LOEWS CORP
Form 10-Q
August 04, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the Transition Period From ____________ to _____________

Commission File Number 1-6541

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

Delaware	13-2646102
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

667 Madison Avenue, New York, N.Y. 10065-8087
(Address of principal executive offices) (Zip Code)

(212) 521-2000
(Registrant's telephone number, including area code)

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

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

Yes X No

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

Yes	No X

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

Large accelerated filer	X	Accelerated filer	Non-accelerated filer	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes	No	X

Class	Outstanding at July 24, 2009
Common stock, $0.01 par value	433,026,621 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	June 30, 2009	December 31, 2008
(Dollar amounts in millions, except per share data)		
Assets:		
Investments:		
Fixed maturities, amortized cost of $34,638 and $34,767	$31,826	$29,451
Equity securities, cost of $958 and $1,402	1,053	1,185
Limited partnership investments	1,975	1,781
Other investments	5	4
Short term investments	6,454	6,029
Total investments	41,313	38,450
Cash	136	131
Receivables	11,529	11,672
Property, plant and equipment	12,671	12,892
Deferred income taxes	2,189	2,928
Goodwill	856	856
Other assets	1,378	1,432
Deferred acquisition costs of insurance subsidiaries	1,145	1,125
Separate account business	413	384
Total assets	$71,630	$69,870
Liabilities and Equity:		
Insurance reserves:		
Claim and claim adjustment expense	$27,100	$27,593
Future policy benefits	7,746	7,529
Unearned premiums	3,508	3,405
Policyholders’ funds	217	243
Total insurance reserves	38,571	38,770
Payable to brokers	930	679
Collateral on loaned securities and derivatives	6	6
Short term debt	23	71
Long term debt	8,647	8,187
Reinsurance balances payable	350	316
Other liabilities	3,928	4,322
Separate account business	413	384
Total liabilities	52,868	52,735
Preferred stock, $0.10 par value:		

Authorized – 100,000,000 shares		
Common stock, $0.01 par value:		
Authorized – 1,800,000,000 shares		
Issued – 435,213,891 and 435,091,667 shares	4	4
Additional paid-in capital	3,894	3,340
Retained earnings	13,122	13,375
Accumulated other comprehensive loss	(1,972)	(3,586)
	15,048	13,133
Less treasury stock, at cost (1,195,900 shares)	32	
Total shareholders' equity	15,016	13,133
Noncontrolling interests	3,746	4,002
Total equity	18,762	17,135
Total liabilities and equity	$71,630	$69,870

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In millions, except per share data)				
Revenues:				
Insurance premiums	$1,656	$1,774	$3,328	$3,586
Net investment income	735	697	1,182	1,176
Investment gains (losses):				
Other-than-temporary impairment losses	(484)	(170)	(1,098)	(256)
Portion of loss recognized in Accumulated other comprehensive income (loss)	89		89	
Net impairment losses recognized in earnings	(395)	(170)	(1,009)	(256)
Transactional realized investment gains	98	59	181	94
Total investment losses	(297)	(111)	(828)	(162)
Gain on issuance of subsidiary stock		2		2
Contract drilling revenues	923	937	1,779	1,707
Other	517	623	1,096	1,225
Total	3,534	3,922	6,557	7,534
Expenses:				
Insurance claims and policyholders' benefits	1,295	1,472	2,637	2,861
Amortization of deferred acquisition costs	349	360	698	728
Contract drilling expenses	306	273	600	558
Impairment of natural gas and oil properties			1,036	
Other operating expenses	717	622	1,493	1,241
Interest	110	88	204	177
Total	2,777	2,815	6,668	5,565
Income (loss) before income tax	757	1,107	(111)	1,969
Income tax (expense) benefit	(197)	(340)	198	(593)
Income from continuing operations	560	767	87	1,376
Discontinued operations, net:				
Results of operations	(1)	170	(1)	343
Gain on disposal		4,282		4,362
Net income	559	5,219	86	6,081
Amounts attributable to noncontrolling interests	(219)	(256)	(393)	(456)
Net income (loss) attributable to Loews Corporation	$340	$4,963	$(307)	$5,625
Net income (loss) attributable to:				
Loews common stock:				
Income (loss) from continuing operations	$341	$511	$(306)	$920
Discontinued operations, net	(1)	4,348	(1)	4,494
Loews common stock	340	4,859	(307)	5,414
Former Carolina Group stock - discontinued operations, net		104		211

Total	$340	$4,963	$(307)	$5,625

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	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
(In millions, except per share data)				
Basic net income (loss) per Loews common share:				
Income (loss) from continuing operations	$0.79	$1.00	$(0.70)	$1.77
Discontinued operations, net		8.56		8.66
Net income (loss)	$0.79	$9.56	$(0.70)	$10.43
Diluted net income (loss) per Loews common share:				
Income (loss) from continuing operations	$0.78	$1.00	$(0.70)	$1.77
Discontinued operations, net		8.54		8.64
Net income (loss)	$0.78	$9.54	$(0.70)	$10.41
Basic net income per former Carolina Group share:				
Discontinued operations, net	$-	$0.97	$-	$1.95
Diluted net income per former Carolina Group share:				
Discontinued operations, net	$-	$0.96	$-	$1.95
Basic weighted average number of shares outstanding:				
Loews common stock	435.07	508.16	435.09	518.93
Former Carolina Group stock	-	108.48	-	108.47
Diluted weighted average number of shares outstanding:				
Loews common stock	435.63	509.43	435.09	520.17
Former Carolina Group stock	-	108.60	-	108.60

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In millions)				
Net income	$559	$5,219	$86	$6,081
Other comprehensive income (loss)				
Changes in:				
Unrealized gains (losses) on available-for-sale investments	1,458	(165)	1,857	(1,021)
Unrealized gains (losses) on cash flow hedges	(12)	(68)	3	(203)
Foreign currency	77	2	70	(17)
Pension liability	1	32		25
Other comprehensive income (loss)	1,524	(199)	1,930	(1,216)
Comprehensive income	2,083	5,020	2,016	4,865
Amounts attributable to noncontrolling interests	(377)	(228)	(600)	(329)
Total comprehensive income attributable to Loews Corporation	$1,706	$4,792	$1,416	$4,536

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED STATEMENTS OF EQUITY
(Unaudited)

		Loews Corporation Shareholders					
	Total	Loews Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury	Noncontrolling Interests
(In millions)							
Balance, January 1, 2009, as reported	$ 17,122	$ 4	$ 3,283	$ 13,425	$ (3,586)	$ -	$ 3,996
Adjustment to initially apply FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion"	13		57	(50)			6
Balance, January 1, 2009, as restated	17,135	4	3,340	13,375	(3,586)	-	4,002
Adjustment to initially apply Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements"			536				(536)
Balance, January 1, 2009, as adjusted	17,135	4	3,876	13,375	(3,586)	-	3,466
Adjustment to initially apply FASB Staff Position No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than- Temporary Impairments," as of April 1, 2009				109	(109)		
Purchase of subsidiary shares from noncontrolling interests	(2)		15				(17)
Net income (loss)	86			(307)			393
	1,930				1,723		207

Other comprehensive income							
Dividends paid	(375)			(54)			(321)
Issuance of Loews common stock	2		2				
Purchase of Loews treasury stock	(32)					(32)	
Stock-based compensation	9		7				2
Other	9		(6)	(1)			16
Balance, June 30, 2009	$ 18,762	$ 4	$ 3,894	$ 13,122	$ (1,972)	$ (32)	$ 3,746

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Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED STATEMENTS OF EQUITY
(Unaudited)

	Loews Corporation Shareholders							
(In millions)	Total	Loews Common Stock	Former Carolina Group Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury	Noncontrolling Interests
Balance, January 1, 2008, as reported	$ 21,489	$ 5	$ 1	$ 3,967	$ 13,691	$ (65)	$ (8)	$ 3,898
Adjustment to initially apply FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion"	13			57	(50)			6
Balance, January 1, 2008, as restated	21,502	5	1	4,024	13,641	(65)	(8)	3,904
Purchase of subsidiary shares from noncontrolling interests	(95)							(95)
Issuance of equity securities by subsidiary	243							243
Adjustments related to purchase of subsidiary Class B units	105							105
Net income	6,081				5,625			456
Other comprehensive loss	(1,216)					(1,089)		(127)
Dividends paid	(398)				(165)			(233)
Issuance of Loews common stock	2			2				

Redemption of former Carolina Group stock	(542)		(1)		(602)	53	8	
Exchange of Lorillard common stock for Loews common stock	(4,650)						(4,650)	
Stock-based compensation	13			11				2
Retirement of treasury stock		(1)		(700)	(3,949)		4,650	
Other	3				(2)			5
Balance, June 30, 2008	$ 21,048	$ 4	$ -	$ 3,337	$ 14,548	$ (1,101)	$ -	$ 4,260

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

Six Months Ended June 30	2009	2008
(In millions)		
Operating Activities:		
Net income	$86	$6,081
Adjustments to reconcile net income to net cash provided (used) by operating activities, net	1,849	(4,233)
Changes in operating assets and liabilities, net:		
Reinsurance receivables	424	447
Other receivables	(62)	(271)
Federal income tax	(320)	(32)
Deferred acquisition costs	(20)	(6)
Insurance reserves	(245)	(148)
Reinsurance balances payable	34	(28)
Other liabilities	(268)	(504)
Trading securities	177	1,488
Other, net	9	(114)
Net cash flow operating activities - continuing operations	1,664	2,680
Net cash flow operating activities - discontinued operations	(12)	151
Net cash flow operating activities - total	1,652	2,831
Investing Activities:		
Purchases of fixed maturities	(12,402)	(28,260)
Proceeds from sales of fixed maturities	11,083	26,260
Proceeds from maturities of fixed maturities	1,723	2,464
Purchases of equity securities	(240)	(133)
Proceeds from sales of equity securities	441	132
Purchases of property, plant and equipment	(1,380)	(1,779)
Change in collateral on loaned securities and derivatives		(63)
Change in short term investments	(897)	(1,542)
Other, net	5	(137)
Net cash flow investing activities - continuing operations	(1,667)	(3,058)
Net cash flow investing activities - discontinued operations, including proceeds from dispositions	12	618
Net cash flow investing activities - total	(1,655)	(2,440)

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Loews Corporation and Subsidiaries
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

Six Months Ended June 30	2009	2008
(In millions)		
Financing Activities:		
Dividends paid	$(54)	$(165)
Dividends paid to noncontrolling interests	(321)	(233)
Purchases of treasury shares	(32)	
Purchases of treasury shares by subsidiary	(2)	(70)
Issuance of common stock	2	2
Proceeds from subsidiaries' equity issuances		245
Principal payments on debt	(260)	(747)
Issuance of debt	666	886
Receipts of investment contract account balances	2	2
Return of investment contract account balances	(10)	(299)
Excess tax benefits from share-based payment arrangements		3
Other	12	3
Net cash flow financing activities - continuing operations	3	(373)
Net cash flow financing activities - discontinued operations		
Net cash flow financing activities - total	3	(373)
Effect of foreign exchange rate on cash - continuing operations	5	(1)
Net change in cash	5	17
Net cash transactions from:		
Continuing operations to discontinued operations		780
Discontinued operations to continuing operations		(780)
Cash, beginning of period	131	160
Cash, end of period	$136	$177
Cash, end of period:		
Continuing operations	$136	$168
Discontinued operations		9
Total	$136	$177

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: commercial property and casualty insurance (CNA Financial Corporation (“CNA”), a 90% owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. (“Diamond Offshore”), a 50.4% owned subsidiary); exploration, production and marketing of natural gas and natural gas liquids (HighMount Exploration & Production LLC (“HighMount”), a wholly owned subsidiary); the operation of interstate natural gas transmission pipeline systems including integrated storage facilities (Boardwalk Pipeline Partners, LP (“Boardwalk Pipeline”), a 75% owned subsidiary); and the operation of hotels (Loews Hotels Holding Corporation (“Loews Hotels”), a wholly owned subsidiary). Unless the context otherwise requires, the terms “Company,” “Loews” and “Registrant” as used herein mean Loews Corporation excluding its subsidiaries and the term “Net income (loss) –Loews” as used herein means Net income (loss) attributable to Loews Corporation.

In June of 2008, the Company disposed of its entire ownership interest in its wholly owned subsidiary, Lorillard, Inc. (“Lorillard”). Accordingly, amounts related to Lorillard have been reclassified and are reported as Discontinued Operations. See Note 14 and the Company’s 2008 Annual Report on Form 10-K.

In the opinion of management, the accompanying unaudited Consolidated Condensed Financial Statements reflect all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 2009 and December 31, 2008 and the results of operations and comprehensive income for the three and six months ended June 30, 2009 and 2008 and changes in cash flows for the six months ended June 30, 2009 and 2008. The Company’s management evaluated subsequent events through July 31, 2009.

Net income (loss) for the second quarter and first half of each of the years is not necessarily indicative of net income (loss) for that entire year.

Reference is made to the Notes to Consolidated Financial Statements in the 2008 Annual Report on Form 10-K which should be read in conjunction with these Consolidated Condensed Financial Statements.

Supplementary cash flow information – As discussed above, in June of 2008, the Company disposed of its entire ownership interest in Lorillard resulting in a non-cash gain on disposal of $4.3 billion. Investing activities includes net accrued capital expenditures of $125 million for the six months ended June 30, 2009. For the six months ended June 30, 2008, net cash outflows increased by $162 million due to payment of previously accrued capital expenditures.

Accounting changes – In December of 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 160, “Noncontrolling Interests in Consolidated Financial Statements.” SFAS No. 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as a component of equity in the Consolidated Financial Statements. Therefore, the Noncontrolling interest in the equity section includes the appropriate reclassification of balances for CNA, Diamond Offshore and Boardwalk Pipeline formerly recognized as Minority interest liability on the Consolidated Balance Sheets. Moreover, SFAS No. 160 requires that transactions between an entity and noncontrolling interests be treated as equity transactions. Prior to the adoption of SFAS No. 160, the Company recorded a gain on the sale of common equity of a subsidiary equal to the amount of proceeds received in excess of the carrying value of the units sold. Upon adoption of SFAS No. 160, the Company’s deferred gains related to the issuances of Boardwalk Pipeline common units ($536 million at January 1, 2009) were recognized in Additional paid-in capital, which previously were included in minority interest liability in the Consolidated

Condensed Balance Sheets.

In February of 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, "Effective Date of SFAS No. 157," which delayed the effective date of SFAS No. 157, "Fair Value Measurements," for all nonrecurring fair value measurements of nonfinancial assets and nonfinancial liabilities until the fiscal year beginning after November 15, 2008. As of January 1, 2009, the Company adopted the provisions of SFAS No. 157 as it relates to reporting units and indefinite-lived intangible assets measured at fair value for the purposes of impairment testing and asset retirement obligations. The adoption of these provisions had no impact on the Company's financial condition or results of operations.

In March of 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities." SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. The Company's adoption of SFAS No. 161 had no impact on its financial condition or results of operations. See Note 4.

In May of 2008, the FASB issued FSP No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." This FSP clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants." FSP No. APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. As required, the Company's Consolidated Condensed Financial Statements have been retrospectively adjusted to reflect the effect of adoption of FSP No. APB 14-1. The adoption of FSP No. APB 14-1 increased Property, plant and equipment $16 million, Total assets $13 million and Total equity $13 million and decreased Deferred income taxes $3 million at January 1, 2009 and 2008. The adoption of FSP No. APB 14-1 had no effect on previously stated basic and diluted earnings per share.

In April of 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," which amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," to require disclosures about fair value of financial instruments in interim as well as annual financial statements. The Company's adoption of this standard did not impact the financial condition or results of operations of the Company. See Note 3.

In April of 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments," which amends 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. FSP No. FAS 115-2 and FAS 124-2 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, FSP No. FAS 115-2 and FAS 124-2 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 FSP No. FAS 115-2 and FAS 124-2, 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 FSP No. FAS 115-2 and FAS 124-2 as of April 1, 2009 resulted in a cumulative effect adjustment of $109 million, after tax and noncontrolling interests, reclassified to Accumulated other comprehensive income ("AOCI") from Retained earnings on the Consolidated Condensed Statement of Equity. The cumulative effect adjustment represents the non-credit component of those previously impaired fixed maturity securities that are still considered OTTI, and the entire amount previously recorded as an OTTI loss on fixed maturity securities no longer considered OTTI as of April 1, 2009. FSP No. FAS 115-2 and FAS 124-2 also prospectively requires disclosures regarding expected cash flows, credit losses, and additional security types within the aging of securities with unrealized losses for each reporting period. The Company has complied with the additional prospective disclosure requirements in Note 2.

In April of 2009, the FASB issued FSP No. FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Indentifying Transactions That Are Not Orderly,” which requires entities to assess whether certain factors exist that indicate that the volume and level of market activity for an asset or liability have decreased or that transactions are not orderly. If, after evaluating those factors, the evidence indicates there has been a significant decrease in the volume and level of activity in relation to normal market activity, observed transactional values or quoted prices may not be determinative of fair value and adjustment to the observed transactional values or quoted prices may be necessary to estimate fair value. FSP No. FAS 157-4 also prospectively expands and increases the frequency of existing disclosures related primarily to additional security types and valuation methodologies. The Company’s adoption of this standard did not impact the financial condition or results of operations of the Company. The Company has complied with the additional prospective disclosure requirements in Note 3.

New accounting pronouncements not yet adopted - In June of 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R).” SFAS No. 167 amends the requirements for determination of the primary beneficiary of a variable interest entity, requires an ongoing assessment of whether an entity is the primary beneficiary and requires enhanced interim and annual disclosures that will provide users of financial statements information regarding an enterprise’s involvement in a variable interest entity. SFAS No. 167 is effective for annual reporting periods beginning after November 15, 2009. The adoption of SFAS No. 167 is not expected to have a material impact on the Company’s financial condition or results of operations.

2. Investments

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
(In millions)				
Net investment income consisted of:				
Fixed maturity securities	$487	$476	$962	$994
Short term investments	13	36	24	89
Limited partnerships	159	46	89	7
Equity securities	14	39	28	44
Trading portfolio	72	103	98	51
Other	1	9	4	21
Total investment income	746	709	1,205	1,206
Investment expenses	(11)	(12)	(23)	(30)
Net investment income	$735	$697	$1,182	$1,176
Investment gains (losses) are as follows:				
Fixed maturity securities	$(392)	$(158)	$(750)	$(160)
Equity securities	64	(14)	(152)	(29)
Derivative instruments	33	56	64	12
Short term investments	(5)	5	9	7
Other	3		1	8

Investment losses (a)	(297)	(111)	(828)	(162)
Gain on issuance of subsidiary stock		2		2
	(297)	(109)	(828)	(160)
Income tax benefit	99	39	285	57
Amounts attributable to noncontrolling interests	20	6	55	10
Investment losses, net - Loews	$(178)	$(64)	$(488)	$(93)

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(a) Includes gross realized gains of $173, $90, $281 and $211 and gross realized losses of ($501), ($262), ($1,183) and ($400) on available-for-sale securities for the three and six months ended June 30, 2009 and 2008.

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

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

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

CNA performs the discounted cash flow analysis using distressed scenarios to determine future expectations regarding recoverability. For asset-backed securities significant assumptions enter into these cash flow projections including delinquency rates, probable risk of default, loss severity upon a default, over collateralization and interest coverage triggers, credit support from lower level tranches and impacts of rating agency downgrades. The discount rate utilized is either the yield at acquisition, or for lower rated structured securities, the current yield.

CNA applies the same impairment model as described above for the majority of the non-redeemable preferred stock securities. For all other equity securities, in determining whether the security is other-than-temporarily impaired, the Impairment Committee considers a number of factors including, but not limited to: (i) the length of time and the extent to which the fair value has been less than amortized cost, (ii) the financial condition and near term prospects of the issuer, (iii) the intent and ability of CNA to retain its investment for a period of time sufficient to allow for an anticipated recovery in value and (iv) general market conditions and industry or sector specific outlook.

Prior to adoption of FSP No. FAS 115-2 and FAS 124-2, CNA applied the impairment model described above for all other equity securities to both debt and equity securities.

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

June 30, 2009	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months	12 Months or Greater	Estimated Fair Value	Unrealized OTTI Losses
(In millions)						
Fixed maturity securities:						
U.S. Treasury securities and obligations of government agencies	$ 1,008	$ 43	$ 80		$ 971	
Asset-backed securities:						
Residential mortgage-backed securities	7,458	41	308	$ 926	6,265	$ 141
Commercial mortgage-backed securities	901	1	10	240	652	7
Other asset-backed securities	476	9	1	54	430	
Total asset-backed securities	8,835	51	319	1,220	7,347	148
States, municipalities and political subdivisions-tax exempt securities	8,289	106	263	494	7,638	
Corporate and other taxable bonds	15,526	543	564	582	14,923	2
Redeemable preferred stock	69	2	5	4	62	
Fixed maturities available-for-sale	33,727	745	1,231	2,300	30,941	150
Fixed maturities, trading	911	4	5	25	885	
Total fixed maturities	34,638	749	1,236	2,325	31,826	150
Equity securities:						
Common stock	92	206		3	295	
Preferred stock	578	31	41	112	456	
Equity securities available-for-sale	670	237	41	115	751	
Equity securities, trading	288	76	23	39	302	
Total equity securities	958	313	64	154	1,053	-
Short term investments:						
Short term investments available-for-sale	5,683	2	1		5,684	
Short term investments, trading	770				770	
Total short term investments	6,453	2	1	-	6,454	-
Total	$ 42,049	$ 1,064	$ 1,301	$ 2,479	$ 39,333	$ 150

December 31, 2008						
Fixed maturity securities:						
U.S. Treasury securities and obligations of government agencies	$ 2,862	$ 69	$ 1		$ 2,930	
Asset-backed securities	9,670	24	961	$ 969	7,764	
States, municipalities and political subdivisions-tax exempt securities	8,557	90	609	623	7,415	
Corporate and other taxable bonds	12,993	275	1,164	1,374	10,730	
Redeemable preferred stock	72	1	23	3	47	

Fixed maturities available-for-sale	34,154	459	2,758	2,969	28,886
Fixed maturities, trading	613	1	19	30	565
Total fixed maturities	34,767	460	2,777	2,999	29,451
Equity securities:					
Equity securities available-for-sale	1,018	195	16	324	873
Equity securities, trading	384	52	78	46	312
Total equity securities	1,402	247	94	370	1,185
Short term investments:					
Short term investments available-for-sale	4,999	11	3		5,007
Short term investments, trading	1,022				1,022
Total short term investments	6,021	11	3	-	6,029
Total	$ 42,190	$ 718	$ 2,874	$ 3,369	$ 36,665

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The amount of net unrealized losses on available-for-sale securities reclassified out of AOCI into earnings was $328 million pretax for the three months ended June 30, 2009.

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

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

Based on current facts and circumstances, the Company has determined that no additional OTTI losses related to the securities in an unrealized loss position presented in the June 30, 2009 summary of fixed maturity and equity securities table above are required to be recorded. A discussion of some of the factors reviewed in making that determination is presented below.

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

The market disruption that emerged in 2008 has subsided moderately during the second quarter of 2009. While the government has initiated programs intended to stabilize and improve markets and the economy, the ultimate impact of these programs remains uncertain and economic conditions in the U.S. remain challenging. As a result, the Company incurred realized losses in its investment portfolio during both the first and second quarters of 2009 which have adversely impacted its results of operations. The first quarter losses were primarily driven by the continuing credit issues attributable to the asset-backed and financial sectors. The second quarter losses were primarily driven by the actual and anticipated impact of difficult economic conditions on residential and commercial mortgage-backed securities.

Asset-Backed Securities

The unrealized losses on the Company’s investments in asset-backed securities are due to a combination of factors related to the market disruption caused by credit concerns that began with the sub-prime issue, but then also extended into other collateral supporting securities in the Company’s portfolio. 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.

Residential mortgage-backed securities include 333 structured securities in a gross unrealized loss position. In addition there were 110 agency mortgage-backed pass-through securities in a gross unrealized loss position, which are guaranteed by agencies of the U.S. Government. The aggregate severity of the gross unrealized loss was approximately 21.0% of amortized cost.

Commercial mortgage-backed securities include 60 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 31.1% of amortized cost.

Other asset-backed securities include 19 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 17.9% of amortized cost.

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

June 30, 2009	Amortized Cost	Estimated Fair Value	Gross Unrealized Loss
(In millions)			
U.S. Government Agencies	$732	$714	$18
AAA	4,327	3,431	896
AA	491	308	183
A	427	249	178
BBB	353	269	84
Non-investment grade and equity tranches	657	477	180
Total	$6,987	$5,448	$1,539

The Company believes the unrealized losses were primarily attributable to broader economic conditions, liquidity concerns and wider than historical bid/ask spreads brought about as a result of portfolio liquidations and is not indicative of the quality of the underlying collateral. The Company has no current 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 relate to investments which were investment grade at the time of purchase but have subsequently been downgraded and are primarily related to holdings senior to the equity tranche. Additionally, the Company has judged that the unrealized losses on these securities were not due to factors regarding credit worthiness, collateral shortfalls, or substantial changes in future cash flow expectations and, as such, the Company has determined that there are no additional OTTI losses to be recorded at June 30, 2009.

OTTI losses of $480 million were recognized in earnings on the Consolidated Condensed Statements of Operations related to asset-backed securities, reflecting $268 million related to residential mortgage-backed securities, $181 million related to commercial mortgage-backed securities and $31 million related to other asset-backed securities for the six months ended June 30, 2009.

States, Municipalities and Political Subdivisions – Tax-Exempt Securities

The unrealized losses on the Company’s investments in tax-exempt municipal securities are due to overall market conditions, changes in credit spreads, and to a lesser extent, changes in interest rates. Market conditions in the tax-exempt sector have improved during the first half of 2009; however, yields for certain issuers and types of securities, such as auction rate and tobacco securitizations, continue to be higher than historical norms relative to after-tax returns on alternative classes. The holdings for all tax-exempt securities in this category include 573 securities in a gross unrealized loss position. The aggregate severity of the total gross unrealized losses was approximately 13.7% of amortized cost.

The ratings distribution of tax-exempt securities in a gross unrealized loss position are as follows:

June 30, 2009	Amortized Cost	Estimated Fair Value	Gross Unrealized Loss
(In millions)			

AAA	$1,673	$1,548	$125
AA	1,883	1,669	214
A	1,015	913	102
BBB	943	627	316
Total	$5,514	$4,757	$757

The portfolio consists primarily of special revenue and assessment bonds, representing 93.0% of the overall portfolio, followed by state general obligation bonds at 4.0% and general obligation political subdivision bonds at 3.0%.

The largest exposures at June 30, 2009 as measured by gross unrealized losses were special revenue bonds issued by several states backed by tobacco settlement funds with gross unrealized losses of $284 million, and several separate issues of Puerto Rico Sales Tax revenue bonds with gross unrealized losses of $86 million. All of these securities are investment grade.

The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost. Additionally, the Company has judged that the unrealized losses on these securities were not due to factors regarding credit worthiness and, as such, the Company has determined that there are no additional OTTI losses to be recorded at June 30, 2009.

The tax-exempt portfolio includes auction rate securities primarily issued by student loan agencies from nine states which are substantially guaranteed by The Federal Family Education Loan Program. These securities had a fair value at June 30, 2009 of $745 million, no gross unrealized gains and gross unrealized losses of $36 million. At June 30, 2009 none of the auction rate securities held was paying below market penalty rates. The average rating on these holdings was AAA.

The obligations of both the State of California and political subdivisions in that State have not recovered as much as the majority of the municipal market, reflecting both the heavy impact that the current national recession has had on the California tax base as well as the political difficulties that the State had in reaching agreement on a budget. At June 30, 2009, the Company owned securities issued by 71 California obligors, with a fair value of $514 million, $8 million of gross unrealized gains and $61 million gross unrealized losses.

OTTI losses of $15 million were recognized in earnings on the Consolidated Condensed Statements of Operations related to tax-exempt securities for the six months ended June 30, 2009.

Corporate and Other Taxable Bonds

The holdings in this category include 608 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized losses was approximately 15.3% of amortized cost.

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

June 30, 2009	Amortized Cost	Estimated Fair Value	Gross Unrealized Loss
(In millions)			
Industry Sectors:			
Communications	$939	$853	$86
Consumer, Cyclical	927	781	146
Consumer, Non-cyclical	504	441	63
Energy	609	547	62
Financial	2,446	1,932	514
Industrial	537	472	65
Utilities	859	730	129

Other	673	592	81
Total	$7,494	$6,348	$1,146

June 30, 2009	Amortized Cost	Estimated Fair Value	Gross Unrealized Loss
(In millions)			
Ratings distribution:			
AAA	$323	$308	$15
AA	285	274	11
A	1,269	1,080	189
BBB	3,540	3,001	539
Non-investment grade	2,077	1,685	392
Total	$7,494	$6,348	$1,146

The unrealized losses on corporate and other taxable bonds were primarily attributable to deterioration and volatility in the broader credit markets throughout 2008 that resulted in widening of credit spreads over risk free rates well beyond historical norms and macro conditions in certain sectors that the market viewed as out of favor. These conditions generally continued into 2009 but have improved from the lows in 2008. 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 has judged that the unrealized losses were not due to factors regarding credit worthiness and, as such, the Company has determined that there are no additional OTTI losses to be recorded at June 30, 2009.

The Company has invested in securities with characteristics of both debt and equity investments, often referred to as hybrid debt securities. Such securities are typically debt instruments issued with long or extendable maturity dates, may provide for the ability to defer interest payments without defaulting and are usually lower in the capital structure of the issuer than traditional bonds. The financial industry sector presented above includes hybrid debt securities with an aggregate fair value of $593 million and an aggregate amortized cost of $855 million.

OTTI losses of $284 million were recognized in earnings on the Consolidated Condensed Statements of Operations related to corporate and other taxable bonds for the six months ended June 30, 2009.

Non-Redeemable Preferred Stock

The unrealized losses on the Company’s investments in non-redeemable preferred stock were caused by similar factors as those that affected the Company’s corporate bond portfolio. Approximately 81.0% of the gross unrealized losses in this category come from securities issued by financial institutions, and 19.0% from utilities. The holdings in this category include 24 securities in a gross unrealized loss position.

Non-redeemable preferred stocks in a gross unrealized loss position by ratings distribution are as follows:

June 30, 2009	Amortized Cost	Estimated Fair Value	Gross Unrealized Loss
(In millions)			
A	$104	$75	$29
BBB	421	304	117
Non-investment grade	18	11	7
Total	$543	$390	$153

The Company believes the holdings in this category have been adversely impacted by significant credit spread widening brought on by a combination of factors in the capital markets. The majority of securities in this category are related to the banking and mortgage industries and are experiencing what the Company believes to be temporarily depressed valuations. The Company has no current intent to sell these securities, nor is it more likely than not it will be required to sell prior to recovery of amortized cost. Additionally, the Company has judged that the unrealized losses on these securities were not due to factors regarding credit worthiness and, as such, the Company has determined that there are no additional OTTI losses to be recorded at June 30, 2009. This evaluation was made on the basis that these securities possess characteristics similar to debt securities and maintain their ability to pay dividends.

There were OTTI losses of $217 million recognized in earnings on the Consolidated Condensed Statements of Operations on non-redeemable preferred stock, including $188 million related to a major U.S. financial institution for the six months ended June 30, 2009.

Contractual Maturity

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

	June 30, 2009		December 31, 2008	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(In millions)				
Due in one year or less	$1,280	$1,203	$3,105	$2,707
Due after one year through five years	9,247	8,718	10,295	9,210
Due after five years through ten years	8,021	7,422	5,929	4,822
Due after ten years	15,179	13,598	14,825	12,147
Total	$33,727	$30,941	$34,154	$28,886

Limited Partnerships

The carrying value of limited partnerships as of June 30, 2009 and December 31, 2008 was approximately $2.0 billion and $1.8 billion. At June 30, 2009, limited partnerships comprising 52.4% of the total carrying value are reported on a current basis through June 30, 2009 with no reporting lag, 39.1% are reported on a one month lag and the remainder are reported on more than a one month lag. The Company had 83 and 85 active limited partnership investments as of June 30, 2009 and December 31, 2008. 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 does not generally invest in highly leveraged partnerships.

Of the limited partnerships held, 92.0% or approximately $1.8 billion in carrying value at June 30, 2009 and 89.5% or approximately $1.6 billion in carrying value at December 31, 2008, employ strategies that generate returns through investing in securities that are marketable while engaging in various management techniques primarily in public fixed income and equity markets. These hedge fund strategies include both long and short positions in fixed income, equity and derivative instruments. The hedge fund strategies may seek to generate gains from mispriced or undervalued securities, price differentials between securities, distressed investments, sector rotation, or various arbitrage disciplines. Within hedge fund strategies, approximately 46.9% are equity related, 31.9% pursue a multi-strategy approach, 16.5% are focused on distressed investments and 4.7% are fixed income related.

Limited partnerships representing 5.6% or $110 million at June 30, 2009 and 7.1% or $126 million at December 31, 2008 were invested in private equity. The remaining 2.4% or $48 million at June 30, 2009 and 3.4% or $61 million at

December 31, 2008 were invested in various other partnerships including real estate. The ten largest limited partnership positions held totaled $1,118 million and $915 million as of June 30, 2009 and December 31, 2008. Based on the most recent information available regarding the Company’s percentage ownership of the individual limited partnerships, the carrying value reflected on the Consolidated Condensed Balance Sheets represents approximately 4.4% and 3.4% of the aggregate partnership equity at June 30, 2009 and December 31, 2008, and the related income reflected on the Consolidated Condensed Statements of Operations represents 3.7%

and 3.3% of the changes in partnership equity for all limited partnership investments for the six months ended June 30, 2009 and 2008.

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

Investment Commitments

As of June 30, 2009, the Company had committed approximately $262 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in multiple bank loan participations as part of its overall investment strategy and has committed to additional future purchases and sales. The purchase and sale of these investments are recorded on the date that the legal agreements are finalized and cash settlement is made. As of June 30, 2009, the Company had commitments to purchase $213 million and sell $174 million of various bank loan participations. When loan participation purchases are settled and recorded they may contain both funded and unfunded amounts. An unfunded loan represents an obligation by the Company to provide additional amounts under the terms of the loan participation. The funded portions are reflected on the Consolidated Condensed Balance Sheets, while any unfunded amounts are not recorded until a draw is made under the loan facility. As of June 30, 2009, the Company had obligations on unfunded bank loan participations in the amount of $2 million.

3. Fair Value

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

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are not observable.

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

The fair values of CNA's life settlement contracts investments are included in Other assets. The fair values of discontinued operations investments are included in Other liabilities. Assets and liabilities measured at fair value on a recurring basis are summarized in the tables below:

June 30, 2009	Level 1	Level 2	Level 3	Total
(In millions)				
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	$184	$787		$971
Asset-backed securities:				
Residential mortgage-backed securities		5,457	$808	6,265
Commercial mortgage-backed securities		477	175	652
Other asset-backed securities		289	141	430
Total asset-backed securities		6,223	1,124	7,347
States, municipalities and political subdivisions-tax-exempt securities		6,853	785	7,638
Corporate and other taxable bonds	105	14,088	730	14,923
Redeemable preferred stock	21	40	1	62
Fixed maturities available-for-sale	310	27,991	2,640	30,941
Fixed maturities, trading	571	85	229	885
Total fixed maturities	$881	$28,076	$2,869	$31,826
Equity securities:				
Common stock	$102	$3	$190	$295
Preferred stock	353	84	19	456
Equity securities available-for-sale	455	87	209	751
Equity securities, trading	302			302
Total equity securities	$757	$87	$209	$1,053
Short term investments	$5,383	$1,071		$6,454
Receivables		124	$13	137
Life settlement contracts			126	126
Separate account business	55	320	38	413
Payable to brokers	(161)	(146)	(20)	(327)
Discontinued operations investments	79	52	13	144
December 31, 2008				
Fixed maturity securities	$2,358	$24,383	$2,710	$29,451
Equity securities	881	94	210	1,185
Short term investments	5,421	608		6,029
Receivables		182	40	222
Life settlement contracts			129	129
Separate account business	40	306	38	384
Payable to brokers	(168)	(260)	(112)	(540)
Discontinued operations investments	83	59	15	157

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The table below presents reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended June 30, 2009 and 2008:

2009	Balance, April 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income (Loss) (a)	Included in AOCI	Purchases, Sales, Issuances and Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, June 30	Unrealized Gains (Losses) Recognized in Net Income (Loss) on Level 3 Assets and Liabilities Held at June 30 (a)
(In millions)								
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	$ 743	$ (6)	$ 35	$ (25)	$ 71	$ (10)	$ 808	$ (5)
Commercial mortgage-backed securities	158	(155)	155	(9)	26		175	(155)
Other asset-backed securities	252		10	(2)		(119)	141	
Total asset-backed securities	1,153	(161)	200	(36)	97	(129)	1,124	(160)
States, municipalities and political subdivisions-tax-exempt securities	784		18	(17)			785	
Corporate and other taxable bonds	809		47	(137)	16	(5)	730	(1)
Redeemable preferred stock	19					(18)	1	
Fixed maturities available-for-sale	2,765	(161)	265	(190)	113	(152)	2,640	(161)
	213	6		6	4		229	4

Fixed maturities, trading								
Total fixed maturities	$ 2,978	$ (155)	$ 265	$ (184)	$ 117	$ (152)	$ 2,869	$ (157)
Equity securities:								
Common stock	$ 191		$ (1)				$ 190	
Preferred stock	19						19	
Equity securities available-for-sale	$ 210		$ (1)				$ 209	
Life settlement contracts	$ 127	$ 5		$ (6)			$ 126	
Separate account business	38		$ 3	(3)			38	
Discontinued operations investments	13		1	(1)			13	
Derivative financial instruments, net	(58)	17	(2)	36			(7)	(11)
2008								
Fixed maturity securities	$2,471	$(81)	$(55)	$80	$1,159	$(140)	$3,434	$(92)
Equity securities	196	(1)	(2)	48	22		263	(3)
Short term investments	85					(85)	-	
Life settlement contracts	118	12		(12)			118	1
Separate account business	47		(4)	2			45	
Discontinued operations investments	41			(1)		(17)	23	
Derivative financial instruments, net	(90)	10	(9)	6			(83)	15

The table below presents reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2009 and 2008:

2009	Balance, January 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income (Loss) (a)	Included in AOCI	Purchases, Sales, Issuances and Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, June 30	Unrealized Gains (Losses) Recognized in Net Income (Loss) on Level 3 Assets and Liabilities Held at June 30 (a)
(In millions)								
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	$782	$(23)	$36	$ (48)	$71	$(10)	$808	$ (12)
Commercial mortgage-backed securities	186	(165)	142	(14)	26		175	(165)
Other asset-backed securities	139	(30)	40	(42)	153	(119)	141	(31)
Total asset-backed securities	1,107	(218)	218	(104)	250	(129)	1,124	(208)
States, municipalities and political subdivisions-tax-exempt securities	750		55	(20)			785	
Corporate and other taxable bonds	622	(5)	46	67	18	(18)	730	(7)
Redeemable preferred stock	13	(9)	8	7		(18)	1	(9)
Fixed maturities available-for-sale	2,492	(232)	327	(50)	268	(165)	2,640	(224)
	218	9		(2)	4		229	4

Fixed maturities, trading								
Total fixed maturities	$2,710	$(223)	$327	$ (52)	$272	$(165)	$2,869	$ (220)
Equity securities:								
Common stock	$191		$(1)				$190	
Preferred stock	19						19	
Equity securities available-for-sale	$210		$(1)				$209	
Life settlement contracts	$129	$16		$ (19)			$126	$ 2
Separate account business	38		$4	(4)			38	
Discontinued operations investments	15			(2)			13	
Derivative financial instruments, net	(72)	35	(12)	42			(7)	(15)
2008								
Fixed maturity securities	$2,909	$(124)	$(270)	$81	$1,254	$(416)	$3,434	$(139)
Equity securities	199	(3)	(3)	48	22		263	(5)
Short term investments	85					(85)	-	
Life settlement contracts	115	30		(27)			118	5
Separate account business	30		(4)	(1)	20		45	
Discontinued operations investments	42			(2)		(17)	23	
Derivative financial instruments, net	(19)	(21)	3	(46)			(83)	(69)

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

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

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

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

Fixed Maturity Securities

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

Equity Securities

Level 1 securities include publicly traded securities valued using quoted market prices. Level 2 securities are primarily non-redeemable preferred securities and common stocks valued using pricing for similar securities, recently executed transactions, broker/dealer quotes and other pricing models utilizing observable inputs. Level 3 securities include one equity security, which represents 87.7% of the total at June 30, 2009, in an entity which is not publicly traded and is valued based on a discounted cash flow analysis model which is adjusted for the Company’s assumption regarding an inherent lack of liquidity in the security. The remaining non-redeemable preferred stocks and equity securities are primarily valued using inputs including broker/dealer quotes for which there is a lack of transparency as to whether these quotes are based on information that is observable in the marketplace.

Derivative Financial Instruments

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

Short Term Investments

The valuation of securities that are actively traded or have quoted prices are classified as Level 1. These securities include money market funds and U.S. Treasury bills. Level 2 includes commercial paper, for which all inputs are observable.

Life Settlement Contracts

The fair values of life settlement contracts are estimated using discounted cash flows based on CNA's own assumptions for mortality, premium expense, and the rate of return that a buyer would require on the contracts, as no comparable market pricing data is available.

Discontinued Operations Investments

Assets relating to CNA'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.

Assets and Liabilities Not Measured at Fair Value

The Company did not have any financial instrument assets which are not measured at fair value. The carrying amount and estimated fair value of the Company's financial instrument liabilities which are not measured at fair value on the Consolidated Condensed Balance Sheets are listed in the table below.

	June 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(In millions)				
Financial liabilities:				
Premium deposits and annuity contracts	$106	$107	$111	$113
Short term debt	23	23	71	71
Long term debt	8,647	8,201	8,187	7,166

The following methods and assumptions were used in estimating the fair value of these financial liabilities.

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 businesses.

Fair value of debt was based on quoted market prices when available. When quoted market prices were not available, the fair value for debt was based on quoted market prices of comparable instruments adjusted for differences between the quoted instruments and the instruments being valued or is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements.

4. Derivative Financial Instruments

The Company invests in certain derivative instruments for a number of purposes, including: (i) asset and liability management activities, (ii) income enhancements for its portfolio management strategy, and (iii) benefit from anticipated future movements in the underlying markets. If such movements do not occur as anticipated, then significant losses may occur.

Monitoring procedures include senior management review of daily detailed reports of existing positions and valuation fluctuations to ensure that open positions are consistent with the Company's portfolio strategy.

The Company does not believe that any of the derivative instruments utilized by it are unusually complex, nor do these instruments contain embedded leverage features which would expose the Company to a higher degree of risk.

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

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

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

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

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

Foreign exchange rate risk arises from the possibility that changes in foreign currency exchange rates will impact the fair value of financial instruments denominated in a foreign currency. The Company's foreign transactions are primarily denominated in Australian dollars, Brazilian reais, British pounds, Canadian dollars and the European Monetary Unit. The Company typically manages this risk via asset/liability currency matching and through the use of foreign currency futures and forwards. Beginning in May of 2009, Diamond Offshore began a hedging strategy and designated certain of its qualifying foreign currency forward exchange contracts as cash flow hedges.

In addition to the derivatives used for risk management purposes described above, the Company may also use derivatives for purposes of income enhancement. Income enhancement transactions are entered into with the intention of providing additional income or yield to a particular portfolio segment or instrument. Income enhancement transactions are limited in scope and primarily involve the sale of covered options in which the Company receives a premium in exchange for selling a call or put option.

The Company will also use CDS to sell credit protection against a specified credit event. In selling credit protection, CDS are used to replicate fixed income securities when credit exposure to certain issuers is not available or when it is economically beneficial to transact in the derivative market compared to the cash market alternative. Credit risk includes both the default event risk and market value exposure due to fluctuations in credit spreads. In selling CDS protection, the Company receives a periodic premium in exchange for providing credit protection on a single name reference obligation or a credit derivative index. If there is an event of default as defined by the CDS agreement, the Company is required to pay the counterparty the referenced notional amount of the CDS contract and in exchange the Company is entitled to receive the referenced defaulted security or the cash equivalent.

At June 30, 2009, the Company had $33 million notional value of outstanding CDS contracts where it had sold credit protection. The maximum payment related to these CDS contracts was $33 million assuming there was no residual value in the defaulted securities that the Company would receive as part of the contract terminations. The current fair value of these contracts was a liability of $1 million which represents the amount that the Company would have to pay to exit these derivative positions.

The table below summarizes credit default swap contracts where the Company sold credit protection. The largest single reference obligation in the table below represents 75.8% of the total notional value and is rated BBB.

June 30, 2009	Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps	Weighted Average Years to Maturity
(In millions of dollars)			
BBB		$25	0.5
B	$ (1)	8	3.6
Total	$ (1)	$33	1.2

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 Condensed 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 collateral provided by the Company was $87 million at June 30, 2009 and primarily consisted of cash and U.S. Treasury Bills. The fair value of cash collateral received from counterparties was $6 million at June 30, 2009.

The agreements governing HighMount's derivative instruments contain certain covenants, including a maximum debt to capitalization ratio. If HighMount does not comply with these covenants, the counterparties to the derivative instruments could terminate the agreements and request payment on those derivative instruments in net liability positions. The aggregate fair value of HighMount's derivative instruments that are in a liability position was $150 million at June 30, 2009. HighMount was not required to post any collateral under the governing agreements.

See Note 3 for information regarding the fair value of derivative instruments.

A summary of the aggregate contractual or notional amounts and gross estimated fair values related to derivative financial instruments follows. Equity options purchased are included in Equity securities, and all other derivative assets are reported as Receivables. Derivative liabilities are included in Payable to brokers on the Consolidated Condensed Balance Sheets. Embedded derivative instruments subject to bifurcation are reported together with the host contract, at fair value. The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and may not be representative of the potential for gain or loss on these instruments.

June 30		2009	
	Contractual/ Notional Amount	Estimated Fair Value Asset	Estimated Fair Value (Liability)
(In millions)			
With hedge designation			
Interest rate risk:			
Interest rate swaps	$1,600		$(145)
Foreign exchange:			
Forwards – short	119	$6	
Commodities:			
Forwards – short	498	120	(5)
Without hedge designation			
Equity markets:			
Options – purchased	217	61	
– written	285		(32)
Interest rate risks:			
Options on government securities - short			(28)
Futures – long	463		
– short	1,429		
Credit default swaps – purchased protection	328	5	(14)
– sold protection	33		(1)
Other	42	6	
Total	$5,014	$198	$(225)

Derivatives without hedge designation – For derivatives not held in a trading portfolio, new derivative transactions entered into totaled approximately $4.4 billion and $10.5 billion in notional value while derivative termination activity totaled approximately $5.3 billion and $11.4 billion during the three and six months ended June 30, 2009. The activity during the three and six months ended June 30, 2009 was primarily attributable to interest rate futures, interest rate options and interest rate swaps.

A summary of the recognized gains (losses) related to derivative financial instruments without hedge designation follows. The derivatives held for trading purposes were carried at fair value with the related gains and losses included within Net investment income on the Consolidated Condensed Statements of Operations.

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
(In millions)		
Included in Net investment income:		
Equity markets:		
Options – purchased	$(18)	$(20)
– written	25	30
Futures – long	11	11
Currency forwards – long	2	(6)
– short		7
Interest rate risk:		
Credit default swaps – purchased protection	3	12
– sold protection	(2)	(8)
Options on government securities – short	3	14
Futures – long		5
Other	(4)	(5)
Included in Investment gains (losses):		
Equity options – written	4	15
Interest rate risk:		
Interest rate swaps	38	59
Credit default swaps – purchased protection	(26)	(35)
– sold protection	8	2
Futures – short	9	23
Included in Other revenues:		
Currency forwards - short	9	9
Total	$62	