127	1.1%
Accident and health	550	51	7	594	8.6
Life	84	-	84	-	-
<b>Total earned premiums</b>	<b>\$ 8,662</b>	<b>\$ 118</b>	<b>\$ 2,059</b>	<b>\$ 6,721</b>	<b>1.8%</b>
<b>2008 Earned Premiums</b>					
Property and casualty	\$ 8,496	\$ 164	\$ 2,121	\$ 6,539	2.5%
Accident and health	593	46	28	611	7.5
Life	99	-	98	1	-
<b>Total earned premiums</b>	<b>\$ 9,188</b>	<b>\$ 210</b>	<b>\$ 2,247</b>	<b>\$ 7,151</b>	<b>2.9%</b>

**Components of Written Premiums**

(In millions)	Direct	Assumed	Ceded	Net	Assumed/ Net %
<b>2010 Written Premiums</b>					
Property and casualty	\$ 7,673	\$ 77	\$ 1,853	\$ 5,897	1.3%
Accident and health	527	48	2	573	8.4
Life	60	-	59	1	-
<b>Total written premiums</b>	<b>\$ 8,260</b>	<b>\$ 125</b>	<b>\$ 1,914</b>	<b>\$ 6,471</b>	<b>1.9%</b>

**2009 Written Premiums**

Property and casualty	\$ 7,981	\$ 66	\$ 1,916	\$ 6,131	1.1%
Accident and health	539	50	6	583	8.6
Life	83	-	83	-	-

<b>Total written premiums</b>	<b>\$ 8,603</b>	<b>\$ 116</b>	<b>\$ 2,005</b>	<b>\$ 6,714</b>	<b>1.7%</b>
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**2008 Written Premiums**

Property and casualty	\$ 8,413	\$ 182	\$ 2,109	\$ 6,486	2.8%
Accident and health	572	51	18	605	8.4
Life	70	-	69	1	-

<b>Total written premiums</b>	<b>\$ 9,055</b>	<b>\$ 233</b>	<b>\$ 2,196</b>	<b>\$ 7,092</b>	<b>3.3%</b>
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Included in the direct and ceded earned premiums for the years ended December 31, 2010, 2009 and 2008 are \$1,383 million, \$1,385 million and \$1,326 million related to business that is 100% reinsured as a result of a significant captive program.

Life and accident and health premiums are primarily from long duration contracts; property and casualty premiums are primarily from short duration contracts.

Insurance claims and policyholders' benefits reported on the Consolidated Statements of Operations are net of reinsurance recoveries of \$1,121 million, \$1,297 million and \$1,781 million for the years ended December 31,



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2010, 2009 and 2008, including \$735 million, \$897 million and \$893 million related to the significant captive program discussed above.

The impact of reinsurance on life insurance inforce at December 31, 2010, 2009 and 2008 is shown in the following table.

**Components of Life Insurance Inforce**

(In millions)	<b>Direct</b>	<b>Assumed</b>	<b>Ceded</b>	<b>Net</b>
2010	\$ 8,015	\$ -	\$ 8,001	\$ 14
2009	\$ 9,159	\$ -	\$ 9,144	\$ 15
2008	\$ 10,805	\$ -	\$ 10,790	\$ 15

As of December 31, 2010 and 2009, the Company has ceded \$1,301 million and \$1,409 million of claim and claim adjustment expense reserves, future policy benefits and policyholders funds as a result of business operations sold in prior years. Subject to certain exceptions, the purchasers assumed the credit risk of the sold business that was primarily reinsured to other carriers.

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Debt is composed of the following obligations.

**Debt**

<b>December 31</b> (In millions)	<b>2010</b>	<b>2009</b>
Short-term debt:		
Senior notes:		
6.000%, face amount of \$400, due August 15, 2011	\$ 399	\$ -
Other debt, 6.53%, due in 2011	1	-
 Total short-term debt	 400	 -
 Long-term debt:		
Variable rate debt:		
Credit Facility variable rate and term, due August 1, 2012	-	150
Debenture CNA Surety, face amount of \$31, due April 29, 2034	31	31
 Senior notes:		
6.000%, face amount of \$400, due August 15, 2011	-	399
8.375%, face amount of \$70, due August 15, 2012	69	69
5.850%, face amount of \$549, due December 15, 2014	548	547
6.500%, face amount of \$350, due August 15, 2016	347	347
6.950%, face amount of \$150, due January 15, 2018	149	149
7.350%, face amount of \$350, due November 15, 2019	348	347
5.875%, face amount of \$500, due August 15, 2020	495	-
Debenture, 7.250%, face amount of \$243, due November 15, 2023	241	241
Other debt, 1.000%-6.530%, due through 2019	23	23
 Total long-term debt	 2,251	 2,303
 <b>Total debt</b>	 <b>\$ 2,651</b>	 <b>\$ 2,303</b>

In August of 2010, the Company issued \$500 million of 5.875% ten-year senior notes in a public offering.

On August 1, 2007, the Company entered into a credit agreement with a syndicate of banks and other lenders. The credit agreement established a \$250 million senior unsecured revolving credit facility which is intended to be used for general corporate purposes. Borrowings under the revolving credit facility bear interest at the London Interbank Offered Rate (LIBOR) plus the Company's credit risk spread. Under the credit agreement, the Company is required to pay certain fees, including a facility fee and a utilization fee, both of which would adjust automatically in the event of a change in the Company's financial ratings. The credit agreement includes covenants regarding maintenance of a minimum consolidated net worth and a specified ratio of consolidated indebtedness to consolidated total capitalization. The outstanding amount due under this credit agreement as of December 31, 2009 was repaid during 2010, leaving the full limit of \$250 million available as of December 31, 2010.

The Company's remaining debt obligations contain customary covenants for investment grade insurers. The Company is in compliance with all covenants as of December 31, 2010.

The combined aggregate maturities for debt at December 31, 2010 are presented in the following table.

**Maturity of Debt**

(In millions)

2011	\$ 400
2012	70
2013	-
2014	549
2015	1
Thereafter	1,646
Less discount	(15)
<b>Total</b>	<b>\$ 2,651</b>

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In February of 2011, the Company issued \$400 million of 5.75% senior notes due August 15, 2021 in a public offering. Subsequently, the Company announced the redemption of the outstanding \$400 million aggregate principal amount of 6.00% senior notes due August 15, 2011, plus accrued and unpaid interest thereon, and other required payments. The Company anticipates the redemption to be completed on or about March 18, 2011.

**Note J. Benefit Plans**

***Pension and Postretirement Health Care and Life Insurance Benefit Plans***

CNA sponsors noncontributory pension plans, primarily through the CNA Retirement Plan, typically covering full-time employees age 21 and over that have completed at least one year or 1,000 hours of service.

Effective January 1, 2000, the CNA Retirement Plan was closed to new participants. Existing participants at that time were given a choice to either continue to accrue benefits under the CNA Retirement Plan or to cease accruals at December 31, 1999. Employees who chose to continue to accrue benefits under the plan will receive a benefit based on their years of credited service and highest 60 months of compensation at termination. Compensation is defined as regular salary, eligible bonuses and overtime. Employees who elected to cease accruals at December 31, 1999 received the present value of their accrued benefit in an accrued pension account that is credited with interest based on the annual rate of interest on 30-year Treasury securities. These employees also receive certain enhanced employer contributions in the CNA Savings and Capital Accumulation Plan.

CNA's funding policy for defined benefit pension plans is to make contributions in accordance with applicable governmental regulatory requirements with consideration of the funded status of the plans.

CNA provides certain health care and life insurance benefits to eligible retired employees, their covered dependents and their beneficiaries primarily through the CNA Health and Group Benefits Program. The funding for these plans is generally to pay covered expenses as they are incurred.

In November 2010, CNA announced a change in its postretirement benefits. The plan offered a maximum \$10,000 non-contributory retiree life insurance benefit to participants who met certain eligibility requirements. The change will eliminate this benefit for all active employees effective January 1, 2011, and for all retirees effective January 1, 2012. This change was treated as a negative plan amendment and the effect of this change was a reduction to the accumulated postretirement benefit obligation of \$60 million at December 31, 2010 and an increase in the net periodic benefit of \$1 million for the year ended December 31, 2010.

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The following table provides a reconciliation of benefit obligations and plan assets.

**Benefit Obligations and Accrued Benefit Costs**

	<b>Pension Benefits</b>		<b>Postretirement Benefits</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
(In millions)				
Benefit obligation at January 1	\$ 2,702	\$ 2,529	\$ 155	\$ 150
Changes in benefit obligation:				
Service cost	16	17	1	1
Interest cost	149	153	7	9
Participants contributions	-	-	6	7
Plan amendments	-	-	(60)	-
Actuarial (gain) loss	89	153	(2)	5
Benefits paid	(157)	(156)	(13)	(18)
Foreign currency translation and other	(1)	6	1	1
Benefit obligations at December 31	2,798	2,702	95	155
Fair value of plan assets at January 1	2,117	1,884	-	-
Change in plan assets:				
Actual return on plan assets	234	316	-	-
Company contributions	65	67	7	11
Participants contributions	-	-	6	7
Benefits paid	(157)	(156)	(13)	(18)
Foreign currency translation and other	(1)	6	-	-
Fair value of plan assets at December 31	2,258	2,117	-	-
Funded status	\$ (540)	\$ (585)	\$ (95)	\$ (155)
Amounts recognized on the Consolidated Balance Sheets at December 31:				
Other assets	\$ 7	\$ 2	\$ -	\$ -
Other liabilities	(547)	(587)	(95)	(155)
Net amount recognized	\$ (540)	\$ (585)	\$ (95)	\$ (155)
Amounts recognized in Accumulated other comprehensive income, not yet recognized in net periodic cost (benefit):				
Prior service credit	\$ -	\$ (1)	\$ (141)	\$ (97)

Net actuarial loss	741	748	29	32
Net amount recognized	\$ 741	\$ 747	\$ (112)	\$ (65)

The accumulated benefit obligation for all defined benefit pension plans was \$2,715 million and \$2,615 million at December 31, 2010 and 2009.

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

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Pension benefits</b>			
Service cost	\$ 16	\$ 17	\$ 20
Interest cost on projected benefit obligation	149	153	147
Expected return on plan assets	(162)	(145)	(180)
Amortization of net actuarial loss	24	25	4
<b>Net periodic pension cost (benefit)</b>	<b>\$ 27</b>	<b>\$ 50</b>	<b>\$ (9)</b>
<b>Postretirement benefits</b>			
Service cost	\$ 1	\$ 1	\$ 1
Interest cost on projected benefit obligation	7	9	9
Amortization of prior service credit	(16)	(16)	(16)
Amortization of net actuarial loss	1	1	1
<b>Net periodic postretirement benefit</b>	<b>\$ (7)</b>	<b>\$ (5)</b>	<b>\$ (5)</b>

The amounts recognized in Other comprehensive income are presented in the following table.

<b>Years ended December 31</b> (In millions)	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Pension and postretirement benefits</b>			
Amounts arising during the period	\$ 44	\$ 13	\$ (546)
Reclassification adjustment relating to prior service credit	(16)	(16)	(16)
Reclassification adjustment relating to actuarial loss	25	26	5
<b>Total increase (decrease) in Other comprehensive income</b>	<b>\$ 53</b>	<b>\$ 23</b>	<b>\$ (557)</b>

The table below presents the estimated amounts to be recognized from Accumulated other comprehensive income into net periodic cost (benefit) during 2011.

(In millions)	<b>Pension Benefits</b>	<b>Postretirement Benefits</b>
Amortization of prior service credit	\$ -	\$ (19)
Amortization of net actuarial loss	26	1
<b>Total estimated amounts to be recognized</b>	<b>\$ 26</b>	<b>\$ (18)</b>





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Actuarial assumptions used for the CNA Retirement Plan and CNA Health and Group Benefits Program to determine benefit obligations are set forth in the following table.

**Actuarial Assumptions for Benefit Obligations**

<b>December 31</b>	<b>2010</b>	<b>2009</b>
<b>Pension benefits</b>		
Discount rate	5.375%	5.700%
Expected long term rate of return	8.000	8.000
Rate of compensation increases	5.030	5.030

**Postretirement benefits**

Discount rate	4.375%	5.500%
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Actuarial assumptions used for the CNA Retirement Plan and CNA Health and Group Benefits Program to determine net cost or benefit are set forth in the following table.

**Actuarial Assumptions for Net Cost or Benefit**

<b>Years ended December 31</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Pension benefits</b>			
Discount rate	5.700%	6.300%	6.000%
Expected long term rate of return	8.000	8.000	8.000
Rate of compensation increases	5.030	5.830	5.830

**Postretirement benefits**

Discount rate	4.875% / 5.500%	6.300%	5.875%
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The expected long term rate of return is estimated annually based on factors including, but not limited to, current and future financial market conditions, expected asset allocation, diversification, risk premiums for each asset class, rebalancing the portfolio, funding strategies and the expected forecast for inflation.

The CNA Health and Group Benefits Program has limited its share of the health care trend rate to a cost-of-living adjustment of 4% per year. For all participants, the employer subsidy on health care costs will not increase by more than 4% per year. As a result, the assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation for the CNA Health and Group Benefits Program was 4% per year in 2010, 2009 and 2008.

The health care cost trend rate assumption has a significant effect on the amount of the benefit obligation and periodic cost reported. An increase in the assumed health care cost trend rate of 1% in each year would increase the Company's accumulated postretirement benefit obligation by \$4 million and would have no significant impact on the Company's aggregate net periodic postretirement benefit for 2010. A decrease in the assumed health care cost trend rate of 1% in each year would decrease the Company's accumulated postretirement benefit obligation as of December 31, 2010 by \$7 million and would have no significant impact on the Company's aggregate net periodic postretirement benefit for 2010.

CNA employs a total return approach whereby a mix of equity and fixed maturity securities are used to maximize the long term return of plan assets for a prudent level of risk and manage cash flows according to plan requirements. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long run. Risk tolerance is established through careful consideration of the plan liabilities, plan funded status and corporate financial conditions. The investment portfolio contains a diversified blend of fixed maturity, equity and short term securities. Alternative investments, including limited partnerships, are used to enhance risk adjusted long term returns while improving portfolio diversification. At December 31, 2010 the plan had committed approximately \$46 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in

the related partnerships. Derivatives may be used to gain market exposure in an efficient and timely manner. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies and quarterly investment portfolio reviews.

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Pension plan assets measured at fair value on a recurring basis are summarized below.

<b>December 31, 2010</b> (In millions)	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total assets at fair value</b>
<b>Assets</b>				
Fixed maturity securities:				
Asset-backed:				
Residential mortgage-backed	\$ -	\$ 179	\$ -	\$ 179
Commercial mortgage-backed	-	40	9	49
Other asset-backed	-	9	1	10
Total asset-backed	-	228	10	238
Corporate and other bonds	-	305	10	315
States, municipalities and political subdivisions	-	92	-	92
Total fixed maturity securities	-	625	20	645
Equity securities	421	77	6	504
Short term investments	106	7	-	113
Limited partnerships:				
Hedge funds	-	518	394	912
Private equity	-	-	59	59
Derivatives	1	-	-	1
Other assets	-	15	-	15
Investment contracts with insurance company	-	-	9	9
<b>Total assets</b>	<b>\$ 528</b>	<b>\$ 1,242</b>	<b>\$ 488</b>	<b>\$ 2,258</b>

<b>December 31, 2009</b> (In millions)	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total assets at fair value</b>
<b>Assets</b>				
Fixed maturity securities:				
Asset-backed:				
Residential mortgage-backed	\$ -	\$ 197	\$ 52	\$ 249
Other asset-backed	-	11	5	16
Total asset-backed	-	208	57	265
Corporate and other bonds	17	291	-	308
States, municipalities and political subdivisions	-	71	-	71

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Total fixed maturity securities	17	570	57	644
Equity securities	339	54	5	398
Short term investments	202	-	-	202
Limited partnerships:				
Hedge funds	-	466	339	805
Private equity	-	-	57	57
Derivatives	2	-	-	2
Investment contracts with insurance company	-	-	9	9
<b>Total assets</b>	\$ 560	\$ 1,090	\$ 467	\$ 2,117

The limited partnership investments are recorded at fair value, which represents the plan's share of net asset value of each partnership, as determined by the General Partner. Level 2 includes limited partnership investments which can be redeemed at net asset value in 90 days or less. Level 3 includes limited partnership investments with withdrawal provisions greater than 90 days, or for which withdrawals are not permitted until

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the termination of the partnership. Within hedge fund strategies, approximately 53% are equity related, 34% pursue a multi-strategy approach, 9% are focused on distressed investments and 4% are fixed income related at December 31, 2010.

The fair value of the guaranteed investment contracts is an estimate of the amount that would be received in an orderly sale to a market participant at the measurement date. The amount the plan would receive from the contract holder if the contracts were terminated is the primary input and is unobservable. The guaranteed investment contracts are therefore classified as Level 3 investments.

For a discussion of the fair value levels and the valuation methodologies used to measure fixed maturity securities, equities, derivatives and short term investments, see Note D.

The tables below presents a reconciliation for all pension plan assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2010 and 2009.

	<b>Balance at January 1, 2010</b>	<b>Actual return on assets still held at December 31, 2010</b>	<b>Actual return on assets sold during the year ended December 31, 2010</b>	<b>Purchases, sales, and settlements</b>	<b>Net transfers into (out of) Level 3</b>	<b>Balance at December 31, 2010</b>
<b>Level 3</b> (In millions)						
Fixed maturity securities:						
Asset-backed:						
Residential mortgage-backed	\$ 52	\$ -	\$ 6	\$ (58)	\$ -	\$ -
Commercial mortgage-backed	-	-	-	9	-	9
Other asset-backed	5	-	-	(4)	-	1
Total asset-backed	57	-	6	(53)	-	10
Corporate and other bonds	-	-	-	10	-	10
Total fixed maturity securities	57	-	6	(43)	-	20
Equity securities	5	1	-	-	-	6
Limited partnerships:						
Hedge funds	339	64	-	(9)	-	394
Private equity	57	6	-	(4)	-	59
Investment contracts with insurance company	9	-	-	-	-	9
<b>Total</b>	<b>\$ 467</b>	<b>\$ 71</b>	<b>\$ 6</b>	<b>\$ (56)</b>	<b>\$ -</b>	<b>\$ 488</b>

**Actual  
return**

<b>Level 3</b> (In millions)	<b>Balance at January 1, 2009</b>	<b>Actual return on assets still held at December 31, 2009</b>	<b>on assets sold during the year ended December 31, 2009</b>	<b>Purchases, sales, and settlements</b>	<b>Net transfers into (out of) Level 3</b>	<b>Balance at December 31, 2009</b>
Fixed maturity securities:						
Asset-backed:						
Residential mortgage-backed	\$ 54	\$ -	\$ 9	\$ (11)	\$ -	\$ 52
Other asset-backed	-	-	-	5	-	5
Total asset-backed	54	-	9	(6)	-	57
Equity securities	2	-	-	5	(2)	5
Limited partnerships:						
Hedge funds	569	174	-	62	(466)	339
Private equity	59	(5)	-	3	-	57
Investment contracts with insurance company	8	1	-	-	-	9
<b>Total</b>	<b>\$ 692</b>	<b>\$ 170</b>	<b>\$ 9</b>	<b>\$ 64</b>	<b>\$ (468)</b>	<b>\$ 467</b>

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The table below presents the estimated future minimum benefit payments to participants at December 31, 2010.

**Estimated Future Minimum Benefit Payments to Participants**

	<b>Pension Benefits</b>	<b>Postretirement Benefits</b>
(In millions)		
2011	\$ 175	\$ 10
2012	177	8
2013	182	8
2014	185	8
2015	191	8
2016-2020	1,001	37

In 2011, CNA expects to contribute \$63 million to its pension plans and \$10 million to its postretirement health care and life insurance benefit plans.

**Savings Plans**

CNA sponsors savings plans, which are generally contributory plans that allow most employees to contribute a maximum of 20% of their eligible compensation, subject to certain limitations prescribed by the IRS. The Company contributes matching amounts to participants, amounting to 70% of the first 6% (35% of the first 6% in the first year of employment) of eligible compensation contributed by the employee. Employees vest in these contributions ratably over five years.

The CNA Savings and Capital Accumulation Plan allows employees to make contributions to an investment fund that is supported in part by an investment contract purchased from CAC. CAC will not accept any further deposits under this contract. The contract value of the liability to the CNA Savings and Capital Accumulation Plan is included in Separate account liabilities and Policyholders' funds on the Consolidated Balance Sheets. The contract value was \$363 million and \$347 million at December 31, 2010 and 2009.

As noted above, during 2000, CCC employees were required to make a choice regarding their continued participation in CNA's defined benefit pension plan. Employees who elected to forego earning additional benefits in the defined benefit pension plan and all employees hired by CCC on or after January 1, 2000 receive a Company contribution of 3% or 5% of their eligible compensation, depending on their age. In addition, these employees are eligible to receive additional discretionary contributions of up to 2% of eligible compensation and an additional Company match of up to 80% of the first 6% of eligible compensation contributed by the employee. These additional contributions are made at the discretion of management and are contributed to participant accounts in the first quarter of the year following management's determination of the discretionary amounts. Employees vest in these contributions ratably over five years.

Benefit expense for the Company's savings plans was \$61 million, \$59 million and \$54 million for the years ended December 31, 2010, 2009 and 2008.

**Stock-Based Compensation**

The CNAF Incentive Compensation Plan (the Plan), as amended and restated on January 1, 2010, authorizes the grant of stock-based compensation to certain management personnel for up to 6 million shares of CNAF's common stock. The Plan currently provides for awards of stock options, stock appreciation rights (SARs), restricted shares, performance-based restricted share units (RSUs) and performance share units. The number of shares available for the granting of stock-based compensation under the Plan as of December 31, 2010 was approximately 2.6 million.

The Company recorded stock-based compensation expense related to the Plan of \$5 million, \$3 million and \$5 million for the years ended December 31, 2010, 2009 and 2008. The related income tax benefit recognized was \$2 million, \$1 million and \$2 million. The compensation cost related to nonvested awards not yet recognized was \$8 million, and the weighted average period over which it is expected to be recognized is 2.21 years at December 31, 2010.

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Equity based compensation that is not fully vested prior to termination is generally forfeited upon termination, except as otherwise provided by contractual obligations. In addition, any such compensation that vested prior to termination is generally cancelled immediately, except in cases of retirement, death or disability, and as otherwise provided by contractual obligations.

*Stock Options and SARs*

The exercise price of all stock options and SARs granted is based on the market value of the Company's common stock as of the date of grant. Stock options and SARs generally vest ratably over a four-year service period following date of grant and have a maximum term of ten years.

The fair value of granted stock options and SARs was estimated at the grant date using the Black-Scholes option-pricing model. The Black-Scholes model incorporates a risk free rate of return and various assumptions regarding the underlying common stock and the expected life of the securities granted. Different interest rates and assumptions were used for each grant, as appropriate based on date of grant.

The following table presents the significant assumptions used to estimate the fair value of granted stock options and SARs for the years ended December 31, 2010, 2009 and 2008.

<b>Years ended December 31</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Weighted average expected life of the securities granted	5.61 years	4.84 years	4.54 years
Estimate of the underlying common stock's volatility	39.58%	39.95%	24.82%
Expected dividend yield	0.0%	0.0%	1.4%
Risk free interest rate	2.6%	2.0%	2.8%

The following table presents activity for stock options and SARs under the Plan in 2010.

	<b>Number of Awards</b>	<b>Weighted-Average Exercise Price per Award</b>	<b>Aggregate Intrinsic Value</b>	<b>Weighted-Average Remaining Contractual Term</b>
Outstanding at January 1, 2010	1,902,700	\$ 27.76		
Awards granted	120,000	25.75		
Awards exercised	(147,625)	25.16		
Awards forfeited, cancelled or expired	(249,900)	30.53		

**Outstanding at December 31, 2010** 1,625,175 \$ 27.42 \$5 million 5.07 years

**Outstanding, fully vested and expected to vest** 1,543,735 \$ 27.80 \$5 million 4.89 years

**Outstanding, exercisable** 1,089,900 \$ 30.20 \$1 million 3.60 years

The following table presents weighted-average grant date fair value for awards granted, total intrinsic value for awards exercised and total fair value for awards vested for the years ended December 31, 2010, 2009 and 2008.

<b>Years ended December 31</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Weighted-average grant date fair value	\$ 10.49	\$ 4.69	\$ 5.45
Total intrinsic value of awards exercised	\$ 350 thousand	\$ -	\$ 10 thousand
Fair value of awards vested	\$ 2 million	\$ 4 million	\$ 3 million



**Table of Contents***Share Awards*

The fair value of share awards is based on the market value of the Company's common stock as of the date of grant. Shares awards currently granted under the Plan include restricted shares, performance-based RSUs, and performance share units. Generally restricted shares vest ratably over a four-year service period following the date of grant. Performance-based RSUs generally become payable within a range of 0% to 100% of the number of shares initially granted based upon the attainment of specific annual performance goals and vest ratably over a four-year service period following the date of grant. Performance share units become payable within a range of 0% to 200% of the number of shares initially granted based upon the attainment of specific performance goals achieved over a three year period.

The following table presents activity for restricted shares, performance-based RSUs and performance share units under the Plan in 2010.

	<b>2010</b>	<b>Weighted- Average Grant date Fair value</b>
	<b>Number of Awards</b>	
Balance at January 1	341,957	\$ 13.63
Performance-based adjustment	(41,632)	11.51
Awards granted	274,732	25.72
Awards vested	(77,581)	14.56
Awards forfeited, cancelled or expired	(3,969)	25.56
<b>Balance at December 31</b>	<b>493,507</b>	<b>\$ 20.30</b>

**Table of Contents****Note K. Operating Leases, Commitments and Contingencies, and Guarantees*****Operating Leases***

The Company occupies office facilities under lease agreements that expire at various dates. In addition, data processing, office and transportation equipment is leased under agreements that expire at various dates. Most leases contain renewal options that provide for rent increases based on prevailing market conditions. Lease expense for the years ended December 31, 2010, 2009 and 2008 was \$52 million, \$51 million and \$52 million. Sublease revenues for the years ended December 31, 2010, 2009 and 2008 were \$3 million, \$4 million and \$4 million.

The table below presents the future minimum lease payments to be made under non-cancelable operating leases along with future minimum sublease receipts to be received on owned and leased properties at December 31, 2010.

**Future Minimum Lease Payments and Sublease Receipts**

	<b>Future Minimum Lease Payments</b>	<b>Future Minimum Sublease Receipts</b>
(In millions)		
2011	\$ 38	\$ 2
2012	34	2
2013	31	2
2014	22	-
2015	18	-
Thereafter	25	-
<b>Total</b>	<b>\$ 168</b>	<b>\$ 6</b>

In addition to the operating lease obligations included in the table above, the Company entered into a 10 year lease agreement for a new property to be occupied in 2012 with an expected annual minimum lease payment of approximately \$1 million. The lease includes various contingencies, including completion of construction of the building.

***Commitments and Contingencies***

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

In the event that the other parties to the joint venture are unable to meet their commitments in funding the operations of this joint venture, the Company would be required to assume the obligation for the entire office building operating lease. The Company does not believe it is likely that it will be required to do so. However, the maximum potential future lease payments and other related costs at December 31, 2010 that the Company could be required to pay under this guarantee are approximately \$182 million. If the Company were required to assume the entire lease obligation, the Company would have the right to pursue reimbursement from the other shareholders and the right to all sublease revenues.

The Company has entered into a limited number of contracts that guarantee minimum payments, primarily related to outsourced services and software. Estimated future minimum payments under these contracts, which amounted to approximately \$28 million at December 31, 2010, are \$27 million and \$1 million for the years ended December 31, 2011 and 2012.

*Guarantees*

In the course of selling business entities and assets to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging from nine months

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following the applicable closing date to the expiration of the relevant statutes of limitation. As of December 31, 2010, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was \$719 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 December 31, 2010, the Company had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser's ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire, or until the agreed upon contract terms expire.

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

**Table of Contents****Note L. Stockholders Equity and Statutory Accounting Practices*****2008 Senior Preferred***

In 2008, the Company issued, and Loews purchased, 12,500 shares of CNAF non-voting cumulative senior preferred stock (2008 Senior Preferred) for \$1.25 billion. The 2008 Senior Preferred accrued cumulative dividends at an initial rate of 10% per year, and dividends were payable quarterly. As of December 31, 2010, the Company has fully redeemed all 12,500 shares originally issued, through a series of redemptions during 2009 and 2010. The redemptions were funded by the issuance of debt and the partial repayment of a surplus note issued by CCC.

CNAF used the majority of the proceeds from the 2008 Senior Preferred to increase the statutory surplus of its principal insurance subsidiary, CCC, through the purchase of a \$1.0 billion surplus note of CCC. Surplus notes are financial instruments with a stated maturity date and scheduled interest payments, issued by insurance enterprises with the approval of the insurer's domiciliary state. Surplus notes are treated as capital under statutory accounting. All payments of interest and principal on this note are subject to the prior approval of the Illinois Department of Insurance (the Department). The surplus note of CCC has a term of 30 years and accrues interest at a rate of 10% per year. Interest on the note is payable quarterly. In 2010, the Company received regulatory approval from the Department for CCC to repay \$500 million of the \$1.0 billion surplus note to CNAF.

***Common Stock Dividends***

No common stock dividends were declared or paid in 2010 or 2009. Dividends of \$0.45 per common share were declared and paid in 2008.

***Share Repurchases***

CNAF's Board of Directors has approved a Share Repurchase Program to purchase, in the open market or through privately negotiated transactions, its outstanding common stock, as Company management deems appropriate. In the first quarter of 2008, the Company repurchased a total of 2,649,621 shares at an average price of \$26.53 (including commission) per share. No shares of common stock were purchased during 2010 or 2009.

***Statutory Accounting Practices (Unaudited)***

CNAF's domestic insurance subsidiaries maintain their accounts in conformity with accounting practices prescribed or permitted by insurance regulatory authorities, which vary in certain respects from GAAP. In converting from statutory accounting principles to GAAP, the more significant adjustments include deferral of policy acquisition costs and the inclusion of net unrealized holding gains or losses in stockholders' equity relating to certain fixed maturity securities.

CNAF's insurance subsidiaries are domiciled in various jurisdictions. These subsidiaries prepare statutory financial statements in accordance with accounting practices prescribed or permitted by the respective jurisdictions' insurance regulators. Prescribed statutory accounting practices are set forth in a variety of publications of the National Association of Insurance Commissioners (NAIC) as well as state laws, regulations and general administrative rules.

CNAF's ability to pay dividends and other credit obligations is significantly dependent on receipt of dividends from its subsidiaries. The payment of dividends to CNAF by its insurance subsidiaries without prior approval of the insurance department of each subsidiary's domiciliary jurisdiction is limited by formula. Dividends in excess of these amounts are subject to prior approval by the respective state insurance departments.

Dividends from CCC are subject to the insurance holding company laws of the State of Illinois, the domiciliary state of CCC. Under these laws, ordinary dividends, or dividends that do not require prior approval by the Department, may be paid only from earned surplus, which is calculated by removing unrealized gains from unassigned surplus. As of December 31, 2010, CCC is in a positive earned surplus position, enabling CCC to pay approximately \$980 million of dividend payments during 2011 that would not be subject to the

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Department's prior approval. The actual level of dividends paid in any year is determined after an assessment of available dividend capacity, holding company liquidity and cash needs as well as the impact the dividends will have on the statutory surplus of the applicable insurance company.

CNAF's domestic insurance subsidiaries are subject to risk-based capital requirements. Risk-based capital is a method developed by the NAIC to determine the minimum amount of statutory capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The formula for determining the amount of risk-based capital specifies various factors, weighted based on the perceived degree of risk, which are applied to certain financial balances and financial activity. The adequacy of a company's actual capital is evaluated by a comparison to the risk-based capital results, as determined by the formula. Companies below minimum risk-based capital requirements are classified within certain levels, each of which requires specified corrective action. As of December 31, 2010 and 2009, all of CNAF's domestic insurance subsidiaries exceeded the minimum risk-based capital requirements.

Subsidiaries with insurance operations outside the United States are also subject to insurance regulation in the countries in which they operate. The Company has legal entity and branch operations in other countries, primarily the United Kingdom, Canada and Bermuda. CNAF's foreign legal entities and branch met or exceeded regulatory capital requirements.

Combined statutory capital and surplus and net income (loss), determined in accordance with accounting practices prescribed or permitted by insurance regulatory authorities for the Combined Continental Casualty Companies and the life company, were as follows.

**Statutory Information**

	<b>Statutory Capital and Surplus</b>		<b>Statutory Net Income (Loss)</b>		
	<b>December 31</b>		<b>Years Ended December 31</b>		
	<b>2010 (b)</b>	<b>2009</b>	<b>2010 (b)</b>	<b>2009</b>	<b>2008</b>
(In millions)					
Combined Continental Casualty Companies					
(a)	\$ 9,821	\$ 9,338	\$ 258	\$ 17	\$ (172)
Life company	498	448	86	(65)	(51)

(a) Represents the combined statutory surplus of CCC and its subsidiaries, including the Life company.

(b) Preliminary.

**Table of Contents****Note M. Accumulated Other Comprehensive Income (Loss)**

The following table displays the components of AOCI included on the Consolidated Balance Sheets.

**Accumulated Other Comprehensive Income (Loss)**

<b>December 31</b> (In millions)	<b>2010</b>		<b>2009</b>	
	<b>Tax</b>	<b>After-tax</b>	<b>Tax</b>	<b>After-tax</b>
Cumulative foreign currency translation adjustment	\$ -	\$ 136	\$ -	\$ 87
Pension and postretirement benefits	220	(409)	238	(444)
Net unrealized losses on investments with OTTI losses	39	(73)	86	(159)
Net unrealized gains on other investments	(348)	691	(76)	198
Accumulated other comprehensive (income) loss attributable to noncontrolling interests	-	(19)	-	(7)
<b>Accumulated other comprehensive income (loss)</b>	<b>\$ (89)</b>	<b>\$ 326</b>	<b>\$ 248</b>	<b>\$ (325)</b>

The amount of pretax net unrealized losses on available-for-sale securities with OTTI losses reclassified out of AOCI and recognized in earnings was \$(42) million and \$(146) million for the years ended December 31, 2010 and 2009, with related tax benefit of \$15 million and \$51 million. The amount of pretax net unrealized gains (losses) on other available-for-sale securities reclassified out of AOCI and recognized in earnings was \$137 million, \$(768) million and \$(46) million for the years ended December 31, 2010, 2009 and 2008, with related tax (expense) benefit of \$(48) million, \$269 million and \$16 million.

**Table of Contents****Note N. Business Segments**

The Company revised its reporting segments in the fourth quarter of 2010. The segment change reflects the manner in which the Company is currently organized for purposes of making operating decisions and assessing performance. Segment data for prior reporting periods has been adjusted to reflect the new segment reporting.

Net incurred claim and claim adjustment expenses and reserves for certain mass tort claims were previously reported as part of the Corporate & Other Non-Core segment. These mass tort claims were centrally managed along with asbestos and environmental pollution claims. A significant portion of this centralized claim group became employees of a subsidiary of Berkshire Hathaway Inc. as a result of the Loss Portfolio Transfer transaction that closed on August 31, 2010. Management responsibility for these mass tort claims has now been assigned to the segment from which the mass tort arose, which could be either CNA Specialty or CNA Commercial. This change had no impact on the Company's CNA Specialty and Life & Group Non-Core segments for the years presented herein.

The Company's core property and casualty commercial insurance operations are reported in two business segments: CNA Specialty and CNA Commercial. CNA Specialty provides a broad array of professional, financial and specialty property and casualty products and services, primarily through insurance brokers and managing general underwriters. CNA Commercial includes property and casualty coverages sold to small businesses and middle market entities and organizations primarily through an independent agency distribution system. CNA Commercial also includes commercial insurance and risk management products sold to large corporations primarily through insurance brokers.

The Company's non-core operations are managed in two segments: Life & Group Non-Core and Corporate & Other Non-Core. Life & Group Non-Core primarily includes the results of the life and group lines of business that are in run-off. Corporate & Other Non-Core primarily includes certain corporate expenses, including interest on corporate debt, and the results of certain property and casualty business in run-off, including CNA Re and A&EP.

The accounting policies of the segments are the same as those described in Note A. 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 intersegment income and expense has been eliminated. Income taxes have been allocated on the basis of the taxable income of the segments.

Approximately 6.9%, 7.0% and 7.4% of the Company's direct written premiums were derived from outside the United States for the years ended December 31, 2010, 2009 and 2008. Direct written premiums from any individual foreign country were not significant.

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

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



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

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<b>Year ended December 31, 2010</b> (In millions)	<b>CNA Specialty</b>	<b>CNA Commercial</b>	<b>Life &amp; Group Non-Core</b>	<b>Corporate &amp; Other Non-Core</b>	<b>Eliminations</b>	<b>Total</b>
<b>Net written premiums (a)</b>	\$ 2,691	\$ 3,208	\$ 573	\$ 2	\$ (3)	\$ 6,471
<b>Revenues</b>						
Net earned premiums	\$ 2,679	\$ 3,256	\$ 582	\$ 1	\$ (3)	\$ 6,515
Net investment income	591	873	715	137	-	2,316
Other revenues	216	61	7	8	-	292
Total operating revenues	3,486	4,190	1,304	146	(3)	9,123
<b>Claims, benefits and expenses</b>						
Net incurred claims and benefits	1,447	2,175	1,275	58	-	4,955
Policyholders dividends	12	14	4	-	-	30
Amortization of deferred acquisition costs	631	736	20	-	-	1,387
Other insurance related expenses	186	424	180	10	(3)	797
Other expenses	190	55	2	681	-	928
Total claims, benefits and expenses	2,466	3,404	1,481	749	(3)	8,097
Operating income (loss) from continuing operations before income tax	1,020	786	(177)	(603)	-	1,026
Income tax (expense) benefit on operating income (loss)	(343)	(260)	90	216	-	(297)
Net operating (income) loss, after-tax, attributable to noncontrolling interests	(52)	(17)	-	-	-	(69)
Net operating income (loss) from continuing operations attributable to CNA	625	509	(87)	(387)	-	660
Net realized investment gains (losses), net of participating policyholders interests	30	(15)	53	18	-	86
Income tax expense on net realized investment gains (losses)	(10)	(1)	(20)	(5)	-	(36)
Net realized investment (gains) losses, after-tax, attributable to noncontrolling	-	1	-	-	-	1

interests

Net realized investment gains (losses) attributable to CNA	20	(15)	33	13	-	51
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<b>Net income (loss) from continuing operations attributable to CNA</b>	\$ 645	\$ 494	\$ (54)	\$ (374)	\$ -	\$ 711
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(a) Net written premiums relate to business in property and casualty companies only.

**December 31, 2010**

(In millions)

<b>Reinsurance receivables</b>	\$ 906	\$ 1,973	\$ 1,502	\$ 2,823	\$ -	\$ 7,204
<b>Insurance receivables</b>	\$ 654	\$ 1,050	\$ 9	\$ 4	\$ -	\$ 1,717
<b>Deferred acquisition costs</b>	\$ 330	\$ 315	\$ 434	\$ -	\$ -	\$ 1,079
<b>Insurance reserves</b>						
Claim and claim adjustment expenses	\$ 6,793	\$ 12,522	\$ 2,739	\$ 3,442	\$ -	\$ 25,496
Unearned premiums	1,543	1,526	132	2	-	3,203
Future policy benefits	-	-	8,718	-	-	8,718
Policyholders funds	16	13	144	-	-	173
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<b>Year ended December 31, 2009</b> (In millions)	<b>CNA Specialty</b>	<b>CNA Commercial</b>	<b>Life &amp; Group Non-Core</b>	<b>Corporate &amp; Other Non-Core</b>	<b>Eliminations</b>	<b>Total</b>
<b>Net written premiums (a)</b>	\$ 2,684	\$ 3,448	\$ 583	\$ 1	\$ (3)	\$ 6,713
<b>Revenues</b>						
Net earned premiums	\$ 2,697	\$ 3,432	\$ 595	\$ -	\$ (3)	\$ 6,721
Net investment income	526	935	664	195	-	2,320
Other revenues	206	61	11	10	-	288
Total operating revenues	3,429	4,428	1,270	205	(3)	9,329
<b>Claims, benefits and expenses</b>						
Net incurred claims and benefits	1,536	2,420	1,084	227	-	5,267
Policyholders dividends	9	9	5	-	-	23
Amortization of deferred acquisition costs	624	775	18	-	-	1,417
Other insurance related expenses	163	435	183	3	(3)	781
Other expenses	179	77	69	119	-	444
Total claims, benefits and expenses	2,511	3,716	1,359	349	(3)	7,932
Operating income (loss) from continuing operations before income tax	918	712	(89)	(144)	-	1,397
Income tax (expense) benefit on operating income (loss)	(282)	(201)	73	57	-	(353)
Net operating (income) loss, after-tax, attributable to noncontrolling interests	(45)	(17)	-	-	-	(62)
Net operating income (loss) from continuing operations attributable to CNA	591	494	(16)	(87)	-	982
Net realized investment losses, net of participating policyholders interests	(186)	(360)	(235)	(76)	-	(857)
Income tax benefit on net realized investment losses	64	123	82	27	-	296
Net realized investment (gains) losses, after-tax, attributable to noncontrolling	(1)	1	-	-	-	-

interests

Net realized investment losses attributable to CNA	(123)	(236)	(153)	(49)	-	(561)
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<b>Net income (loss) from continuing operations attributable to CNA</b>	\$ 468	\$ 258	\$ (169)	\$ (136)	\$ -	\$ 421
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(a) Net written premiums relate to business in property and casualty companies only.

**December 31, 2009**

(In millions)

<b>Reinsurance receivables</b>	\$ 1,077	\$ 2,324	\$ 1,744	\$ 1,787	\$ -	\$ 6,932
<b>Insurance receivables</b>	\$ 613	\$ 1,234	\$ 9	\$ 2	\$ -	\$ 1,858
<b>Deferred acquisition costs</b>	\$ 318	\$ 336	\$ 454	\$ -	\$ -	\$ 1,108
<b>Insurance reserves</b>						
Claim and claim adjustment expenses	\$ 6,922	\$ 13,243	\$ 2,883	\$ 3,768	\$ -	\$ 26,816
Unearned premiums	1,528	1,603	140	3	-	3,274
Future policy benefits	-	-	7,981	-	-	7,981
Policyholders funds	11	11	170	-	-	192
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<b>Year ended December 31, 2008</b> (In millions)	<b>CNA Specialty</b>	<b>CNA Commercial</b>	<b>Life &amp; Group Non-Core</b>	<b>Corporate &amp; Other Non-Core</b>	<b>Eliminations</b>	<b>Total</b>
<b>Net written premiums (a)</b>	\$ 2,719	\$ 3,770	\$ 604	\$ 1	\$ (4)	\$ 7,090
<b>Revenues</b>						
Net earned premiums	\$ 2,755	\$ 3,787	\$ 612	\$ 1	\$ (4)	\$ 7,151
Net investment income	354	612	484	169	-	1,619
Other revenues	219	65	28	14	-	326
Total operating revenues	3,328	4,464	1,124	184	(4)	9,096
<b>Claims, benefits and expenses</b>						
Net incurred claims and benefits	1,700	2,772	1,104	127	-	5,703
Policyholders dividends	13	1	6	-	-	20
Amortization of deferred acquisition costs	618	836	13	-	-	1,467
Other insurance related expenses	137	343	201	17	(4)	694
Other expenses	198	105	24	150	-	477
Total claims, benefits and expenses	2,666	4,057	1,348	294	(4)	8,361
Operating income (loss) from continuing operations before income tax	662	407	(224)	(110)	-	735
Income tax (expense) benefit on operating income (loss)	(205)	(101)	116	45	-	(145)
Net operating (income) loss, after-tax, attributable to noncontrolling interests	(43)	(14)	-	-	-	(57)
Net operating income (loss) from continuing operations attributable to CNA	414	292	(108)	(65)	-	533
Net realized investment losses, net of participating policyholders interests	(257)	(526)	(363)	(151)	-	(1,297)
Income tax benefit on net realized investment losses	90	185	127	54	-	456
Net realized investment (gains) losses, after-tax, attributable to noncontrolling	-	-	-	-	-	-

interests

Net realized investment losses attributable to CNA	(167
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