

LOEWS CORP  
Form 10-Q  
May 01, 2012  
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**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 March 31, 2012**

**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**  
(State or other jurisdiction of  
incorporation or organization)

**13-2646102**  
(I.R.S. Employer

**667 Madison Avenue, New York, N.Y. 10065-8087**

**Identification No.)**

(Address of principal executive offices) (Zip Code)

**(212) 521-2000**

(Registrant's telephone number, including area code)

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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  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  Not Applicable

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  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

Class  
Common stock, \$0.01 par value

Outstanding at April 20, 2012  
396,836,271 shares

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED BALANCE SHEETS****(Unaudited)**

|  | March 31,<br>2012 | December 31,<br>2011 |
|--|-------------------|----------------------|
| <b>(Dollar amounts in millions, except per share data)</b> |                   |                      |
| <b>Assets:</b>   |                   |                      |
| Investments:   |                   |                      |
| Fixed maturities, amortized cost of \$38,171 and \$37,466  | \$ 41,173         | \$ 40,040            |
| Equity securities, cost of \$962 and \$902                 | 1,026             | 927                  |
| Limited partnership investments                            | 2,909             | 2,711                |
| Other invested assets, primarily mortgage loans            | 292               | 245                  |
| Short term investments                                     | 5,558             | 5,105                |
| <br>   |                   |                      |
| Total investments  | 50,958            | 49,028               |
| Cash   | 99                | 129                  |
| Receivables  | 9,409             | 9,259                |
| Property, plant and equipment                              | 13,522            | 13,618               |
| Goodwill   | 908               | 908                  |
| Other assets   | 1,366             | 1,357                |
| Deferred acquisition costs of insurance subsidiaries       | 576               | 552                  |
| Separate account business                                  | 402               | 417                  |
| <br>   |                   |                      |
| Total assets   | \$ 77,240         | \$ 75,268            |
| <br>   |                   |                      |
| <b>Liabilities and Equity:</b>                             |                   |                      |
| Insurance reserves:  |                   |                      |
| Claim and claim adjustment expense                         | \$ 24,203         | \$ 24,303            |
| Future policy benefits                                     | 9,959             | 9,810                |
| Unearned premiums  | 3,383             | 3,250                |
| Policyholders funds  | 169               | 191                  |
| <br>   |                   |                      |
| Total insurance reserves                                   | 37,714            | 37,554               |
| Payable to brokers   | 920               | 162                  |
| Short term debt  | 88                | 88                   |
| Long term debt   | 8,954             | 8,913                |
| Deferred income taxes                                      | 937               | 622                  |
| Other liabilities  | 4,104             | 4,309                |
| Separate account business                                  | 402               | 417                  |
| <br>   |                   |                      |
| Total liabilities  | 53,119            | 52,065               |

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|   |                  |           |
|---|------------------|-----------|
| Preferred stock, \$0.10 par value:        |                  |           |
| Authorized 100,000,000 shares             |                  |           |
| Common stock, \$0.01 par value:           |                  |           |
| Authorized 1,800,000,000 shares           |                  |           |
| Issued 396,834,820 and 396,585,226 shares | <b>4</b>         | 4         |
| Additional paid-in capital                | <b>3,538</b>     | 3,494     |
| Retained earnings                         | <b>15,232</b>    | 14,890    |
| Accumulated other comprehensive income    | <b>654</b>       | 384       |
| <b>Total shareholders' equity</b>         | <b>19,428</b>    | 18,772    |
| Noncontrolling interests                  | <b>4,693</b>     | 4,431     |
| <b>Total equity</b>                       | <b>24,121</b>    | 23,203    |
| <br>                                      |                  |           |
| Total liabilities and equity              | <b>\$ 77,240</b> | \$ 75,268 |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

**Table of Contents****Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED STATEMENTS OF INCOME****(Unaudited)**

| <b>Three Months Ended March 31</b>  | <b>2012</b>      | <b>2011</b>      |
|---|------------------|------------------|
| <b>(In millions, except per share data)</b>   |                  |                  |
| <b>Revenues:</b>  |                  |                  |
| Insurance premiums  | \$ 1,649         | \$ 1,615         |
| Net investment income   | 726              | 661              |
| Investment losses:  |                  |                  |
| Other-than-temporary impairment losses  | (15)             | (20)             |
| Portion of other-than-temporary impairment losses recognized in Other comprehensive income (loss) | (12)             | (21)             |
| Net impairment losses recognized in earnings  | (27)             | (41)             |
| Other net investment gains  | 59               | 64               |
| Total investment gains  | 32               | 23               |
| Contract drilling revenues  | 755              | 789              |
| Other   | 582              | 580              |
| Total   | 3,744            | 3,668            |
| <b>Expenses:</b>  |                  |                  |
| Insurance claims and policyholders' benefits  | 1,381            | 1,364            |
| Amortization of deferred acquisition costs  | 295              | 297              |
| Contract drilling expenses  | 397              | 362              |
| Other operating expenses  | 819              | 737              |
| Interest  | 111              | 151              |
| Total   | 3,003            | 2,911            |
| Income before income tax  | 741              | 757              |
| Income tax expense  | (222)            | (195)            |
| Net income  | 519              | 562              |
| Amounts attributable to noncontrolling interests  | (152)            | (183)            |
| Net income attributable to Loews Corporation  | \$ 367           | \$ 379           |
| <b>Basic net income per share</b>   | <b>\$ 0.93</b>   | <b>\$ 0.92</b>   |
| <b>Diluted net income per share</b>   | <b>\$ 0.92</b>   | <b>\$ 0.92</b>   |
| <b>Dividends per share</b>  | <b>\$ 0.0625</b> | <b>\$ 0.0625</b> |

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**Weighted-average shares outstanding:**

|  |               |        |
|--|---------------|--------|
| Shares of common stock   | <b>396.77</b> | 412.90 |
| Dilutive potential shares of common stock                          | <b>0.67</b>   | 0.93   |
| <b>Total weighted-average shares outstanding assuming dilution</b> | <b>397.44</b> | 413.83 |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

**Table of Contents****Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)**

| <b>Three Months Ended March 31</b>  | <b>2012</b>   | <b>2011</b>   |
|---|---------------|---------------|
| <b>(In millions)</b>  |               |               |
| Net income  | <b>\$ 519</b> | <b>\$ 562</b> |
| Other comprehensive income (loss)   |               |               |
| Changes in:   |               |               |
| Net unrealized gains on investments with other-than-temporary impairments | <b>40</b>     | 38            |
| Net other unrealized gains on investments                                 | <b>217</b>    | 23            |
| Total unrealized gains on available-for-sale investments                  | <b>257</b>    | 61            |
| Unrealized gains (losses) on cash flow hedges                             | <b>15</b>     | (17)          |
| Foreign currency  | <b>21</b>     | 26            |
| Pension liability   | <b>7</b>      |               |
| Other comprehensive income  | <b>300</b>    | 70            |
| Comprehensive income  | <b>819</b>    | 632           |
| Amounts attributable to noncontrolling interests                          | <b>(183)</b>  | (189)         |
| Total comprehensive income attributable to Loews Corporation              | <b>\$ 636</b> | <b>\$ 443</b> |

*See accompanying Notes to Consolidated Condensed Financial Statements.*



**Table of Contents****Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED STATEMENTS OF EQUITY****(Unaudited)**

|   | <b>Loews Corporation Shareholders</b> |                                      |                 |                              |   |               |                                       |                                     |
|---|---------------------------------------|--------------------------------------|-----------------|------------------------------|---|---------------|---------------------------------------|-------------------------------------|
|   | <b>Total</b>                          | <b>Additional<br/>Common Paid-in</b> |                 | <b>Retained<br/>Earnings</b> | <b>Accumulated Other<br/>Comprehensive Income</b> |               | <b>Stock<br/>Held in<br/>Treasury</b> | <b>Noncontrolling<br/>Interests</b> |
|   |                                       | <b>Stock</b>                         | <b>Capital</b>  |                              | <b>(Loss)</b>                                     | <b>(Loss)</b> |                                       |                                     |
| <b>(In millions)</b>  |                                       |                                      |                 |                              |   |               |                                       |                                     |
| Balance, January 1, 2011, as reported   | \$ 23,106                             | \$ 4                                 | \$ 3,667        | \$ 14,564                    | \$ 230  | \$ (15)       | \$                                    | \$ 4,656                            |
| Adjustment to initially apply updated guidance on accounting for costs associated with acquiring or renewing insurance contracts        | (78)                                  |                                      |                 | (64)                         |   |               |                                       | (14)                                |
| Balance, January 1, 2011, as restated   | 23,028                                | 4                                    | 3,667           | 14,500                       | 230   | (15)          | \$                                    | 4,642                               |
| Net income  | 562                                   |                                      |                 | 379                          |   |               |                                       | 183                                 |
| Other comprehensive income  | 70                                    |                                      |                 |                              | 64  |               |                                       | 6                                   |
| Dividends paid  | (124)                                 |                                      |                 | (26)                         |   |               |                                       | (98)                                |
| Purchase of Loews treasury stock  | (187)                                 |                                      |                 |                              |   |               | (187)                                 |                                     |
| Issuance of Loews common stock  | 4                                     |                                      | 4               |                              |   |               |                                       |                                     |
| Stock-based compensation  | 6                                     |                                      | 5               |                              |   |               |                                       | 1                                   |
| Other   | 5                                     |                                      | (5)             | (1)                          |   |               |                                       | 11                                  |
| Balance, March 31, 2011   | \$ 23,364                             | \$ 4                                 | \$ 3,671        | \$ 14,852                    | \$ 294  | \$ (202)      | \$                                    | \$ 4,745                            |
| <b>Balance, January 1, 2012, as reported</b>  | <b>\$ 23,273</b>                      | <b>\$ 4</b>                          | <b>\$ 3,499</b> | <b>\$ 14,957</b>             | <b>\$ 375</b>                                     | <b>\$</b>     | <b>\$</b>                             | <b>\$ 4,438</b>                     |
| <b>Adjustment to initially apply updated guidance on accounting for costs associated with acquiring or renewing insurance contracts</b> | <b>(70)</b>                           |                                      | <b>(5)</b>      | <b>(67)</b>                  | <b>9</b>  |               |                                       | <b>(7)</b>                          |
| <b>Balance, January 1, 2012, as restated</b>  | <b>23,203</b>                         | <b>4</b>                             | <b>3,494</b>    | <b>14,890</b>                | <b>384</b>  |               |                                       | <b>4,431</b>                        |
| <b>Net income</b>   | <b>519</b>                            |                                      |                 | <b>367</b>                   |   |               |                                       | <b>152</b>                          |
| <b>Other comprehensive income</b>   | <b>300</b>                            |                                      |                 |                              | <b>269</b>  |               |                                       | <b>31</b>                           |
| <b>Dividends paid</b>   | <b>(133)</b>                          |                                      |                 | <b>(25)</b>                  |   |               |                                       | <b>(108)</b>                        |
| <b>Issuance of equity securities by subsidiary</b>  | <b>222</b>                            |                                      | <b>36</b>       |                              | <b>1</b>  |               |                                       | <b>185</b>                          |
| <b>Issuance of Loews common stock</b>   | <b>5</b>                              |                                      | <b>5</b>        |                              |   |               |                                       |                                     |
| <b>Stock-based compensation</b>   | <b>6</b>                              |                                      | <b>5</b>        |                              |   |               |                                       | <b>1</b>                            |
| <b>Other</b>  | <b>(1)</b>                            |                                      | <b>(2)</b>      |                              |   |               |                                       | <b>1</b>                            |
| <b>Balance, March 31, 2012</b>  | <b>\$ 24,121</b>                      | <b>\$ 4</b>                          | <b>\$ 3,538</b> | <b>\$ 15,232</b>             | <b>\$ 654</b>                                     | <b>\$</b>     | <b>\$</b>                             | <b>\$ 4,693</b>                     |

See accompanying Notes to Consolidated Condensed Financial Statements.

**Table of Contents****Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(Unaudited)**

| <b>Three Months Ended March 31</b>   | <b>2012</b> | <b>2011</b> |
|--|-------------|-------------|
| <b>(In millions)</b>   |             |             |
| <b>Operating Activities:</b>   |             |             |
| Net income   | \$ 519      | \$ 562      |
| Adjustments to reconcile net income to net cash provided (used) by operating activities, net | 270         | 164         |
| Changes in operating assets and liabilities, net:  |             |             |
| Receivables  | 142         | 138         |
| Deferred acquisition costs   | (15)        | (15)        |
| Insurance reserves   | 99          | 45          |
| Other assets   | (6)         | 10          |
| Other liabilities  | (187)       | (297)       |
| Trading securities   | (494)       | 522         |
| Net cash flow operating activities   | 328         | 1,129       |
| <b>Investing Activities:</b>   |             |             |
| Purchases of fixed maturities  | (2,842)     | (3,480)     |
| Proceeds from sales of fixed maturities  | 1,929       | 1,893       |
| Proceeds from maturities of fixed maturities   | 683         | 965         |
| Purchases of equity securities   | (12)        | (34)        |
| Proceeds from sales of equity securities   | 19          | 128         |
| Purchases of property, plant and equipment   | (238)       | (150)       |
| Deposits for construction of offshore drilling equipment                                     |             | (309)       |
| Dispositions   | 41          |             |
| Change in short term investments   | (88)        | 277         |
| Change in other investments  | (17)        | (114)       |
| Other, net   | 12          | 8           |
| Net cash flow investing activities   | (513)       | (816)       |
| <b>Financing Activities:</b>   |             |             |
| Dividends paid   | (25)        | (26)        |
| Dividends paid to noncontrolling interests   | (108)       | (98)        |
| Purchases of treasury shares   |             | (188)       |
| Issuance of common stock   | 5           | 4           |
| Proceeds from sale of subsidiary stock   | 245         | 6           |
| Principal payments on debt   | (331)       | (913)       |
| Issuance of debt   | 370         | 904         |
| Other, net   | (2)         | (1)         |
| Net cash flow financing activities   | 154         | (312)       |

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|   |              |               |
|---|--------------|---------------|
| Effect of foreign exchange rate on cash | <b>1</b>     | <b>2</b>      |
| Net change in cash                      | <b>(30)</b>  | <b>3</b>      |
| Cash, beginning of period               | <b>129</b>   | <b>120</b>    |
| Cash, end of period                     | <b>\$ 99</b> | <b>\$ 123</b> |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

**Table of Contents****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); interstate transportation and storage of natural gas (Boardwalk Pipeline Partners, LP ( Boardwalk Pipeline ), a 61% owned subsidiary); exploration, production and marketing of natural gas and oil (including condensate and natural gas liquids), (HighMount Exploration & Production LLC ( HighMount ), a wholly owned subsidiary); and the operation of hotels (Loews Hotels Holding Corporation ( Loews Hotels ), a wholly owned subsidiary). In the first quarter of 2012, Boardwalk Pipeline sold 9.2 million common units through a public offering for \$245 million, reducing the Company's ownership interest from 64% to 61%. 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 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 March 31, 2012 and December 31, 2011 and the results of operations, comprehensive income and changes in shareholders' equity and cash flows for the three months ended March 31, 2012 and 2011.

Net income for the first quarter of each of the years is not necessarily indicative of net income for that entire year.

Reference is made to the Notes to Consolidated Financial Statements in the 2011 Annual Report on Form 10-K which should be read in conjunction with these Consolidated Condensed Financial Statements.

The Company presents basic and diluted earnings per share on the Consolidated Condensed Statements of Income. Basic earnings per share excludes dilution and is computed by dividing net income (loss) attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Stock appreciation rights ( SARs ) of 2.2 million and 1.9 million shares were not included in the diluted weighted average shares amount for the three months ended March 31, 2012 and 2011 due to the exercise price being greater than the average stock price.

**Impairment of Natural Gas and Oil Properties** For the three months ended March 31, 2012, HighMount recorded a non-cash ceiling test impairment charge of \$44 million (\$28 million after tax) related to its carrying value of natural gas and oil properties. The impairment was recorded as a credit to Accumulated depreciation, depletion and amortization. The write-down was the result of declines in natural gas prices. Had the effects of HighMount's cash flow hedges not been considered in calculating the ceiling limitation, the impairment would have been \$69 million (\$44 million after tax).

**Hardy Underwriting Bermuda Limited ( Hardy )** On March 21, 2012, CNA announced an agreement to acquire Hardy, a specialized Lloyd's underwriter, in a cash acquisition for approximately \$227 million. Hardy underwrote approximately \$430 million in gross written premiums in 2011. Subject to regulatory approvals and other conditions, the acquisition is expected to be completed during the second quarter of 2012. As of March 31, 2012, \$230 million of short term investments were held in escrow in British pounds to fund the acquisition.

**Accounting Changes** In October of 2010, the Financial Accounting Standards Board 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 previous guidance allowed the capitalization of acquisition costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts, whether the costs related to successful or unsuccessful efforts.

As of January 1, 2012, the Company adopted the updated accounting guidance prospectively as of January 1, 2004, the earliest date practicable. Due to the lack of available historical data related to certain accident and health contracts issued prior to January 1, 2004, a full retrospective application of the change in accounting guidance was impracticable. Acquisition costs capitalized prior to January 1, 2004 will continue to be accounted for under the previous accounting guidance and will be 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.



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The Company has adjusted its previously reported financial information included herein to reflect the change in accounting guidance for deferred acquisition costs. The impacts of adopting the new accounting standard on the Company's Consolidated Condensed Balance Sheet as of December 31, 2011 were a \$106 million decrease in Deferred acquisition costs of insurance subsidiaries and a \$37 million decrease in Deferred income tax liabilities. The impacts to Accumulated other comprehensive income ( AOCI ) and Additional paid-in capital ( APIC ) were the result of the indirect effects of the Company's adoption of this guidance on Shadow Adjustments, as further discussed in Note 2, and CNA's acquisition of the noncontrolling interest of CNA Surety in 2011.

The impacts on the Company's Consolidated Condensed Statement of Income for the three month period ended March 31, 2011 were a \$48 million decrease in Amortization of deferred acquisition costs, a \$52 million increase in Other operating expenses and a \$1 million decrease in Income tax expense, resulting in a \$3 million decrease in Net income. There were no changes to net cash flows from operating, investing or financing activities for the comparative period presented as a result of the adoption of the new accounting standard.

**2. Investments**

Net investment income is as follows:

| <b>Three Months Ended March 31</b> | <b>2012</b>   | 2011   |
|------------------------------------|---------------|--------|
| <b>(In millions)</b>               |               |        |
| Fixed maturity securities          | <b>\$ 516</b> | \$ 506 |
| Short term investments             | <b>3</b>      | 3      |
| Limited partnerships               | <b>143</b>    | 134    |
| Equity securities                  | <b>4</b>      | 6      |
| Income from trading portfolio (a)  | <b>70</b>     | 23     |
| Other                              | <b>4</b>      | 4      |
| <b>Total investment income</b>     | <b>740</b>    | 676    |
| Investment expenses                | <b>(14)</b>   | (15)   |
| <b>Net investment income</b>       | <b>\$ 726</b> | \$ 661 |

(a) Includes net unrealized gains related to changes in fair value on trading securities still held of \$36 million and \$21 million for the three months ended March 31, 2012 and 2011.

Investment gains (losses) are as follows:

| <b>Three Months Ended March 31</b> | <b>2012</b>  | 2011  |
|------------------------------------|--------------|-------|
| <b>(In millions)</b>               |              |       |
| Fixed maturity securities          | <b>\$ 30</b> | \$ 20 |
| Equity securities                  | <b>1</b>     |       |
| Derivative instruments             | <b>(1)</b>   | (1)   |
| Short term investments             | <b></b>      | 2     |
| Other                              | <b>2</b>     | 2     |
| <b>Investment gains (a)</b>        | <b>\$ 32</b> | \$ 23 |

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- (a) Includes gross realized gains of \$72 million and \$93 million and gross realized losses of \$41 million and \$73 million on available-for-sale securities for the three months ended March 31, 2012 and 2011.

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The components of other-than-temporary impairment ( OTTI ) losses recognized in earnings by asset type are as follows:

| <b>Three Months Ended March 31</b>                                | <b>2012</b>  | <b>2011</b> |
|---|--------------|-------------|
| <b>(In millions)</b>  |              |             |
| <b>Fixed maturity securities available-for-sale:</b>              |              |             |
| Corporate and other bonds   | <b>\$ 10</b> | \$ 9        |
| <b>Asset-backed:</b>  |              |             |
| Residential mortgage-backed                                       | <b>14</b>    | 28          |
| U.S. Treasury and obligations of government-sponsored enterprises | <b>1</b>     |             |
| <b>Total fixed maturities available-for-sale</b>                  | <b>25</b>    | 37          |
| <b>Equity securities available-for-sale:</b>                      |              |             |
| Common stock  | <b>2</b>     | 3           |
| Preferred stock   |              | 1           |
| <b>Total equity securities available-for-sale</b>                 | <b>2</b>     | 4           |
| <b>Net OTTI losses recognized in earnings</b>                     | <b>\$ 27</b> | \$ 41       |

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 all 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 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. 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 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. In subsequent reporting periods, a change in intent to sell or further credit impairment on a security whose fair value has not deteriorated will cause the non-credit component originally recorded as OTTI in Other comprehensive income to be recognized as an OTTI loss in earnings.

CNA 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 and credit support from lower level tranches.

CNA applies the same impairment model as described above for the majority of non-redeemable preferred stock securities on the basis that these securities possess characteristics similar to debt securities and that the issuers maintain their ability to pay dividends. For all other equity



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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.

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

| March 31, 2012  | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Unrealized<br>OTTI<br>Losses (Gains) |
|---|------------------------------|------------------------------|-------------------------------|-------------------------|--------------------------------------|
| <b>(In millions)</b>  |                              |                              |                               |                         |                                      |
| <b>Fixed maturity securities:</b>                                 |                              |                              |                               |                         |                                      |
| Corporate and other bonds   | \$ 19,324                    | \$ 2,013                     | \$ 61                         | \$ 21,276               |                                      |
| States, municipalities and political subdivisions                 | 9,234                        | 1,042                        | 93                            | 10,183                  |                                      |
| <b>Asset-backed:</b>  |                              |                              |                               |                         |                                      |
| Residential mortgage-backed                                       | 5,958                        | 175                          | 139                           | 5,994                   | \$ 37                                |
| Commercial mortgage-backed  | 1,297                        | 68                           | 36                            | 1,329                   | (2)                                  |
| Other asset-backed  | 1,022                        | 18                           | 1                             | 1,039                   |                                      |
| <b>Total asset-backed</b>   | <b>8,277</b>                 | <b>261</b>                   | <b>176</b>                    | <b>8,362</b>            | <b>35</b>                            |
| U.S. Treasury and obligations of government-sponsored enterprises | 224                          | 12                           |                               | 236                     |                                      |
| Foreign government  | 634                          | 21                           |                               | 655                     |                                      |
| Redeemable preferred stock  | 105                          | 8                            |                               | 113                     |                                      |
| <b>Fixed maturities available-for-sale</b>                        | <b>37,798</b>                | <b>3,357</b>                 | <b>330</b>                    | <b>40,825</b>           | <b>35</b>                            |
| Fixed maturities, trading   | 373                          |                              | 25                            | 348                     |                                      |
| <b>Total fixed maturities</b>                                     | <b>38,171</b>                | <b>3,357</b>                 | <b>355</b>                    | <b>41,173</b>           | <b>35</b>                            |
| <b>Equity securities:</b>   |                              |                              |                               |                         |                                      |
| Common stock  | 32                           | 17                           | 1                             | 48                      |                                      |
| Preferred stock   | 246                          | 4                            |                               | 250                     |                                      |
| <b>Equity securities available-for-sale</b>                       | <b>278</b>                   | <b>21</b>                    | <b>1</b>                      | <b>298</b>              |                                      |
| Equity securities, trading  | 684                          | 107                          | 63                            | 728                     |                                      |
| <b>Total equity securities</b>                                    | <b>962</b>                   | <b>128</b>                   | <b>64</b>                     | <b>1,026</b>            |                                      |
| <b>Total</b>  | <b>\$ 39,133</b>             | <b>\$ 3,485</b>              | <b>\$ 419</b>                 | <b>\$ 42,199</b>        | <b>\$ 35</b>                         |

December 31, 2011

|   |              |            |            |              |           |
|---|--------------|------------|------------|--------------|-----------|
| <b>Fixed maturity securities:</b>                                 |              |            |            |              |           |
| Corporate and other bonds   | \$ 19,086    | \$ 1,946   | \$ 154     | \$ 20,878    |           |
| States, municipalities and political subdivisions                 | 9,018        | 900        | 136        | 9,782        |           |
| <b>Asset-backed:</b>  |              |            |            |              |           |
| Residential mortgage-backed                                       | 5,786        | 172        | 183        | 5,775        | \$ 99     |
| Commercial mortgage-backed  | 1,365        | 48         | 59         | 1,354        | (2)       |
| Other asset-backed  | 946          | 13         | 4          | 955          |           |
| <b>Total asset-backed</b>   | <b>8,097</b> | <b>233</b> | <b>246</b> | <b>8,084</b> | <b>97</b> |
| U.S. Treasury and obligations of government-sponsored enterprises | 479          | 14         |            | 493          |           |

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|                                      |           |          |        |           |       |
|--------------------------------------|-----------|----------|--------|-----------|-------|
| Foreign government                   | 608       | 28       |        | 636       |       |
| Redeemable preferred stock           | 51        | 7        |        | 58        |       |
| Fixed maturities available-for-sale  | 37,339    | 3,128    | 536    | 39,931    | 97    |
| Fixed maturities, trading            | 127       |          | 18     | 109       |       |
| Total fixed maturities               | 37,466    | 3,128    | 554    | 40,040    | 97    |
| Equity securities:                   |           |          |        |           |       |
| Common stock                         | 30        | 17       |        | 47        |       |
| Preferred stock                      | 258       | 4        | 5      | 257       |       |
| Equity securities available-for-sale | 288       | 21       | 5      | 304       |       |
| Equity securities, trading           | 614       | 76       | 67     | 623       |       |
| Total equity securities              | 902       | 97       | 72     | 927       |       |
| Total                                | \$ 38,368 | \$ 3,225 | \$ 626 | \$ 40,967 | \$ 97 |

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The net unrealized gains on investments included in the tables above are recorded as a component of AOCI. When presented in AOCI, these amounts are net of tax and noncontrolling interests and any required Shadow Adjustments. At March 31, 2012 and December 31, 2011, the net unrealized gains on investments included in AOCI were net of Shadow Adjustments of \$676 million and \$651 million. To the extent that unrealized gains on fixed income securities supporting certain products within CNA's Life & Group Non-Core segment would result in a premium deficiency if realized, a related decrease in Deferred acquisition costs, and/or increase in Insurance reserves are recorded, net of tax and noncontrolling interests, as a reduction through Other comprehensive income (Shadow Adjustments).

The available-for-sale securities in a gross unrealized loss position are as follows:

|   | Less than 12 Months  |                         | 12 Months or Longer  |                         | Total                |                         |
|---|----------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
|   | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| March 31, 2012                                    |                      |                         |                      |                         |                      |                         |
| <b>(In millions)</b>                              |                      |                         |                      |                         |                      |                         |
| <b>Fixed maturity securities:</b>                 |                      |                         |                      |                         |                      |                         |
| Corporate and other bonds                         | \$ 1,635             | \$ 43                   | \$ 124               | \$ 18                   | \$ 1,759             | \$ 61                   |
| States, municipalities and political subdivisions | 385                  | 8                       | 460                  | 85                      | 845                  | 93                      |
| <b>Asset-backed:</b>                              |                      |                         |                      |                         |                      |                         |
| Residential mortgage-backed                       | 882                  | 39                      | 1,026                | 100                     | 1,908                | 139                     |
| Commercial mortgage-backed                        | 219                  | 18                      | 122                  | 18                      | 341                  | 36                      |
| Other asset-backed                                | 297                  | 1                       |                      |                         | 297                  | 1                       |
| <b>Total asset-backed</b>                         | <b>1,398</b>         | <b>58</b>               | <b>1,148</b>         | <b>118</b>              | <b>2,546</b>         | <b>176</b>              |
| <b>Total fixed maturities available-for-sale</b>  | <b>3,418</b>         | <b>109</b>              | <b>1,732</b>         | <b>221</b>              | <b>5,150</b>         | <b>330</b>              |
| <b>Equity securities available-for-sale:</b>      |                      |                         |                      |                         |                      |                         |
| Common stock                                      | 4                    | 1                       |                      |                         | 4                    | 1                       |
| <b>Total</b>                                      | <b>\$ 3,422</b>      | <b>\$ 110</b>           | <b>\$ 1,732</b>      | <b>\$ 221</b>           | <b>\$ 5,154</b>      | <b>\$ 331</b>           |

December 31, 2011

|   |                 |               |                 |               |                 |               |
|---|-----------------|---------------|-----------------|---------------|-----------------|---------------|
| <b>Fixed maturity securities:</b>                 |                 |               |                 |               |                 |               |
| Corporate and other bonds                         | \$ 2,552        | \$ 126        | \$ 159          | \$ 28         | \$ 2,711        | \$ 154        |
| States, municipalities and political subdivisions | 67              | 1             | 721             | 135           | 788             | 136           |
| <b>Asset-backed:</b>                              |                 |               |                 |               |                 |               |
| Residential mortgage-backed                       | 719             | 36            | 874             | 147           | 1,593           | 183           |
| Commercial mortgage-backed                        | 431             | 39            | 169             | 20            | 600             | 59            |
| Other asset-backed                                | 389             | 4             |                 |               | 389             | 4             |
| <b>Total asset-backed</b>                         | <b>1,539</b>    | <b>79</b>     | <b>1,043</b>    | <b>167</b>    | <b>2,582</b>    | <b>246</b>    |
| <b>Total fixed maturities available-for-sale</b>  | <b>4,158</b>    | <b>206</b>    | <b>1,923</b>    | <b>330</b>    | <b>6,081</b>    | <b>536</b>    |
| <b>Equity securities available-for-sale:</b>      |                 |               |                 |               |                 |               |
| Preferred stock                                   | 117             | 5             |                 |               | 117             | 5             |
| <b>Total</b>                                      | <b>\$ 4,275</b> | <b>\$ 211</b> | <b>\$ 1,923</b> | <b>\$ 330</b> | <b>\$ 6,198</b> | <b>\$ 541</b> |

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The amount of pretax net realized gains on available-for-sale securities reclassified out of AOCI into earnings was \$32 million and \$21 million for the three months ended March 31, 2012 and 2011.

The following table summarizes the activity for the three months ended March 31, 2012 and 2011 related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held at March 31, 2012 and 2011 for which a portion of an OTTI loss was recognized in Other comprehensive income.

| <b>Three Months Ended March 31</b>  | <b>2012</b>   | 2011   |
|---|---------------|--------|
| <b>(In millions)</b>  |               |        |
| <b>Beginning balance of credit losses on fixed maturity securities</b>  | <b>\$ 92</b>  | \$ 141 |
| <b>Additional credit losses for securities for which an OTTI loss was previously recognized</b>               | <b>11</b>     | 10     |
| <b>Credit losses for securities for which an OTTI loss was not previously recognized</b>                      | <b>1</b>      | 1      |
| <b>Reductions for securities sold during the period</b>   | <b>(4)</b>    | (25)   |
| <b>Reductions for securities the Company intends to sell or more likely than not will be required to sell</b> |               | (14)   |
| <b>Ending balance of credit losses on fixed maturity securities</b>   | <b>\$ 100</b> | \$ 113 |

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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 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 and Moody's Investors Service, Inc. in that order of preference. If a security is not rated by these providers, the Company formulates an internal rating.

### **States, Municipalities and Political Subdivisions**

The unrealized losses on the Company's investments in this category are primarily due to market conditions for zero coupon bonds, particularly for those with maturity dates that exceed 20 years. Yields for these securities continue to be higher than historical norms relative to after tax returns on similar fixed income securities. Securities that comprise 88.2% of the gross unrealized losses in this category are rated AA or higher.

The largest exposures at March 31, 2012 as measured by gross unrealized losses were several separate issues of Puerto Rico sales tax revenue bonds with gross unrealized losses of \$63 million. All of these securities are rated investment grade.

The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of principal and interest; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at March 31, 2012.

### **Asset-Backed Securities**

The fair value of total asset-backed holdings at March 31, 2012 was \$8.4 billion which was comprised of 2,028 different securities. The fair value of these securities tends to be influenced by the characteristics and projected cash flows of the underlying collateral rather than the credit of the issuer. 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, 104 had underlying collateral that was either considered sub-prime or Alt-A in nature. The exposure to sub-prime residential mortgage collateral and Alternative A residential mortgages that have lower than normal standards of loan documentation collateral is measured by the original deal structure.

The gross unrealized losses on residential mortgage-backed securities included \$42 million related to securities guaranteed by a U.S. government agency or sponsored enterprise and \$97 million related to non-agency structured securities. Non-agency structured securities included 112 securities that had at least one trade lot in a gross unrealized loss position and the aggregate severity of the gross unrealized loss was approximately 8.0% of amortized cost.

Commercial mortgage-backed securities included 43 securities that had at least one trade lot in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 9.6% of amortized cost.

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

| March 31, 2012   | Amortized<br>Cost | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses |
|--|-------------------|-------------------------|-------------------------------|
| <b>(In millions)</b>   |                   |                         |                               |
| <b>U.S. Government, Government Agencies and Government-Sponsored Enterprises</b> | <b>\$ 852</b>     | <b>\$ 810</b>           | <b>\$ 42</b>                  |
| AAA  | 246               | 239                     | 7                             |
| AA   | 226               | 215                     | 11                            |
| A  | 294               | 286                     | 8                             |
| BBB  | 209               | 193                     | 16                            |

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|                             |                 |                 |               |
|-----------------------------|-----------------|-----------------|---------------|
| <b>Non-investment grade</b> | <b>895</b>      | <b>803</b>      | <b>92</b>     |
| <b>Total</b>                | <b>\$ 2,722</b> | <b>\$ 2,546</b> | <b>\$ 176</b> |

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The Company believes the unrealized losses are primarily attributable to broader economic conditions, changes in interest rates, wider than historical bid/ask spreads, and uncertainty with regard to the timing and amount of ultimate collateral realization, but are not indicative of the ultimate collectability of the current carrying values of the securities. 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; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at March 31, 2012.

**Contractual Maturity**

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at March 31, 2012 and December 31, 2011. 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.

| (In millions)                          | March 31, 2012   |                      | December 31, 2011 |                      |
|--|------------------|----------------------|-------------------|----------------------|
|  | Amortized Cost   | Estimated Fair Value | Amortized Cost    | Estimated Fair Value |
| Due in one year or less                | \$ 1,842         | \$ 1,855             | \$ 1,802          | \$ 1,812             |
| Due after one year through five years  | 13,003           | 13,573               | 13,110            | 13,537               |
| Due after five years through ten years | 8,713            | 9,326                | 8,410             | 8,890                |
| Due after ten years                    | 14,240           | 16,071               | 14,017            | 15,692               |
| <b>Total</b>                           | <b>\$ 37,798</b> | <b>\$ 40,825</b>     | <b>\$ 37,339</b>  | <b>\$ 39,931</b>     |

**Investment Commitments**

As of March 31, 2012, the Company had committed approximately \$122 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, sales and funding. The purchase and sale of these investments are recorded on the date that the legal agreements are finalized and cash settlements are made. As of March 31, 2012, the Company had commitments to purchase \$151 million and sell \$127 million of such investments. The Company has an obligation to fund additional amounts under the terms of current loan participations that may not be recorded until a draw is made. As of March 31, 2012, the Company had obligations on unfunded bank loan participations in the amount of \$5 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.



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The type of financial instruments being measured and the methodologies and inputs used at March 31, 2012 were consistent with those disclosed in the Annual Report on Form 10-K for the year ended December 31, 2011.

Prices may fall within Level 1, 2 or 3 depending upon the methodologies and inputs used to estimate fair value for each specific security. In general, the Company seeks to price securities using third party pricing services. Securities not priced by pricing services are submitted to independent brokers for valuation and, if those are not available, internally developed pricing models are used to value assets using methodologies and inputs the Company believes market participants would use to value the assets.

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The Company performs control procedures over information obtained from pricing services and brokers to ensure prices received represent a reasonable estimate of fair value and to confirm representations regarding whether inputs are observable or unobservable. Procedures include (i) the review of pricing service or broker pricing methodologies, (ii) back-testing, where past fair value estimates are compared to actual transactions executed in the market on similar dates, (iii) exception reporting, where changes in price, period-over-period, are reviewed and challenged with the pricing service or broker based on exception criteria, (iv) detailed analyses, where the Company independently validates information regarding inputs and assumptions for individual securities and (v) pricing validation, where prices received are compared to prices independently estimated by the Company.

The fair values of CNA's life settlement contracts are included in Other assets. Equity options purchased are included in Equity securities, and all other derivative assets are included in Receivables. Derivative liabilities are included in Payable to brokers. Assets and liabilities measured at fair value on a recurring basis are summarized in the tables below:

| March 31, 2012<br>(In millions)                                   | Level 1  | Level 2   | Level 3  | Total     |
|---|----------|-----------|----------|-----------|
| <b>Fixed maturity securities:</b>                                 |          |           |          |           |
| Corporate and other bonds   |          | \$ 20,791 | \$ 485   | \$ 21,276 |
| States, municipalities and political subdivisions                 |          | 10,010    | 173      | 10,183    |
| <b>Asset-backed:</b>  |          |           |          |           |
| Residential mortgage-backed                                       |          | 5,547     | 447      | 5,994     |
| Commercial mortgage-backed  |          | 1,224     | 105      | 1,329     |
| Other asset-backed  |          | 655       | 384      | 1,039     |
| <b>Total asset-backed</b>   | \$       | 7,426     | 936      | 8,362     |
| U.S. Treasury and obligations of government-sponsored enterprises | 194      | 42        |          | 236       |
| Foreign government  | 124      | 531       |          | 655       |
| Redeemable preferred stock  | 5        | 55        | 53       | 113       |
| <b>Fixed maturities available-for-sale</b>                        | 323      | 38,855    | 1,647    | 40,825    |
| <b>Fixed maturities, trading</b>                                  | 208      | 39        | 101      | 348       |
| <b>Total fixed maturities</b>                                     | \$ 531   | \$ 38,894 | \$ 1,748 | \$ 41,173 |
| <b>Equity securities available-for-sale</b>                       | \$ 115   | \$ 109    | \$ 74    | \$ 298    |
| <b>Equity securities, trading</b>                                 | 715      | 2         | 11       | 728       |
| <b>Total equity securities</b>                                    | \$ 830   | \$ 111    | \$ 85    | \$ 1,026  |
| <b>Short term investments</b>                                     | \$ 4,717 | \$ 583    |          | \$ 5,300  |
| <b>Other invested assets</b>                                      |          |           | \$ 11    | 11        |
| <b>Receivables</b>  |          | 81        | 4        | 85        |
| <b>Life settlement contracts</b>                                  |          |           | 115      | 115       |
| <b>Separate account business</b>                                  | 5        | 393       | 4        | 402       |
| <b>Payable to brokers</b>   | (254)    | (16)      | (12)     | (282)     |

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| December 31, 2011<br>(In millions)                                | Level 1  | Level 2   | Level 3  | Total     |
|---|----------|-----------|----------|-----------|
| <b>Fixed maturity securities:</b>                                 |          |           |          |           |
| Corporate and other bonds   |          | \$ 20,396 | \$ 482   | \$ 20,878 |
| States, municipalities and political subdivisions                 |          | 9,611     | 171      | 9,782     |
| <b>Asset-backed:</b>  |          |           |          |           |
| Residential mortgage-backed                                       |          | 5,323     | 452      | 5,775     |
| Commercial mortgage-backed  |          | 1,295     | 59       | 1,354     |
| Other asset-backed  |          | 612       | 343      | 955       |
| Total asset-backed  | \$       | 7,230     | 854      | 8,084     |
| U.S. Treasury and obligations of government-sponsored enterprises | 451      | 42        |          | 493       |
| Foreign government  | 92       | 544       |          | 636       |
| Redeemable preferred stock  | 5        | 53        |          | 58        |
| Fixed maturities available-for-sale                               | 548      | 37,876    | 1,507    | 39,931    |
| Fixed maturities, trading   |          | 8         | 101      | 109       |
| Total fixed maturities  | \$ 548   | \$ 37,884 | \$ 1,608 | \$ 40,040 |
| Equity securities available-for-sale                              | \$ 124   | \$ 113    | \$ 67    | \$ 304    |
| Equity securities, trading  | 609      |           | 14       | 623       |
| Total equity securities   | \$ 733   | \$ 113    | \$ 81    | \$ 927    |
| Short term investments  | \$ 4,570 | \$ 508    | \$ 27    | \$ 5,105  |
| Other invested assets   |          |           | 11       | 11        |
| Receivables   |          | 79        | 8        | 87        |
| Life settlement contracts   |          |           | 117      | 117       |
| Separate account business   | 21       | 373       | 23       | 417       |
| Payable to brokers  | (32)     | (20)      | (23)     | (75)      |

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The tables below present 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 March 31, 2012 and 2011:

| 2012<br>(In millions)                             | Balance<br>January | Net<br>Income | Included<br>in OCI | Included<br>in<br>Purchases | Sales           | Settlements    | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3 | Balance,<br>March 31 | Unrealized<br>Gains (Losses)<br>Recognized in<br>Net<br>Income<br>on<br>Level<br>3<br>Assets<br>and<br>Liabilities<br>Held<br>at<br>March<br>31 |
|---|--------------------|---------------|--------------------|-----------------------------|-----------------|----------------|------------------------------|--------------------------------|----------------------|---|
|   |                    |               |                    |                             |                 |                |                              |                                |                      | Change in<br>Unrealized<br>Gains<br>(Losses)  |
| <b>Fixed maturity securities:</b>                 |                    |               |                    |                             |                 |                |                              |                                |                      |   |
| Corporate and other bonds                         | \$ 482             | \$ 3          | \$ 4               | \$ 78                       | \$ (86)         | \$ (19)        | \$ 33                        | \$ (10)                        | \$ 485               |   |
| States, municipalities and political subdivisions | 171                |               | 2                  |                             |                 |                |                              |                                | 173                  |   |
| <b>Asset-backed:</b>                              |                    |               |                    |                             |                 |                |                              |                                |                      |   |
| Residential mortgage-backed                       | 452                | 1             | (4)                | 38                          |                 | (7)            |                              | (33)                           | 447                  |   |
| Commercial mortgage-backed                        | 59                 |               | 4                  | 42                          |                 |                |                              |                                | 105                  |   |
| Other asset-backed                                | 343                | 4             | 4                  | 176                         | (77)            | (25)           |                              | (41)                           | 384                  |   |
| <b>Total asset-backed</b>                         | <b>854</b>         | <b>5</b>      | <b>4</b>           | <b>256</b>                  | <b>(77)</b>     | <b>(32)</b>    |                              | <b>(74)</b>                    | <b>936</b>           |   |
| Redeemable preferred stock                        |                    |               |                    | 53                          |                 |                |                              |                                | 53                   |   |
| Fixed maturities available-for-sale               | 1,507              | 8             | 10                 | 387                         | (163)           | (51)           | 33                           | (84)                           | 1,647                |   |
| Fixed maturities, trading                         | 101                | (7)           |                    | 7                           |                 |                |                              |                                | 101                  | \$ (7)  |
| <b>Total fixed maturities</b>                     | <b>\$ 1,608</b>    | <b>\$ 1</b>   | <b>\$ 10</b>       | <b>\$ 394</b>               | <b>\$ (163)</b> | <b>\$ (51)</b> | <b>\$ 33</b>                 | <b>\$ (84)</b>                 | <b>\$ 1,748</b>      | <b>\$ (7)</b>   |
| <b>Equity securities available-for-sale</b>       |                    |               |                    |                             |                 |                |                              |                                |                      |   |
| Equity securities available-for-sale              | \$ 67              |               | \$ (3)             | \$ 11                       | \$ (1)          |                |                              |                                | \$ 74                | \$ (2)  |
| Equity securities trading                         | 14                 | \$ (3)        |                    |                             |                 |                |                              |                                | 11                   | (3)   |
| <b>Total equity securities</b>                    | <b>\$ 81</b>       | <b>\$ (3)</b> | <b>\$ (3)</b>      | <b>\$ 11</b>                | <b>\$ (1)</b>   | <b>\$</b>      | <b>\$</b>                    | <b>\$</b>                      | <b>\$ 85</b>         | <b>\$ (5)</b>   |
| <b>Short term investments</b>                     |                    |               |                    |                             |                 |                |                              |                                |                      |   |
| Short term investments                            | \$ 27              |               |                    | \$ 12                       |                 | \$ (39)        |                              |                                | \$                   |   |
| Other invested assets                             | 11                 |               |                    |                             |                 |                |                              |                                | 11                   |   |
| Life settlement contracts                         | 117                | \$ 3          |                    |                             |                 | (5)            |                              |                                | 115                  | \$ (1)  |
| Separate account business                         | 23                 |               |                    |                             | \$ (19)         |                |                              |                                | 4                    |   |
| Derivative financial instruments, net             | (15)               | (6)           | \$ 13              | 1                           | (5)             | 4              |                              |                                | (8)                  | 1   |

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| 2011<br>(In millions)                             | Balance, January | Included in<br>Net Income | Included in<br>OCI | Purchases | Sales    | Settlements | Transfers       |                   | Balance, March 31 | Unrealized<br>Gains (Losses)<br>Recognized in<br>Net<br>Income<br>on<br>Level<br>3<br>Assets<br>and<br>Liabilities<br>Held at<br>March<br>31 |
|---|------------------|---------------------------|--------------------|-----------|----------|-------------|-----------------|-------------------|-------------------|--|
|   |                  |                           |                    |           |          |             | into<br>Level 3 | out of<br>Level 3 |                   |  |
| <b>Fixed maturity securities:</b>                 |                  |                           |                    |           |          |             |                 |                   |                   |  |
| Corporate and other bonds                         | \$ 624           | \$ 4                      | \$ (5)             | \$ 41     | \$ (20)  | \$ (27)     | \$ 9            | \$ (50)           | \$ 576            |  |
| States, municipalities and political subdivisions | 266              |                           | 1                  |           |          | (79)        |                 |                   | 188               |  |
| <b>Asset-backed:</b>                              |                  |                           |                    |           |          |             |                 |                   |                   |  |
| Residential mortgage-backed                       | 767              | 1                         | 2                  | 47        | (26)     | (22)        |                 | (31)              | 738               |  |
| Commercial mortgage-backed                        | 73               | 3                         | 16                 |           | (4)      |             |                 |                   | 88                |  |
| Other asset-backed                                | 359              | 4                         |                    | 200       | (87)     | (31)        |                 |                   | 445               |  |
| Total asset-backed                                | 1,199            | 8                         | 18                 | 247       | (117)    | (53)        |                 | (31)              | 1,271             |  |
| Redeemable preferred stock                        | 3                | 3                         | (3)                |           | (3)      |             |                 |                   |                   |  |
| Fixed maturities available-for-sale               | 2,092            | 15                        | 11                 | 288       | (140)    | (159)       | 9               | (81)              | 2,035             |  |
| Fixed maturities, trading                         | 184              | 1                         |                    | 1         | (4)      |             |                 |                   | 182               |  |
| Total fixed maturities                            | \$ 2,276         | \$ 16                     | \$ 11              | \$ 289    | \$ (144) | \$ (159)    | \$ 9            | \$ (81)           | \$ 2,217          | \$   |
| Equity securities available-for-sale              | \$ 26            | \$ (1)                    | \$ (1)             | \$ 15     | \$ (9)   |             |                 |                   | \$ 30             | \$ (3)   |
| Equity securities, trading                        | 6                |                           |                    |           |          |             |                 |                   | 6                 |  |
| Total equity securities                           | \$ 32            | \$ (1)                    | \$ (1)             | \$ 15     | \$ (9)   | \$          | \$              | \$                | \$ 36             | \$ (3)   |
| Short term investments                            | \$ 27            |                           |                    | \$ 12     |          | \$ (2)      |                 | \$ (10)           | \$ 27             |  |
| Other invested assets                             | 26               | \$ 2                      |                    |           | \$ (19)  |             |                 |                   | 9                 | \$ 1   |
| Life settlement contracts                         | 129              | 3                         |                    |           |          | (5)         |                 |                   | 127               | (1)  |
| Separate account business                         | 41               |                           |                    |           | (2)      |             |                 |                   | 39                |  |
| Derivative financial instruments, net             | (21)             | (8)                       | \$ (15)            |           |          | 8           |                 |                   | (36)              |  |

Net realized and unrealized gains and losses are reported in Net income as follows:

Major Category of Assets and Liabilities

Consolidated Condensed Statements of Income Line Items

Fixed maturity securities available-for-sale  
 Fixed maturity securities, trading  
 Equity securities available-for-sale  
 Equity securities, trading  
 Other invested assets

Investment gains (losses)  
 Net investment income  
 Investment gains (losses)  
 Net investment income  
 Investment gains (losses)

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|  |  |
|--|--|
| 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                               |

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Securities shown in the Level 3 tables may be transferred in or out of Level 3 based on the availability of observable market information used to determine the fair value of the security. 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 transfers between Level 1 and Level 2 during the three months ended March 31, 2012 and 2011. The Company's policy is to recognize transfers between levels at the beginning of quarterly reporting periods.

**Significant Unobservable Inputs**

The table below presents quantitative information about the significant unobservable inputs utilized by the Company in the fair value measurements of Level 3 assets. Valuations for assets and liabilities not presented in the table below are primarily based on broker/dealer quotes for which there is a lack of transparency as to inputs used to develop the valuations. The quantitative detail of unobservable inputs from these broker quotes is neither provided nor reasonably available to the Company.

| March 31, 2012<br>(In millions) | Fair Value | Valuation<br>Technique(s) | Unobservable Input(s)         | Range<br>(Weighted Average) |
|---------------------------------|------------|---------------------------|-------------------------------|-----------------------------|
| <b>Assets</b>                   |            |                           |                               |                             |
| Fixed maturity securities       | \$ 204     | Discounted cash flow      | Expected call date assumption | 0.5 - 5.5 years (2.2 years) |
|                                 | 53         | Market approach           | Private offering price        | \$26.5 million per unit     |
| Equity securities               | 69         | Market approach           | Private offering price        | \$0.10 - \$4,023 per share  |
|                                 |            |                           |                               | (\$211.01 per share)        |
| Life settlement contracts       | 115        | Discounted cash flow      | Discount rate risk premium    | 9%                          |
|                                 |            |                           | Mortality assumption          | 65% - 928% (181%)           |

For fixed maturity securities, an increase to the expected call date assumption or decrease in the private offering price would result in a lower fair value measurement. For equity securities, an increase in the private offering price would result in a higher fair value measurement. For life settlement contracts, an increase in the discount rate risk premium or decrease in the mortality assumption would result in a lower fair value measurement.

**Financial Assets and Liabilities Not Measured at Fair Value**

The methods and assumptions used to estimate the fair value for financial assets and liabilities not measured at fair value were consistent with those disclosed in the Annual Report on Form 10-K for the year ended December 31, 2011.

The carrying amount, estimated fair value and the level of the fair value hierarchy of the Company's financial instrument assets and liabilities which are not measured at fair value on the Consolidated Condensed Balance Sheets are listed in the tables below. The carrying amounts reported on the Consolidated Condensed Balance Sheets for cash and short term investments not carried at fair value and certain other assets and liabilities approximate fair value due to the short term nature of these items.

| March 31, 2012<br>(In millions)                 | Carrying<br>Amount | Level 1 | Estimated Fair Value<br>Level 2 | Level 3 | Total  |
|---|--------------------|---------|---------------------------------|---------|--------|
| <b>Financial Assets:</b>                        |                    |         |                                 |         |        |
| Other invested assets, primarily mortgage loans | \$ 281             |         |                                 | \$ 295  | \$ 295 |

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**Financial Liabilities:**

|  |       |       |     |       |
|--|-------|-------|-----|-------|
| Premium deposits and annuity contracts | 108   |       | 112 | 112   |
| Short term debt                        | 88    | \$ 84 | 5   | 89    |
| Long term debt                         | 8,954 | 9,457 | 208 | 9,665 |



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| December 31, 2011                               | Carrying Amount | Estimated Fair Value |
|---|-----------------|----------------------|
| (In millions)                                   |                 |                      |
| <b>Financial assets:</b>                        |                 |                      |
| Other invested assets, primarily mortgage loans | \$ 234          | \$ 247               |
| <b>Financial liabilities:</b>                   |                 |                      |
| Premium deposits and annuity contracts          | 109             | 114                  |
| Short term debt                                 | 88              | 90                   |
| Long term debt                                  | 8,913           | 9,533                |

**4. Derivative Financial Instruments**

A summary of the aggregate contractual or notional amounts and gross estimated fair values related to derivative financial instruments 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.

|                                   | March 31, 2012                     |                                  |             | December 31, 2011                  |                                  |             |
|-----------------------------------|------------------------------------|----------------------------------|-------------|------------------------------------|----------------------------------|-------------|
|                                   | Contractual/<br>Notional<br>Amount | Estimated<br>Fair Value<br>Asset | (Liability) | Contractual/<br>Notional<br>Amount | Estimated<br>Fair Value<br>Asset | (Liability) |
| (In millions)                     |                                    |                                  |             |                                    |                                  |             |
| <b>With hedge designation:</b>    |                                    |                                  |             |                                    |                                  |             |
| Interest rate risk:               |                                    |                                  |             |                                    |                                  |             |
| Interest rate swaps               | \$ 300                             | \$ 3                             | \$ (4)      | \$ 300                             | \$ 3                             | \$ (3)      |
| Commodities:                      |                                    |                                  |             |                                    |                                  |             |
| Forwards short                    | 269                                | 71                               | (11)        | 268                                | 64                               | (22)        |
| Foreign exchange:                 |                                    |                                  |             |                                    |                                  |             |
| Currency forwards short           | 65                                 | 2                                | (1)         | 154                                | 1                                | (8)         |
| <b>Without hedge designation:</b> |                                    |                                  |             |                                    |                                  |             |
| Equity markets:                   |                                    |                                  |             |                                    |                                  |             |
| Options purchased                 | 650                                | 27                               |             | 286                                | 33                               |             |
| written                           | 389                                |                                  | (13)        | 398                                |                                  | (23)        |
| Equity swaps and warrants long    | 20                                 | 14                               |             | 63                                 | 16                               |             |
| Interest rate risk:               |                                    |                                  |             |                                    |                                  |             |
| Interest rate swaps               | 117                                | 1                                | (1)         | 100                                | 1                                | (1)         |
| Credit default swaps              |                                    |                                  |             |                                    |                                  |             |
| purchased protection              | 58                                 |                                  | (1)         | 145                                | 8                                | (1)         |
| sold protection                   | 38                                 |                                  |             | 28                                 |                                  | (2)         |
| Foreign exchange:                 |                                    |                                  |             |                                    |                                  |             |
| Currency forwards long            | 180                                |                                  | (2)         | 203                                | 4                                |             |
| short                             | 142                                |                                  |             | 330                                |                                  | (2)         |

For derivative financial instruments without hedge designation, changes in the fair value of derivatives not held in a trading portfolio are reported in Investment gains (losses) and changes in the fair value of derivatives held for trading purposes are reported in Net investment income on the Consolidated Condensed Statements of Income. Losses of \$1 million were included in Investment gains (losses) for the three months ended March 31, 2012 and 2011. Losses of \$4 million were included in Net investment income for the three months ended March 31, 2012 and 2011.

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The Company's derivative financial instruments with cash flow hedge designation hedge variable price risk associated with the purchase and sale of natural gas and other energy-related products, exposure to foreign currency

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losses on future foreign currency expenditures, as well as risks attributable to changes in interest rates on long term debt. For the three months ended March 31, 2012, the amount of gains recognized in OCI related to these cash flow hedges were \$34 million, as compared to \$16 million of losses recognized in the 2011 period. For the three months ended March 31, 2012 and 2011, the amount of gain reclassified from AOCI into income was \$9 million and \$8 million. As of March 31, 2012, the estimated amount of net unrealized gains associated with these cash flow hedges that will be reclassified from AOCI into earnings during the next twelve months was \$46 million. The net amounts recognized due to ineffectiveness were less than \$1 million for the three months ended March 31, 2012 and 2011.

**5. Claim and Claim Adjustment Expense Reserves**

CNA's property and casualty insurance claim and claim adjustment expense reserves represent the estimated amounts necessary to resolve all outstanding claims, including claims that are incurred but not reported (IBNR) as of the reporting date. CNA's reserve projections are based primarily on detailed analysis of the facts in each case, CNA's experience with similar cases and various historical development patterns. Consideration is given to such historical patterns as field reserving trends and claims settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions including inflation 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 CNA'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. CNA reported catastrophe losses, net of reinsurance, of \$28 million and \$55 million for the three months ended March 31, 2012 and 2011. Catastrophe losses in the first quarter of 2012 related primarily to U.S. storms.

**Net Prior Year Development**

The following tables and discussion include the net prior year development recorded for CNA Specialty, CNA Commercial and Other. Favorable net prior year development of \$1 million was recorded in the Life & Group Non-Core segment for the three months ended March 31, 2012, compared to unfavorable net prior year development of \$7 million for the same period in 2011.

| Three Months Ended March 31, 2012<br>(In millions)  | CNA<br>Specialty | CNA<br>Commercial | Other       | Total          |
|---|------------------|-------------------|-------------|----------------|
| <b>Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development</b> | \$ (6)           | \$ (14)           | \$ 2        | \$ (18)        |
| <b>Pretax (favorable) unfavorable premium development</b>   | (9)              | (17)              | 1           | (25)           |
| <b>Total pretax (favorable) unfavorable net prior year development</b>  | <b>\$ (15)</b>   | <b>\$ (31)</b>    | <b>\$ 3</b> | <b>\$ (43)</b> |

## Three Months Ended March 31, 2011

|  |                |                |             |                |
|--|----------------|----------------|-------------|----------------|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$ (15)        | \$ (7)         | \$ 3        | \$ (19)        |
| Pretax (favorable) unfavorable premium development   | (7)            | (8)            | (1)         | (16)           |
| <b>Total pretax (favorable) unfavorable net prior year development</b>   | <b>\$ (22)</b> | <b>\$ (15)</b> | <b>\$ 2</b> | <b>\$ (35)</b> |



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For the three months ended March 31, 2012, favorable premium development was recorded for CNA Commercial primarily due to premium adjustments on auditable policies arising from increased exposures.

**CNA Specialty**

The following table and discussion provide further detail of the net prior year claim and allocated claim adjustment expense reserve development recorded for the CNA Specialty segment:

| <b>Three Months Ended March 31</b>   | <b>2012</b> | 2011    |
|--|-------------|---------|
| <b>(In millions)</b>   |             |         |
| Medical professional liability   | \$ (6)      | \$ (14) |
| Other professional liability   | 4           | 6       |
| Surety   | 1           |         |
| Warranty   | (1)         | (10)    |
| Other  | (4)         | 3       |
| Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$ (6)      | \$ (15) |

**2012**

Favorable development for medical professional liability was primarily due to reductions in the estimated frequency of large losses in accident years 2008 and prior.

**2011**

Favorable development for medical professional liability was primarily due to favorable loss emergence in aging services, physicians and excess institutions in accident years 2007 and prior.

Favorable development in warranty was driven by favorable policy year experience on an aggregate stop loss treaty covering CNA's non-insurance warranty subsidiary.

**CNA Commercial**

The following table and discussion provide further detail of the net prior year claim and allocated claim adjustment expense reserve development recorded for the CNA Commercial segment:

| <b>Three Months Ended March 31</b>   | <b>2012</b> | 2011   |
|--|-------------|--------|
| <b>(In millions)</b>   |             |        |
| Commercial auto  |             | \$ 10  |
| General liability  | \$ 8        | 22     |
| Workers compensation   | (19)        | 8      |
| Property and other   | (3)         | (47)   |
| Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$ (14)     | \$ (7) |

**2012**

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Overall, favorable development for workers compensation reflects favorable experience in accident years 2001 and prior. Unfavorable development was recorded for accident year 2010 related to increased medical severity.

### **2011**

Favorable development for property and marine coverages was due to lower than expected frequency in commercial multi-peril coverages primarily in accident year 2010 and a favorable settlement on an individual claim in accident year 2003 in the equipment breakdown book.

The unfavorable development in the general liability coverages was primarily due to two large claim outcomes on umbrella claims in accident year 2001.

**Table of Contents****6. Benefit Plans**

**Pension Plans** The Company has several non-contributory defined benefit plans for eligible employees. Benefits for certain plans are determined annually based on a specified percentage of annual earnings (based on the participant's age or years of service) and a specified interest rate (which is established annually for all participants) applied to accrued balances. The benefits for another plan which cover salaried employees are based on formulas which include, among others, years of service and average pay. The Company's funding policy is to make contributions in accordance with applicable governmental regulatory requirements.

**Other Postretirement Benefit Plans** The Company has several postretirement benefit plans covering eligible employees and retirees. Participants generally become eligible after reaching age 55 with required years of service. Actual requirements for coverage vary by plan. Benefits for retirees who were covered by bargaining units vary by each unit and contract. Benefits for certain retirees are in the form of a Company health care account.

Benefits for retirees reaching age 65 are generally integrated with Medicare. Other retirees, based on plan provisions, must use Medicare as their primary coverage, with the Company reimbursing a portion of the unpaid amount; or are reimbursed for the Medicare Part B premium or have no Company coverage. The benefits provided by the Company are basically health and, for certain retirees, life insurance type benefits.

The Company funds certain of these benefit plans and accrues postretirement benefits during the active service of those employees who would become eligible for such benefits when they retire.

The components of net periodic benefit cost are as follows:

|  | <b>Pension Benefits</b> |             | <b>Other Postretirement Benefits</b> |               |
|--|-------------------------|-------------|--------------------------------------|---------------|
|  | <b>2012</b>             | <b>2011</b> | <b>2012</b>                          | <b>2011</b>   |
| <b>Three Months Ended March 31</b>                 |                         |             |                                      |               |
| <b>(In millions)</b>                               |                         |             |                                      |               |
| Service cost                                       | \$ 6                    | \$ 7        |                                      |               |
| Interest cost                                      | 38                      | 41          | \$ 1                                 | \$ 2          |
| Expected return on plan assets                     | (47)                    | (47)        | (1)                                  | (1)           |
| Amortization of unrecognized net loss              | 11                      | 7           |                                      | 1             |
| Amortization of unrecognized prior service benefit |                         |             | (6)                                  | (7)           |
| Regulatory asset decrease                          |                         |             |                                      | 1             |
| <b>Net periodic benefit cost</b>                   | <b>\$ 8</b>             | <b>\$ 8</b> | <b>\$ (6)</b>                        | <b>\$ (4)</b> |

**7. Business Segments**

The Company's reportable segments are primarily based on its individual operating subsidiaries. Each of the principal operating subsidiaries are headed by a chief executive officer who is responsible for the operation of its business and has the duties and authority commensurate with that position. Investment gains (losses) and the related income taxes, excluding those of CNA, are included in the Corporate and other segment.

CNA'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.

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

pollution.

Diamond Offshore's business primarily consists of operating offshore drilling rigs that are chartered on a contract basis for fixed terms by companies engaged in exploration and production of hydrocarbons. Offshore rigs are mobile units that can be relocated based on market demand. Diamond Offshore's fleet consists of 48 drilling rigs, including three new-build rigs which are under construction and one rig being constructed utilizing the hull of one of Diamond



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Offshore's existing mid-water floaters. On March 31, 2012, Diamond Offshore's drilling rigs were located offshore 12 countries in addition to the United States.

Boardwalk Pipeline is engaged in the interstate transportation and storage of natural gas. This segment consists of three interstate natural gas pipeline systems originating in the Gulf Coast region, Oklahoma and Arkansas, and extending north and east through the midwestern states of Tennessee, Kentucky, Illinois, Indiana and Ohio, with approximately 14,300 miles of pipeline.

HighMount is engaged in the exploration, production and marketing of natural gas and oil (including condensate and natural gas liquids), primarily located in the Permian Basin in West Texas. HighMount holds mineral rights on over 700,000 net acres with over 6,000 producing wells.

Loews Hotels owns and/or operates 17 hotels, 15 of which are in the United States and two are in Canada.

The Corporate and other segment consists primarily of corporate investment income, including investment gains (losses) from non-insurance subsidiaries, corporate interest expense and other unallocated expenses.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, other than the accounting for deferred acquisition costs, as further discussed in Note 1 herein. In addition, CNA does not maintain a distinct investment portfolio for each of its insurance segments, and accordingly, allocation of assets to each segment is not performed. Therefore, net investment income and investment gains (losses) are allocated based on each segment's carried insurance reserves, as adjusted.

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The following tables set forth the Company's consolidated revenues and income (loss) attributable to Loews Corporation by business segment:

| <b>Three Months Ended March 31</b> | <b>2012</b>     | <b>2011</b>     |
|------------------------------------|-----------------|-----------------|
| <b>(In millions)</b>               |                 |                 |
| <b>Revenues (a):</b>               |                 |                 |
| CNA Financial:                     |                 |                 |
| CNA Specialty                      | \$ 945          | \$ 891          |
| CNA Commercial                     | 1,088           | 1,094           |
| Life and Group Non-Core            | 350             | 326             |
| Other                              | 18              | 13              |
| <b>Total CNA Financial</b>         | <b>2,401</b>    | <b>2,324</b>    |
| Diamond Offshore                   | 796             | 809             |
| Boardwalk Pipeline                 | 314             | 311             |
| HighMount                          | 76              | 104             |
| Loews Hotels                       | 80              | 80              |
| Corporate and other                | 77              | 40              |
| <b>Total</b>                       | <b>\$ 3,744</b> | <b>\$ 3,668</b> |

**Income (loss) before income tax and noncontrolling interests (a):**

|                            |               |               |
|----------------------------|---------------|---------------|
| CNA Financial:             |               |               |
| CNA Specialty              | \$ 209        | \$ 214        |
| CNA Commercial             | 227           | 212           |
| Life and Group Non-Core    | (37)          | (48)          |
| Other                      | (33)          | (46)          |
| <b>Total CNA Financial</b> | <b>366</b>    | <b>332</b>    |
| Diamond Offshore           | 252           | 296           |
| Boardwalk Pipeline         | 92            | 82            |
| HighMount                  | (34)          | 29            |
| Loews Hotels               | 7             | 3             |
| Corporate and other        | 58            | 15            |
| <b>Total</b>               | <b>\$ 741</b> | <b>\$ 757</b> |

**Net income (loss) - Loews (a):**

|                            |            |            |
|----------------------------|------------|------------|
| CNA Financial:             |            |            |
| CNA Specialty              | \$ 125     | \$ 121     |
| CNA Commercial             | 131        | 125        |
| Life and Group Non-Core    | (10)       | (19)       |
| Other                      | (20)       | (28)       |
| <b>Total CNA Financial</b> | <b>226</b> | <b>199</b> |
| Diamond Offshore           | 87         | 117        |
| Boardwalk Pipeline         | 35         | 33         |
| HighMount                  | (22)       | 19         |
| Loews Hotels               | 4          | 2          |

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|                     |               |               |
|---------------------|---------------|---------------|
| Corporate and other | 37            | 9             |
| <b>Total</b>        | <b>\$ 367</b> | <b>\$ 379</b> |

**Table of Contents**

- (a) Investment gains (losses) included in Revenues, Income (loss) before income tax and noncontrolling interests and Net income (loss) - Loews are as follows:

| <b>Three Months Ended March 31</b>  | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|
| <b>Revenues and Income (loss) before income tax and noncontrolling interests:</b> |             |             |
| CNA Financial:  |             |             |
| CNA Specialty   | \$ 8        | \$ 8        |
| CNA Commercial  | 11          | 17          |
| Life and Group Non-Core   | 13          | (4)         |
| Other   |             | 1           |
| Total CNA Financial   | 32          | 22          |
| Corporate and other   |             | 1           |
| Total   | \$ 32       | \$ 23       |

**Net income (loss) - Loews:**

|                         |       |       |
|-------------------------|-------|-------|
| CNA Financial:          |       |       |
| CNA Specialty           | \$ 5  | \$ 5  |
| CNA Commercial          | 6     | 9     |
| Life and Group Non-Core | 7     | (2)   |
| Other                   | 1     |       |
| Total                   | \$ 19 | \$ 12 |

**8. Legal Proceedings**

In August 2005, CNA 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 alleged bid rigging and improprieties in the payment of contingent commissions in connection with the sale of insurance. After various motions and preliminary court rulings providing for further proceedings, plaintiffs and various defendants, including CNA and its named insurance subsidiaries, executed final settlement documents and the plaintiffs filed a motion for preliminary approval of the settlement in May 2011, which was ultimately approved by the Court in March of 2012. In April of 2012, objectors to the settlement filed notices of appeal. As currently structured, the settlement will not have a material impact on the Company's results of operations. In addition, the Company does not believe it has any material ongoing exposure relating to this matter.

The Company has been named as a defendant in the following two cases alleging substantial damages based on alleged health effects caused by smoking cigarettes or exposure to tobacco smoke, all of which also name a former subsidiary, Lorillard, Inc. or one of its subsidiaries, as a defendant. In *Cypret vs. The American Tobacco Company, Inc. et al.* (1998, Circuit Court, Jackson County, Missouri), the Company would contest jurisdiction and make use of all available defenses in the event it receives personal service of this action. In *Young vs. The American Tobacco Company, Inc. et al.* (1997, Civil District Court, Orleans Parish, Louisiana), the Company filed an exception for lack of personal jurisdiction during 2000, which remains pending.

The Company does not believe it is a proper defendant in any tobacco related cases and as a result, does not believe the outcome will have a material affect on its results of operations or equity. Further, pursuant to the Separation Agreement dated May 7, 2008 between the Company and Lorillard Inc. and its subsidiaries, Lorillard Inc. and its subsidiaries have agreed to indemnify and hold the Company harmless from all costs and expenses based upon or arising out of the operation or conduct of Lorillard's business, including among other things, smoking and health claims and litigation such as the cases described above.

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While the Company intends to defend vigorously all tobacco products liability litigation, it is not possible to predict the outcome of any of this litigation. Litigation is subject to many uncertainties. It is possible that one or more of the pending actions could be decided unfavorably.

The Company and its subsidiaries are also parties to other litigation arising in the ordinary course of business. The outcome of this other litigation will not, in the opinion of management, materially affect the Company's results of operations or equity.

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**9. Commitments and Contingencies**

**Guarantees**

In the course of selling business entities and assets to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging from nine months following the applicable closing date to the expiration of the relevant statutes of limitation. As of March 31, 2012, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was \$763 million.

In addition, the Company has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of March 31, 2012, 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.

**Offshore Rig Purchase Obligations**

Diamond Offshore has entered into three separate turnkey contracts with Hyundai Heavy Industries, Co. Ltd., ( Hyundai ) for the construction of three dynamically positioned, ultra-deepwaterdrillships, with deliveries scheduled for the second and fourth quarters of 2013 and in the second quarter of 2014. The aggregate cost of the three drillships, including commissioning, spares and project management, is expected to be approximately \$1.8 billion. The contracted price of each drillship is payable in two installments. The first installments, aggregating \$478 million, were paid in 2011 and are included in Property, plant and equipment in the Consolidated Condensed Balance Sheets. The final installments of the contracted price are payable to Hyundai upon delivery of each vessel.

In December of 2011, Diamond Offshore entered into an agreement for the construction of a moored semisubmersible rig designed to operate in water depths up to 6,000 feet. The rig will be constructed utilizing the hull of one of Diamond Offshore's mid-water floaters and is estimated to cost approximately \$300 million, including commissioning, spares and project management costs.

**10. Consolidating Financial Information**

The following schedules present the Company's consolidating balance sheet information at March 31, 2012 and December 31, 2011, and consolidating statements of income information for the three months ended March 31, 2012 and 2011. These schedules present the individual subsidiaries of the Company and their contribution to the consolidated condensed financial statements. Amounts presented will not necessarily be the same as those in the individual financial statements of the Company's subsidiaries due to adjustments for purchase accounting, income taxes and noncontrolling interests. In addition, many of the Company's subsidiaries use a classified balance sheet which also leads to differences in amounts reported for certain line items.

The Corporate and Other column primarily reflects the parent company's investment in its subsidiaries, invested cash portfolio and corporate long term debt. The elimination adjustments are for intercompany assets and liabilities, interest and dividends, the parent company's investment in capital stocks of subsidiaries, and various reclasses of debit or credit balances to the amounts in consolidation. Purchase accounting adjustments have been pushed down to the appropriate subsidiary.

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Loews Corporation

Consolidating Balance Sheet Information

| March 31, 2012<br>(In millions)                         | CNA<br>Financial | Diamond<br>Offshore | Boardwalk<br>Pipeline | HighMount       | Loews<br>Hotels | Corporate<br>and<br>Other | Eliminations       | Total            |
|---|------------------|---------------------|-----------------------|-----------------|-----------------|---------------------------|--------------------|------------------|
| <b>Assets:</b>  |                  |                     |                       |                 |                 |                           |                    |                  |
| Investments   | \$ 45,465        | \$ 1,368            | \$ 2                  | \$ 49           | \$ 72           | \$ 4,002                  |                    | \$ 50,958        |
| Cash  | 59               | 32                  | 2                     |                 | 6               |                           |                    | 99               |
| Receivables   | 8,295            | 577                 | 100                   | 108             | 34              | 419                       | \$ (124)           | 9,409            |
| Property, plant and equipment                           | 272              | 4,617               | 6,673                 | 1,574           | 338             | 48                        |                    | 13,522           |
| Deferred income taxes                                   | 229              |                     |                       | 505             |                 |                           | (734)              |                  |
| Goodwill  | 86               | 20                  | 215                   | 584             | 3               |                           |                    | 908              |
| Investments in capital stocks of<br>subsidiaries        |                  |                     |                       |                 |                 | 17,014                    | (17,014)           |                  |
| Other assets  | 579              | 424                 | 298                   | 22              | 24              | 19                        |                    | 1,366            |
| Deferred acquisition costs of<br>insurance subsidiaries | 576              |                     |                       |                 |                 |                           |                    | 576              |
| Separate account business                               | 402              |                     |                       |                 |                 |                           |                    | 402              |
| <b>Total assets</b>                                     | <b>\$ 55,963</b> | <b>\$ 7,038</b>     | <b>\$ 7,290</b>       | <b>\$ 2,842</b> | <b>\$ 477</b>   | <b>\$ 21,502</b>          | <b>\$ (17,872)</b> | <b>\$ 77,240</b> |
| <b>Liabilities and Equity:</b>                          |                  |                     |                       |                 |                 |                           |                    |                  |
| Insurance reserves                                      | \$ 37,714        |                     |                       |                 |                 |                           |                    | \$ 37,714        |
| Payable to brokers                                      | 404              | \$ 1                | \$ 1                  | \$ 24           |                 | \$ 490                    |                    | 920              |
| Short term debt   | 83               |                     |                       |                 | \$ 5            |                           |                    | 88               |
| Long term debt  | 2,526            | 1,489               | 3,439                 | 700             | 208             | 692                       | \$ (100)           | 8,954            |
| Deferred income taxes                                   |                  | 532                 | 534                   |                 | 50              | 555                       | (734)              | 937              |
| Other liabilities                                       | 2,896            | 589                 | 307                   | 97              | 14              | 225                       | (24)               | 4,104            |
| Separate account business                               | 402              |                     |                       |                 |                 |                           |                    | 402              |
| <b>Total liabilities</b>                                | <b>44,025</b>    | <b>2,611</b>        | <b>4,281</b>          | <b>821</b>      | <b>277</b>      | <b>1,962</b>              | <b>(858)</b>       | <b>53,119</b>    |
| <b>Total shareholders equity</b>                        | <b>10,759</b>    | <b>2,244</b>        | <b>1,678</b>          | <b>2,021</b>    | <b>200</b>      | <b>19,540</b>             | <b>(17,014)</b>    | <b>19,428</b>    |
| <b>Noncontrolling interests</b>                         | <b>1,179</b>     | <b>2,183</b>        | <b>1,331</b>          |                 |                 |                           |                    | <b>4,693</b>     |
| <b>Total equity</b>                                     | <b>11,938</b>    | <b>4,427</b>        | <b>3,009</b>          | <b>2,021</b>    | <b>200</b>      | <b>19,540</b>             | <b>(17,014)</b>    | <b>24,121</b>    |
| <b>Total liabilities and equity</b>                     | <b>\$ 55,963</b> | <b>\$ 7,038</b>     | <b>\$ 7,290</b>       | <b>\$ 2,842</b> | <b>\$ 477</b>   | <b>\$ 21,502</b>          | <b>\$ (17,872)</b> | <b>\$ 77,240</b> |

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Loews Corporation

Consolidating Balance Sheet Information

| December 31, 2011<br>(In millions)                   | CNA<br>Financial | Diamond<br>Offshore | Boardwalk<br>Pipeline | HighMount       | Loews<br>Hotels | Corporate<br>and<br>Other | Eliminations       | Total            |
|--|------------------|---------------------|-----------------------|-----------------|-----------------|---------------------------|--------------------|------------------|
| <b>Assets:</b>                                       |                  |                     |                       |                 |                 |                           |                    |                  |
| Investments  | \$ 44,372        | \$ 1,206            | \$ 10                 | \$ 85           | \$ 71           | \$ 3,284                  |                    | \$ 49,028        |
| Cash   | 75               | 30                  | 13                    |                 | 10              | 1                         |                    | 129              |
| Receivables  | 8,302            | 594                 | 114                   | 109             | 33              | 226                       | \$ (119)           | 9,259            |
| Property, plant and equipment                        | 272              | 4,674               | 6,713                 | 1,576           | 338             | 45                        |                    | 13,618           |
| Deferred income taxes                                | 444              |                     |                       | 499             |                 |                           | (943)              |                  |
| Goodwill   | 86               | 20                  | 215                   | 584             | 3               |                           |                    | 908              |
| Investments in capital stocks of subsidiaries        |                  |                     |                       |                 |                 | 16,807                    | (16,807)           |                  |
| Other assets   | 544              | 453                 | 307                   | 19              | 23              | 11                        |                    | 1,357            |
| Deferred acquisition costs of insurance subsidiaries | 552              |                     |                       |                 |                 |                           |                    | 552              |
| Separate account business                            | 417              |                     |                       |                 |                 |                           |                    | 417              |
| <b>Total assets</b>                                  | <b>\$ 55,064</b> | <b>\$ 6,977</b>     | <b>\$ 7,372</b>       | <b>\$ 2,872</b> | <b>\$ 478</b>   | <b>\$ 20,374</b>          | <b>\$ (17,869)</b> | <b>\$ 75,268</b> |
| <b>Liabilities and Equity:</b>                       |                  |                     |                       |                 |                 |                           |                    |                  |
| Insurance reserves                                   | \$ 37,554        |                     |                       |                 |                 |                           |                    | \$ 37,554        |
| Payable to brokers                                   | 72               | \$ 8                | \$ 1                  | \$ 36           |                 | \$ 45                     |                    | 162              |
| Short term debt                                      | 83               |                     |                       |                 | \$ 5            |                           |                    | 88               |
| Long term debt                                       | 2,525            | 1,488               | 3,398                 | 700             | 208             | 694                       | \$ (100)           | 8,913            |
| Deferred income taxes                                |                  | 530                 | 493                   |                 | 51              | 491                       | (943)              | 622              |
| Other liabilities                                    | 2,971            | 594                 | 373                   | 104             | 20              | 266                       | (19)               | 4,309            |
| Separate account business                            | 417              |                     |                       |                 |                 |                           |                    | 417              |
| <b>Total liabilities</b>                             | <b>43,622</b>    | <b>2,620</b>        | <b>4,265</b>          | <b>840</b>      | <b>284</b>      | <b>1,496</b>              | <b>(1,062)</b>     | <b>52,065</b>    |
| Total shareholders equity                            | 10,315           | 2,209               | 1,951                 | 2,032           | 194             | 18,878                    | (16,807)           | 18,772           |
| Noncontrolling interests                             | 1,127            | 2,148               | 1,156                 |                 |                 |                           |                    | 4,431            |
| <b>Total equity</b>                                  | <b>11,442</b>    | <b>4,357</b>        | <b>3,107</b>          | <b>2,032</b>    | <b>194</b>      | <b>18,878</b>             | <b>(16,807)</b>    | <b>23,203</b>    |
| <b>Total liabilities and equity</b>                  | <b>\$ 55,064</b> | <b>\$ 6,977</b>     | <b>\$ 7,372</b>       | <b>\$ 2,872</b> | <b>\$ 478</b>   | <b>\$ 20,374</b>          | <b>\$ (17,869)</b> | <b>\$ 75,268</b> |



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Loews Corporation

Consolidating Statement of Income Information

| Three Months Ended March 31, 2012<br>(In millions)         | CNA<br>Financial | Diamond<br>Offshore | Boardwalk<br>Pipeline | High<br>Mount  | Loews<br>Hotels | Corporate<br>and<br>Other | Eliminations    | Total         |
|--|------------------|---------------------|-----------------------|----------------|-----------------|---------------------------|-----------------|---------------|
| <b>Revenues:</b>   |                  |                     |                       |                |                 |                           |                 |               |
| Insurance premiums   | \$ 1,649         |                     |                       |                |                 |                           |                 | \$ 1,649      |
| Net investment income                                      | 648              | \$ 2                |                       |                |                 | \$ 76                     |                 | 726           |
| Intercompany interest and dividends                        |                  |                     |                       |                |                 | 170                       | \$ (170)        |               |
| Investment gains   | 32               |                     |                       |                |                 |                           |                 | 32            |
| Contract drilling revenues                                 |                  | 755                 |                       |                |                 |                           |                 | 755           |
| Other  | 72               | 39                  | \$ 314                | \$ 76          | \$ 80           | 2                         | (1)             | 582           |
| <b>Total</b>   | <b>2,401</b>     | <b>796</b>          | <b>314</b>            | <b>76</b>      | <b>80</b>       | <b>248</b>                | <b>(171)</b>    | <b>3,744</b>  |
| <b>Expenses:</b>   |                  |                     |                       |                |                 |                           |                 |               |
| Insurance claims and policyholders' benefits               | 1,381            |                     |                       |                |                 |                           |                 | 1,381         |
| Amortization of deferred acquisition costs                 | 295              |                     |                       |                |                 |                           |                 | 295           |
| Contract drilling expenses                                 |                  | 397                 |                       |                |                 |                           |                 | 397           |
| Other operating expenses                                   | 317              | 132                 | 181                   | 107            | 71              | 12                        | (1)             | 819           |
| Interest   | 42               | 15                  | 41                    | 3              | 2               | 10                        | (2)             | 111           |
| <b>Total</b>   | <b>2,035</b>     | <b>544</b>          | <b>222</b>            | <b>110</b>     | <b>73</b>       | <b>22</b>                 | <b>(3)</b>      | <b>3,003</b>  |
| Income (loss) before income tax                            | 366              | 252                 | 92                    | (34)           | 7               | 226                       | (168)           | 741           |
| Income tax (expense) benefit                               | (115)            | (73)                | (22)                  | 12             | (3)             | (21)                      |                 | (222)         |
| Net income (loss)  | 251              | 179                 | 70                    | (22)           | 4               | 205                       | (168)           | 519           |
| Amounts attributable to noncontrolling interests           | (25)             | (92)                | (35)                  |                |                 |                           |                 | (152)         |
| <b>Net income (loss) attributable to Loews Corporation</b> | <b>\$ 226</b>    | <b>\$ 87</b>        | <b>\$ 35</b>          | <b>\$ (22)</b> | <b>\$ 4</b>     | <b>\$ 205</b>             | <b>\$ (168)</b> | <b>\$ 367</b> |

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Loews Corporation

Consolidating Statement of Income Information

| Three Months Ended March 31, 2011<br>(In millions) | CNA<br>Financial | Diamond<br>Offshore | Boardwalk<br>Pipeline | HighMount  | Loews<br>Hotels | Corporate<br>and<br>Other | Eliminations | Total        |
|--|------------------|---------------------|-----------------------|------------|-----------------|---------------------------|--------------|--------------|
| <b>Revenues:</b>                                   |                  |                     |                       |            |                 |                           |              |              |
| Insurance premiums                                 | \$ 1,615         |                     |                       |            |                 |                           |              | \$ 1,615     |
| Net investment income                              | 620              |                     |                       |            |                 | \$ 41                     |              | 661          |
| Intercompany interest and dividends                |                  |                     |                       |            |                 | 155                       | \$ (155)     |              |
| Investment gains                                   | 22               | \$ 1                |                       |            |                 |                           |              | 23           |
| Contract drilling revenues                         |                  | 789                 |                       |            |                 |                           |              | 789          |
| Other  | 67               | 20                  | \$ 311                | \$ 104     | \$ 80           | 1                         | (3)          | 580          |
| <b>Total</b>                                       | <b>2,324</b>     | <b>810</b>          | <b>311</b>            | <b>104</b> | <b>80</b>       | <b>197</b>                | <b>(158)</b> | <b>3,668</b> |
| <b>Expenses:</b>                                   |                  |                     |                       |            |                 |                           |              |              |
| Insurance claims and policyholders' benefits       | 1,364            |                     |                       |            |                 |                           |              | 1,364        |
| Amortization of deferred acquisition costs         | 297              |                     |                       |            |                 |                           |              | 297          |
| Contract drilling expenses                         |                  | 362                 |                       |            |                 |                           |              | 362          |
| Other operating expenses                           | 276              | 129                 | 181                   | 63         | 75              | 16                        | (3)          | 737          |
| Interest   | 55               | 22                  | 48                    | 12         | 2               | 14                        | (2)          | 151          |
| <b>Total</b>                                       | <b>1,992</b>     | <b>513</b>          | <b>229</b>            | <b>75</b>  | <b>77</b>       | <b>30</b>                 | <b>(5)</b>   | <b>2,911</b> |
| Income before income tax                           | 332              | 297                 | 82                    | 29         | 3               | 167                       | (153)        | 757          |
| Income tax expense                                 | (102)            | (56)                | (21)                  | (10)       | (1)             | (5)                       |              | (195)        |
| Net income   | 230              | 241                 | 61                    | 19         | 2               | 162                       | (153)        | 562          |
| Amounts attributable to noncontrolling interests   | (31)             | (124)               | (28)                  |            |                 |                           |              | (183)        |
| Net income attributable to Loews Corporation       | \$ 199           | \$ 117              | \$ 33                 | \$ 19      | \$ 2            | \$ 162                    | \$ (153)     | \$ 379       |

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

Management's discussion and analysis of financial condition and results of operations ( MD&A ) should be read in conjunction with our Consolidated Condensed Financial Statements included in Item 1 of this Report, Risk Factors included in Part II, Item 1A of this Report, and the Consolidated Financial Statements, Risk Factors, and MD&A included in our Annual Report on Form 10-K for the year ended December 31, 2011. This MD&A is comprised of the following sections:

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| <b>OVERVIEW</b>                                  |                     |

We are a holding company. Our subsidiaries are engaged in the following lines of business:

commercial property and casualty insurance (CNA Financial Corporation ( CNA ), a 90% owned subsidiary);

operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. ( Diamond Offshore ), a 50.4% owned subsidiary);

interstate transportation and storage of natural gas (Boardwalk Pipeline Partners, LP ( Boardwalk Pipeline ), a 61% owned subsidiary);

exploration, production and marketing of natural gas and oil (including condensate and natural gas liquids), (HighMount Exploration & Production LLC ( HighMount ), a wholly owned subsidiary); and

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operation of hotels (Loews Hotels Holding Corporation ( Loews Hotels ), a wholly owned subsidiary). Unless the context otherwise requires, references in this report to Loews Corporation, the Company, we, our, us or like terms refer to the business of Loews Corporation excluding its subsidiaries.

### **Consolidated Financial Results**

Net income for the first quarter of 2012 amounted to \$367 million, or \$0.92 per share, compared to \$379 million, or \$0.92 per share, in the first quarter of 2011. Book value per share increased to \$48.96 at March 31, 2012 compared to \$47.33 at December 31, 2011.

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The decrease in net income is due to lower earnings at Diamond Offshore and HighMount. These decreases were partially offset by higher earnings at CNA and increased parent company investment income.

CNA's earnings increased as a result of higher investment income primarily due to an increase in limited partnership results and higher fixed maturity securities income and lower catastrophe losses.

Diamond Offshore's earnings decreased due to lower utilization primarily from fewer revenue earning days and higher contract drilling expense that reflects the higher cost of operating rigs internationally rather than domestically.

HighMount's earnings decreased due to a non-cash impairment charge related to the carrying value of its natural gas and oil properties. This charge was the result of declines in natural gas prices. The results in 2012 also reflect lower production volumes and prices as compared to the prior year period.

### **Parent Company Structure**

We are a holding company and derive substantially all of our cash flow from our subsidiaries. We rely upon our invested cash balances and distributions from our subsidiaries to generate the funds necessary to meet our obligations and to declare and pay any dividends to our shareholders. The ability of our subsidiaries to pay dividends is subject to, among other things, the availability of sufficient earnings and funds in such subsidiaries, applicable state laws, including in the case of the insurance subsidiaries of CNA, laws and rules governing the payment of dividends by regulated insurance companies and compliance with covenants in their respective loan agreements. Claims of creditors of our subsidiaries will generally have priority as to the assets of such subsidiaries over our claims and those of our creditors and shareholders.

### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the consolidated condensed 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 amounts reported in the consolidated financial statements and the related notes. Actual results could differ from those estimates.

The consolidated condensed 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 condensed 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 we believe are reasonable under the known facts and circumstances.

We consider the accounting policies discussed below to be critical to an understanding of our consolidated condensed financial statements as their application places the most significant demands on our judgment.

- Insurance Reserves
- Reinsurance and Other Receivables
- Litigation
- Valuation of Investments and Impairment of Securities
- Long Term Care Products
- Payout Annuity Contracts
- Pension and Postretirement Benefit Obligations
- Valuation of HighMount's Proved Reserves
- Impairment of Long-Lived Assets
- Goodwill
- Income Taxes

Due to the inherent uncertainties involved with these types of judgments, actual results could differ significantly from estimates, which may have a material adverse impact on our results of operations or equity. See the Critical Accounting Estimates section and the Results of Operations by Business Segment CNA Financial Reserves Estimates and Uncertainties section of our MD&A included under Item 7 of our Form 10-K for the year ended December 31, 2011 for further information.



**Table of Contents****RESULTS OF OPERATIONS BY BUSINESS SEGMENT**

Unless the context otherwise requires, references to net operating income (loss), net realized investment results and net income (loss) reflect amounts attributable to Loews Corporation.

**CNA Financial**

The following table summarizes the results of operations for CNA for the three months ended March 31, 2012 and 2011 as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

| <b>Three Months Ended March 31</b><br><b>(In millions)</b> | <b>2012</b>     | <b>2011</b> |
|--|-----------------|-------------|
| <b>Revenues:</b>   |                 |             |
| Insurance premiums   | <b>\$ 1,649</b> | \$ 1,615    |
| Net investment income                                      | <b>648</b>      | 620         |
| Investment gains   | <b>32</b>       | 22          |
| Other  | <b>72</b>       | 67          |
| <b>Total</b>   | <b>2,401</b>    | 2,324       |
| <b>Expenses:</b>   |                 |             |
| Insurance claims and policyholders' benefits               | <b>1,381</b>    | 1,364       |
| Amortization of deferred acquisition costs                 | <b>295</b>      | 297         |
| Other operating expenses                                   | <b>317</b>      | 276         |
| Interest   | <b>42</b>       | 55          |
| <b>Total</b>   | <b>2,035</b>    | 1,992       |
| Income before income tax                                   | <b>366</b>      | 332         |
| Income tax expense   | <b>(115)</b>    | (102)       |
| Amounts attributable to noncontrolling interests           | <b>(25)</b>     | (31)        |
| <b>Net income attributable to Loews Corporation</b>        | <b>\$ 226</b>   | \$ 199      |

Net income increased \$27 million for the three months ended March 31, 2012 as compared with the 2011 period. Investment gains increased \$10 million (\$7 million after tax and noncontrolling interests) and Net investment income increased \$28 million primarily due to improved limited partnership results. See the Investments section of this MD&A for further discussion of net investment results and net investment income. Catastrophe losses were \$16 million (after tax and noncontrolling interests) for the three months ended March 31, 2012 as compared to catastrophe losses of \$32 million (after tax and noncontrolling interests) for the same period in 2011. These favorable impacts were partially offset by decreased non-catastrophe current accident year underwriting results.

Favorable net prior year development of \$43 million and \$35 million was recorded for the three months ended March 31, 2012 and 2011 related to CNA Specialty, CNA Commercial and Other segments.

**CNA Segment Results**

CNA utilizes the net operating income financial measure to monitor its operations. Net operating income is calculated by excluding from net income the effects of (i) net realized investment gains or losses, (ii) income or loss from discontinued operations and (iii) any cumulative effects of changes in accounting guidance. In evaluating the results of the CNA Specialty and CNA Commercial segments, CNA utilizes 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

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the ratio of policyholders' dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios.



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

The following table summarizes the results of operations for CNA Specialty:

| <b>Three Months Ended March 31</b><br><b>(In millions, except %)</b> | <b>2012</b>   | <b>2011</b> |
|--|---------------|-------------|
| Net written premiums   | <b>\$ 765</b> | \$ 739      |
| Net earned premiums  | <b>706</b>    | 669         |
| Net investment income  | <b>175</b>    | 160         |
| Net operating income   | <b>120</b>    | 116         |
| Net realized investment gains  | <b>5</b>      | 5           |
| Net income   | <b>125</b>    | 121         |
| <b>Ratios:</b>   |               |             |
| Loss and loss adjustment expense                                     | <b>66.3%</b>  | 64.2%       |
| Expense  | <b>31.3</b>   | 30.8        |
| Dividend   | <b>(0.3)</b>  | 0.1         |
| <b>Combined</b>  | <b>97.3%</b>  | 95.1%       |

Net written premiums for CNA Specialty increased \$26 million for the three months ended March 31, 2012 as compared with the same period in 2011, primarily driven by increased rate. Net earned premiums increased \$37 million as compared to the same period in 2011, consistent with increased net written premiums over recent quarters.

CNA Specialty's average rate increased 3% for the three months ended March 31, 2012 as compared to a decrease of 1% for the three months ended March 31, 2011 for the policies that renewed in each period. Retention of 87% and 86% was achieved in each period.

Net income increased \$4 million for the three months ended March 31, 2012 as compared with the same period in 2011. This increase was due to increased net investment income partially offset by lower favorable net prior year development and decreased current accident year underwriting results.

The combined ratio increased 2.2 points for the three months ended March 31, 2012 as compared with the same period in 2011. The loss ratio increased 2.1 points, primarily due to the impact of lower favorable net prior year development as well as a higher current accident year loss ratio. The 2012 current accident year loss ratio was unfavorably affected by the anticipated loss cost trend that exceeded earned rate levels. The expense ratio increased 0.5 points, primarily due to higher underwriting expenses.

Favorable net prior year development of \$15 million and \$22 million was recorded for the three months ended March 31, 2012 and 2011. Further information on CNA Specialty's net prior year development for the three months ended March 31, 2012 and 2011 is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

The following table summarizes the gross and net carried reserves for CNA Specialty:

| <b>(In millions)</b>   | <b>March 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|--|---------------------------|------------------------------|
| Gross Case Reserves  | <b>\$ 2,427</b>           | \$ 2,441                     |
| Gross IBNR Reserves  | <b>4,493</b>              | 4,399                        |
| <b>Total Gross Carried Claim and Claim Adjustment Expense Reserves</b> | <b>\$ 6,920</b>           | \$ 6,840                     |

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|   |          |          |
|---|----------|----------|
| Net Case Reserves   | \$ 2,098 | \$ 2,086 |
| Net IBNR Reserves   | 3,992    | 3,937    |
| Total Net Carried Claim and Claim Adjustment Expense Reserves | \$ 6,090 | \$ 6,023 |

**Table of Contents****CNA Commercial**

The following table summarizes the results of operations for CNA Commercial:

| <b>Three Months Ended March 31</b><br><b>(In millions, except %)</b> | <b>2012</b>   | <b>2011</b>   |
|--|---------------|---------------|
| Net written premiums   | \$ 843        | \$ 828        |
| Net earned premiums  | 803           | 802           |
| Net investment income  | 265           | 261           |
| Net operating income   | 125           | 116           |
| Net realized investment gains  | 6             | 9             |
| Net income   | 131           | 125           |
| <b>Ratios:</b>   |               |               |
| Loss and loss adjustment expense                                     | 70.7%         | 75.3%         |
| Expense  | 35.1          | 32.9          |
| Dividend   | 0.4           | (0.2)         |
| <b>Combined</b>  | <b>106.2%</b> | <b>108.0%</b> |

Net written premiums for CNA Commercial increased \$15 million for the three months ended March 31, 2012 as compared with the same period in 2011, primarily driven by new business and increased rate. Net written premiums in 2011 included \$35 million related to a subsidiary that was sold in the fourth quarter of 2011.

CNA Commercial's average rate increased 5% for the three months ended March 31, 2012 as compared with an increase of 1% for the three months ended March 31, 2011 for the policies that renewed in each period. Retention of 78% and 79% was achieved in each period.

Net income increased \$6 million for the three months ended March 31, 2012 as compared with the same period in 2011. This increase was primarily due to lower catastrophe losses and increased favorable net prior year development, partially offset by increased expenses and decreased net realized investment results.

The combined ratio improved 1.8 points for the three months ended March 31, 2012 as compared with the same period in 2011. The loss ratio improved 4.6 points, primarily due to the impacts of lower catastrophe losses and increased favorable net prior year development. Catastrophe losses were \$26 million, or 3.3 points of the loss ratio, for the three months ended March 31, 2012, as compared to \$53 million, or 6.6 points of the loss ratio, for the three months ended March 31, 2011.

The expense ratio increased 2.2 points for the three months ended March 31, 2012 as compared with the same period in 2011, primarily due to the favorable impact in 2011 of recoveries on insurance receivables written off in prior years.

Favorable net prior year development of \$31 million and \$15 million was recorded for the three months ended March 31, 2012 and 2011. Further information on CNA Commercial net prior year development for the three months ended March 31, 2012 and 2011 is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

The following table summarizes the gross and net carried reserves for CNA Commercial:

| <b>(In millions)</b> | <b>March 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|----------------------|---------------------------|------------------------------|
| Gross Case Reserves  | \$ 6,196                  | \$ 6,266                     |

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|   |           |           |
|---|-----------|-----------|
| Gross IBNR Reserves   | 5,226     | 5,243     |
| Total Gross Carried Claim and Claim Adjustment Expense Reserves | \$ 11,422 | \$ 11,509 |
| Net Case Reserves   | \$ 5,662  | \$ 5,720  |
| Net IBNR Reserves   | 4,636     | 4,670     |
| Total Net Carried Claim and Claim Adjustment Expense Reserves   | \$ 10,298 | \$ 10,390 |

**Table of Contents****Life & Group Non-Core**

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

| <b>Three Months Ended March 31</b><br><b>(In millions)</b> | <b>2012</b>   | 2011   |
|--|---------------|--------|
| Net earned premiums  | <b>\$ 141</b> | \$ 144 |
| Net investment income                                      | <b>198</b>    | 188    |
| Net operating loss   | <b>(17)</b>   | (17)   |
| Net realized investment gains (losses)                     | <b>7</b>      | (2)    |
| Net loss   | <b>(10)</b>   | (19)   |

Net earned premiums for Life & Group Non-Core decreased \$3 million for the three months ended March 31, 2012 as compared with the same period in 2011. Net earned premiums relate primarily to the individual and group long term care businesses.

Net loss decreased \$9 million for the three months ended March 31, 2012 as compared with the same period in 2011. This decrease was primarily due to improved net realized investments results.

Life & Group Non-Core primarily includes the results of the life and group lines of business that are in run-off, including existing individual long term care commitments, payout annuity business and pension deposit business. CNA also retains a block of group reinsurance and life settlement contracts. Results for these businesses in 2012 were comparable to the prior year period.

**Other**

The following table summarizes the results of operations for the Other segment, including asbestos and environmental pollution ( A&EP ) and intrasegment eliminations:

| <b>Three Months Ended March 31</b><br><b>(In millions)</b> | <b>2012</b>  | 2011  |
|--|--------------|-------|
| Net investment income                                      | <b>\$ 10</b> | \$ 11 |
| Net operating loss   | <b>(21)</b>  | (28)  |
| Net realized investment gains                              | <b>1</b>     |       |
| Net loss   | <b>(20)</b>  | (28)  |

Net loss decreased \$8 million for the three months ended March 31, 2012 as compared with the same period in 2011, primarily due to improved net realized investment results. Net operating income in 2012 was affected by lower interest expense, as a result of the issuance of debt on more favorable terms in the first quarter of 2011.

Unfavorable net prior year development of \$3 million and \$2 million was recorded for the three months ended March 31, 2012 and 2011.

The following table summarizes the gross and net carried reserves for the Other segment:

| <b>(In millions)</b> | <b>March 31,</b><br><b>2012</b> | December 31,<br>2011 |
|----------------------|---------------------------------|----------------------|
|----------------------|---------------------------------|----------------------|

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|  |                 |                 |
|--|-----------------|-----------------|
| Gross Case Reserves  | \$ 1,232        | \$ 1,321        |
| Gross IBNR Reserves  | 1,754           | 1,808           |
| <b>Total Gross Carried Claim and Claim Adjustment Expense Reserves</b> | <b>\$ 2,986</b> | <b>\$ 3,129</b> |
| Net Case Reserves  | \$ 317          | \$ 347          |
| Net IBNR Reserves  | 247             | 244             |
| <b>Total Net Carried Claim and Claim Adjustment Expense Reserves</b>   | <b>\$ 564</b>   | <b>\$ 591</b>   |

**Table of Contents****Diamond Offshore**

Internationally, the ultra-deepwater and deepwater floater markets are generally strong and continue to show signs of further strengthening, particularly in the ultra-deepwater segment where there are few uncontracted rigs available to work in 2012. Diamond Offshore believes that the decreasing availability of rigs in this market will continue to put upward pressure on dayrates during the remainder of 2012. However, due to its contracted backlog in 2012, Diamond Offshore has limited availability in this market. In addition, based on March 2012 analyst data, there are over 90 ultra-deepwater and deepwater floaters under construction, over half of which are expected to enter the market in 2012 through 2014. Although there are a few exceptions, many of these floaters scheduled for delivery beyond 2012 are not yet contracted for future work.

Market strength for ultra-deepwater and deepwater rigs varies among geographic regions. Based on public announcements, upcoming drilling programs offshore Brazil will require a number of additional ultra-deepwater rigs, and Petr leo Brasileiro S.A. ( Petrobras ) has announced plans to attempt to meet some of this demand with rigs constructed domestically in Brazil. Based on industry reports, there are 35 rigs planned for construction in Brazil; however, the timing of delivery of these rigs could be impacted by the availability of shipyard capacity in Brazil. Additional demand for ultra-deepwater rigs could develop if Brazilian drilling programs, including those of Petrobras, are accelerated prior to delivery of domestically-constructed rigs. In addition, successful exploration and development programs in West Africa have given rise to a robust market for deepwater and ultra-deepwater rigs in that region.

Market strength for mid-water floaters is stable or improving depending on the geographic market. In the North Sea the mid-water market is strong, with signs of increasing dayrates, and in the Mediterranean region demand remains solid. The Southeast Asia and Australia markets also remain steady.

Industry-wide floater utilization is reported to be greater than 90%, and as of April 1, 2012, Diamond Offshore's floating rigs were committed for approximately 79% of the days remaining in 2012 and 51% of 2013.

During the first quarter of 2012, Diamond Offshore sold one of its actively marketed jack-up rigs, resulting in a gain of approximately \$25 million. In addition, Diamond Offshore has classified four non-working jack-up rigs, including three cold stacked, mat-supported rigs, as assets held for sale.

**Contract Drilling Backlog**

The following table reflects Diamond Offshore's contract drilling backlog as of April 16, 2012 and February 1, 2012 (the date reported in our Annual Report on Form 10-K for the year ended December 31, 2011). Contract drilling backlog is calculated by multiplying the contracted operating dayrate by the firm contract period and adding one half of any potential rig performance bonuses. Diamond Offshore's calculation also assumes full utilization of its drilling equipment for the contract period (excluding scheduled shipyard and survey days); however, the amount of actual revenue earned and the actual periods during which revenues are earned will be different than the amounts and periods shown in the tables below due to various factors. Utilization rates, which generally approach 92% - 98% during contracted periods, can be adversely impacted by downtime due to various operating factors including, but not limited to, weather conditions and unscheduled repairs and maintenance. Contract drilling backlog excludes revenues for mobilization, demobilization, contract preparation and customer reimbursables. No revenue is generally earned during periods of downtime for regulatory surveys. Changes in Diamond Offshore's contract drilling backlog between periods are a function of the performance of work on term contracts, as well as the extension or modification of existing term contracts and the execution of additional contracts.

| <b>(In millions)</b>  | <b>April 16,<br/>2012</b> | <b>February 1,<br/>2012</b> |
|-----------------------|---------------------------|-----------------------------|
| <b>Floaters:</b>      |                           |                             |
| Ultra-Deepwater(a)    | \$ 4,721                  | \$ 4,926                    |
| Deepwater(b)          | 1,133                     | 1,081                       |
| Mid-Water (c)         | 2,119                     | 2,348                       |
| <b>Total Floaters</b> | <b>7,973</b>              | <b>8,355</b>                |
| Jack-ups              | 269                       | 277                         |
| <b>Total</b>          | <b>\$ 8,242</b>           | <b>\$ 8,632</b>             |





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- (a) As of April 16, 2012, includes (i) \$1.7 billion attributable to contracted operations offshore Brazil for the years 2012 to 2015, and (ii) \$1.8 billion attributable to future work for two drillships under construction.
- (b) As of April 16, 2012, includes \$732 million attributable to contracted operations offshore Brazil for the years 2012 to 2016.
- (c) As of April 16, 2012, includes \$1.4 billion attributable to contracted operations offshore Brazil for the years 2012 to 2015.

The following table reflects the amount of Diamond Offshore's contract drilling backlog by year as of April 16, 2012:

| Year Ended December 31<br>(In millions) | Total    | 2012 (a) | 2013     | 2014     | 2015 - 2019 |
|---|----------|----------|----------|----------|-------------|
| <b>Floater:</b>                         |          |          |          |          |             |
| <b>Ultra-Deepwater (b)</b>              | \$ 4,721 | \$ 660   | \$ 943   | \$ 1,084 | \$ 2,034    |
| <b>Deepwater(c)</b>                     | 1,133    | 419      | 369      | 149      | 196         |
| <b>Mid-Water (d)</b>                    | 2,119    | 827      | 752      | 454      | 86          |
| <b>Total Floaters</b>                   | 7,973    | 1,906    | 2,064    | 1,687    | 2,316       |
| <b>Jack-ups</b>                         | 269      | 112      | 108      | 36       | 13          |
| <b>Total</b>                            | \$ 8,242 | \$ 2,018 | \$ 2,172 | \$ 1,723 | \$ 2,329    |

- (a) Represents a nine month period beginning April 1, 2012.
- (b) As of April 16, 2012, includes (i) \$377 million, \$524 million, \$524 million and \$320 million for the years 2012 to 2015 attributable to contracted operations offshore Brazil, and (ii) \$29 million and \$299 million for the years 2013 and 2014, and \$1.5 billion in the aggregate for the years 2015 to 2019 attributable to future work for two drillships under construction.
- (c) As of April 16, 2012, includes \$165 million, \$222 million and \$149 million for the years 2012 to 2014, and \$196 million in the aggregate for the years 2015 to 2016 attributable to contracted operations offshore Brazil.
- (d) As of April 16, 2012, includes \$457 million, \$477 million, \$368 million and \$86 million for the years 2012 to 2015 attributable to contracted operations offshore Brazil.

The following table reflects the percentage of rig days committed by year as of April 16, 2012. The percentage of rig days committed is calculated as the ratio of total days committed under contracts, as well as scheduled shipyard, survey and mobilization days for all rigs in Diamond Offshore's fleet, to total available days (number of rigs multiplied by the number of days in a particular year). Total available days have been calculated based on the expected final commissioning dates for the *Ocean BlackHawk*, *Ocean BlackHornet*, *Ocean BlackRhino* and the *Ocean Onyx*, which are all under construction.

| Year Ended December 31 | 2012 (a) (b) | 2013 (b) | 2014 | 2015 - 2019 |
|------------------------|--------------|----------|------|-------------|
| <b>Floater:</b>        |              |          |      |             |
| <b>Ultra-Deepwater</b> | 97%          | 89%      | 73%  | 23%         |
| <b>Deepwater</b>       | 93%          | 56%      | 19%  | 5%          |
| <b>Mid-Water</b>       | 68%          | 45%      | 25%  | 1%          |
| <b>All Floaters</b>    | 79%          | 58%      | 38%  | 8%          |
| <b>Jack-ups</b>        | 41%          | 31%      | 12%  | 1%          |

- (a) Represents a nine month period beginning April 1, 2012.
- (b) As of April 16, 2012, includes approximately 880 and 520 currently known, scheduled shipyard, survey and mobilization days for 2012 and 2013.

**Table of Contents****Dayrate and Utilization Statistics**

| <b>Three Months Ended March 31</b> | <b>2012</b> | <b>2011</b> |
|------------------------------------|-------------|-------------|
| <b>Revenue earning days (a)</b>    |             |             |
| Floaters:                          |             |             |
| Ultra-Deepwater                    | 620         | 556         |
| Deepwater                          | 400         | 371         |
| Mid-Water                          | 1,124       | 1,458       |
| Jack-ups                           | 522         | 555         |
| <b>Utilization (b)</b>             |             |             |
| Floaters:                          |             |             |
| Ultra-Deepwater                    | 85%         | 77%         |
| Deepwater                          | 88%         | 83%         |
| Mid-Water                          | 65%         | 81%         |
| Jack-ups                           | 44%         | 47%         |
| <b>Average daily revenue (c)</b>   |             |             |
| Floaters:                          |             |             |
| Ultra-Deepwater                    | \$ 364,000  | \$ 343,100  |
| Deepwater                          | 358,900     | 342,500     |
| Mid-Water                          | 266,200     | 274,600     |
| Jack-ups                           | 86,700      | 82,200      |

- (a) A revenue earning day is defined as a 24-hour period during which a rig earns a dayrate after commencement of operations and excludes mobilization, demobilization and contract preparation days.
- (b) Utilization is calculated as the ratio of total revenue earnings days divided by the total calendar days in the period for all rigs in Diamond Offshore's fleet (including cold stacked rigs).
- (c) Average daily revenue is defined as contract drilling revenue (excluding revenue for mobilization, demobilization and contract preparation) per revenue earning day.

**Results of Operations**

The following table summarizes the results of operations for Diamond Offshore for the three months ended March 31, 2012 and 2011 as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

| <b>Three Months Ended March 31</b> | <b>2012</b> | <b>2011</b> |
|------------------------------------|-------------|-------------|
| <b>(In millions)</b>               |             |             |
| <b>Revenues:</b>                   |             |             |
| Contract drilling revenues         | \$ 755      | \$ 789      |
| Net investment income              | 2           |             |
| Investment gains                   |             | 1           |
| Other                              | 39          | 20          |
| <b>Total</b>                       | <b>796</b>  | <b>810</b>  |
| <b>Expenses:</b>                   |             |             |
| Contract drilling expenses         | 397         | 362         |
| Other operating expenses           | 132         | 129         |

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|   |              |        |
|---|--------------|--------|
| Interest  | <b>15</b>    | 22     |
| <b>Total</b>  | <b>544</b>   | 513    |
| Income before income tax                            | <b>252</b>   | 297    |
| Income tax expense                                  | <b>(73)</b>  | (56)   |
| Amounts attributable to noncontrolling interests    | <b>(92)</b>  | (124)  |
| <b>Net income attributable to Loews Corporation</b> | <b>\$ 87</b> | \$ 117 |

Net income decreased \$30 million for the three months ended March 31, 2012 as compared with the 2011 period, reflecting both a decline in revenue and an increase in contract drilling expense. Aggregate revenue for Diamond Offshore's floater and jack-up fleets decreased \$34 million, or 4.3%, as compared to the first quarter of 2011, while contract drilling expense increased \$35 million, or 9.7%, during the same period. Contract drilling revenue for the first quarter of 2012 was negatively impacted by a decrease in both revenue earning days and average daily revenue

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earned by Diamond Offshore's mid-water floaters, as compared to the 2011 period, partially offset by favorable revenue variances for its ultra-deepwater and deepwater floaters. The increase in contract drilling expense for the first quarter of 2012 primarily reflects the higher cost of operating rigs internationally rather than domestically, including costs associated with the mobilization and demobilization of rigs to and from locations, personnel and related costs, freight, agency fees and non-income based taxes and other costs associated with establishing and maintaining shorebase offices in international locations.

Revenue generated by ultra-deepwater floaters increased \$46 million during the first quarter of 2012 as compared with 2011, primarily due to increased utilization of \$22 million, increased average daily revenue of \$13 million and increased amortized mobilization fees of \$11 million. Revenue earning days increased by 64 in the first quarter of 2012, primarily due to the *Ocean Monarch* which logged 82 revenue earnings days, as compared with the first quarter of 2011 when the rig incurred unplanned downtime for the entire quarter as a result of a force majeure assertion by a customer.

Revenue generated by deepwater floaters increased \$13 million in the first quarter of 2012 as compared with 2011, primarily due to a \$10 million increase in utilization and a \$6 million increase in average daily revenue, partially offset by a \$3 million decrease in amortized mobilization fees. Revenue earning days increased by 29 as a result of fewer planned, non-operating days for repairs, inspections and contract preparation activities during the first quarter of 2012 as compared with 2011.

Revenue generated by mid-water floaters decreased \$91 million during the first quarter of 2012 as compared with 2011, primarily due to a \$92 million decrease in utilization and a \$9 million decrease in average daily revenue, partially offset by a \$10 million increase in amortized mobilization fees. Revenue earning days decreased by 334 in the first quarter of 2012 as compared with 2011, this decrease was primarily attributable to planned downtime for mobilization and shipyard projects (130 additional days), unplanned downtime for repairs and the warm stacking of rigs between contracts (130 additional days) and 94 additional cold stacked days.

Revenue earned by jack-up rigs decreased \$2 million in the first quarter of 2012 as compared with 2011, primarily due to a \$2 million decrease in utilization and a \$2 million decrease in amortized mobilization fees, partially offset by a \$2 million increase in average daily revenue. Revenue earning days decreased by 33 in the first quarter of 2012 as compared with 2011.

Diamond Offshore's effective tax rate increased for the three months ended March 31, 2012 as compared with 2011. The higher effective tax rate in the current quarter is partially the result of differences in the mix of domestic and international pretax earnings and losses, as well as the mix of international tax jurisdictions in which Diamond Offshore operates. Also contributing to the higher effective tax rate in the current quarter was the impact of a tax law provision that expired at the end of 2011. This provision allowed Diamond Offshore to defer recognition of certain foreign earnings for U. S. tax purposes in 2011. In addition, as a result of Diamond Offshore's reassessment to repatriate certain foreign earnings, tax expense for the three months ended March 31, 2011 was reduced by the reversal of previously accrued taxes related to foreign earnings intended to be reinvested internationally.

**Boardwalk Pipeline**

Boardwalk Pipeline's ability to market available transportation capacity is impacted by supply and demand for natural gas, competition from other pipelines, natural gas price volatility, the price differential between physical locations on its pipeline systems (basis spreads), economic conditions and other factors. Over the past several years, new sources of natural gas have been identified throughout the U.S. and new pipeline infrastructure has been developed, which has led to changes in pricing dynamics between supply basins, pooling points and market areas and an overall weakening of basis spreads across Boardwalk Pipeline's pipeline systems.

The narrowing of basis spreads on Boardwalk Pipeline's pipeline systems has made it more difficult to renew expiring long term firm transportation contracts at previously contracted rates because, as basis spreads decrease, the rates customers are willing to pay decrease. In addition, as rates decline customers typically seek longer term agreements while Boardwalk Pipeline generally seeks shorter terms. Changing basis spreads do not have as significant or immediate of an impact on long term firm agreements as they do on short term or interruptible services because long term agreements are also influenced by other factors, such as baseload supply needs, certainty of delivery, predictability of long term costs, the ability to manage those costs through the capacity release mechanism and the terms of service. The changes in the pricing dynamics and weakening of basis spreads have contributed to decreases in Boardwalk Pipeline's operating profitability especially with regard to short term and interruptible services.

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The majority of Boardwalk Pipeline's revenues are derived from capacity reservation charges under firm agreements that are not impacted by the volume of natural gas transported or stored and a smaller portion of its revenues are derived from charges based on actual volumes transported or stored under firm and interruptible services. For example, for the twelve months ended March 31, 2012, approximately 83% of Boardwalk Pipeline's revenues were derived from capacity reservation charges and 17% of revenues were derived from charges based on actual volumes transported or stored.

As of March 31, 2012, a substantial portion of Boardwalk Pipeline's transportation capacity has been contracted for under firm agreements having a weighted-average remaining life of approximately 5.7 years. However, an important aspect of Boardwalk Pipeline's business is its ability to market available short term firm or interruptible transportation capacity and renew existing longer term transportation contracts. Boardwalk Pipeline actively markets available capacity, which includes reserved capacity not fully utilized. The revenues Boardwalk Pipeline will be able to earn from that available capacity and from renewals of expiring contracts will be influenced by basis spreads and other factors discussed above.

Boardwalk Pipeline's ability to market available storage capacity and parking and lending (PAL) is impacted by many of the factors indicated above, as well as natural gas price differentials between time periods, such as winter to summer (time period price spreads). These time period price spreads declined over the 2010 to 2011 period resulting in a significant reduction in Boardwalk Pipeline's PAL and interruptible storage revenues in 2011. Market conditions have improved in 2012 due to increases in time period price spreads.

Boardwalk HP Storage Company, LLC (HP Storage), acquired in December of 2011, owns seven salt dome natural gas storage caverns and associated assets in Mississippi. HP Storage contributed \$12 million in revenues and \$1 million in net income (after tax and noncontrolling interests) for the three months ended March 31, 2012.

**Results of Operations**

The following table summarizes the results of operations for Boardwalk Pipeline for the three months ended March 31, 2012 and 2011 as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included under Item 1 of this Report:

| <b>Three Months Ended March 31</b>                  | <b>2012</b>  | <b>2011</b>  |
|---|--------------|--------------|
| <b>(In millions)</b>                                |              |              |
| <b>Revenues:</b>                                    |              |              |
| Other revenue, primarily operating                  | \$ 314       | \$ 311       |
| <b>Total</b>  | <b>314</b>   | <b>311</b>   |
| <b>Expenses:</b>                                    |              |              |
| Operating   | 181          | 181          |
| Interest  | 41           | 48           |
| <b>Total</b>  | <b>222</b>   | <b>229</b>   |
| Income before income tax                            | 92           | 82           |
| Income tax expense                                  | (22)         | (21)         |
| Amounts attributable to noncontrolling interests    | (35)         | (28)         |
| <b>Net income attributable to Loews Corporation</b> | <b>\$ 35</b> | <b>\$ 33</b> |

Total revenues increased \$3 million for the three months ended March 31, 2012, compared to the same period in 2011. This increase is primarily due to \$12 million of storage and transportation revenues earned from HP Storage, partially offset by a decrease in fuel retained of \$11 million primarily due to lower natural gas prices.

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Operating expenses were \$181 million for the three months ended March 31, 2012 and 2011. Lower natural gas prices caused a decrease in fuel consumed of \$5 million and there were lower general and administrative costs from decreased outside services and lower employee benefit costs. The 2011 period was unfavorably impacted by an expense of \$5 million representing an insurance deductible associated with replacing compressor assets. These decreases were offset by \$9 million of expenses incurred by HP Storage and an increase in operation and maintenance expenses from maintenance projects for pipeline integrity management and reliability spending. Interest expense decreased by \$7 million for the three months ended March 31, 2012 primarily from a charge on the early extinguishment of debt recorded in the 2011 period.

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**HighMount**

We use the following terms throughout this discussion of HighMount's results of operations, with equivalent volumes computed with oil and natural gas liquid ( NGL ) quantities converted to Mcf, on an energy equivalent ratio of one barrel to six Mcf:

|              |   |
|--------------|---|
| <i>Bbl</i>   | - Barrel (of oil or NGLs)                       |
| <i>Bcf</i>   | - Billion cubic feet (of natural gas)           |
| <i>Bcfe</i>  | - Billion cubic feet of natural gas equivalent  |
| <i>Mbbl</i>  | - Thousand barrels (of oil or NGLs)             |
| <i>Mcf</i>   | - Thousand cubic feet (of natural gas)          |
| <i>Mcfe</i>  | - Thousand cubic feet of natural gas equivalent |
| <i>MMBtu</i> | - Million British thermal units                 |

HighMount's revenues and profitability depend substantially on natural gas and oil prices and HighMount's ability to increase its natural gas and oil production. For the period July 2008 to March 2012, NYMEX natural gas contract settlement prices have ranged from a high of \$13.11 in July 2008 to \$2.45 in March 2012. This price decline is reflective of an increase in the supply of natural gas resulting from new sources of supply recoverable from shale formations, primarily the result of technological advancements in horizontal drilling and hydraulic fracturing. As a result of the decline in natural gas prices, HighMount changed its drilling program in 2011 to develop oil and natural gas properties that produce high volumes of natural gas liquids in order to benefit from the higher prices for these commodities. The price HighMount realizes for its production is also affected by HighMount's hedging activities, as well as locational differences in market prices.

HighMount's operating expenses consist primarily of production expenses, production and ad valorem taxes, as well as depreciation, depletion and amortization ( DD&A ) expenses. Production expenses represent costs incurred to operate and maintain wells, related equipment and facilities and transportation costs. Production and ad valorem taxes increase or decrease primarily when prices of natural gas and oil increase or decrease, but they are also affected by changes in production, as well as appreciated property values. HighMount calculates depletion using the units-of-production method, which depletes the capitalized costs and future development costs associated with evaluated properties based on the ratio of production volumes for the current period to total remaining reserve volumes for the evaluated properties. HighMount's depletion expense is affected by its capital spending program and projected future development costs, as well as reserve changes resulting from drilling programs, well performance and revisions due to changing commodity prices.

**Table of Contents****Production and Sales Statistics**

Presented below are production and sales statistics related to HighMount's operations for the three months ended March 31, 2012 and 2011:

| <b>Three Months Ended March 31</b>               | <b>2012</b>    | <b>2011</b> |
|--|----------------|-------------|
| Gas production (Bcf)                             | <b>10.3</b>    | 11.6        |
| Gas sales (Bcf)                                  | <b>9.7</b>     | 10.9        |
| Oil production/sales (Mbbls)                     | <b>81.0</b>    | 60.6        |
| NGL production/sales (Mbbls)                     | <b>632.8</b>   | 702.8       |
| Equivalent production (Bcfe)                     | <b>14.6</b>    | 16.1        |
| Equivalent sales (Bcfe)                          | <b>14.0</b>    | 15.5        |
| Average realized prices without hedging results: |                |             |
| Gas (per Mcf)                                    | <b>\$ 2.57</b> | \$ 3.95     |
| NGL (per Bbl)                                    | <b>45.54</b>   | 47.90       |
| Oil (per Bbl)                                    | <b>96.33</b>   | 87.28       |
| Equivalent (per Mcfe)                            | <b>4.41</b>    | 5.30        |
| Average realized prices with hedging results:    |                |             |
| Gas (per Mcf)                                    | <b>\$ 4.22</b> | \$ 6.41     |
| NGL (per Bbl)                                    | <b>39.79</b>   | 38.79       |
| Oil (per Bbl)                                    | <b>95.00</b>   | 87.28       |
| Equivalent (per Mcfe)                            | <b>5.28</b>    | 6.61        |
| Average cost per Mcfe:                           |                |             |
| Production expenses                              | <b>\$ 1.29</b> | \$ 1.21     |
| Production and ad valorem taxes                  | <b>0.29</b>    | 0.44        |
| General and administrative expenses              | <b>0.71</b>    | 0.67        |
| Depletion expense                                | <b>1.55</b>    | 1.12        |

**Results of Operations**

The following table summarizes the results of operations for HighMount for the three months ended March 31, 2012 and 2011 as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

| <b>Three Months Ended March 31</b>           | <b>2012</b>  | <b>2011</b> |
|--|--------------|-------------|
| <b>(In millions)</b>                         |              |             |
| Revenues:                                    |              |             |
| Other revenue, primarily operating           | <b>\$ 76</b> | \$ 104      |
| <b>Total</b>                                 | <b>76</b>    | 104         |
| Expenses:                                    |              |             |
| Other operating expenses                     |              |             |
| Impairment of natural gas and oil properties | <b>44</b>    |             |
| Operating                                    | <b>63</b>    | 63          |
| Interest                                     | <b>3</b>     | 12          |
| <b>Total</b>                                 | <b>110</b>   | 75          |



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|   |         |       |
|---|---------|-------|
| Income (loss) before income tax                     | (34)    | 29    |
| Income tax (expense) benefit                        | 12      | (10)  |
| Net income (loss) attributable to Loews Corporation | \$ (22) | \$ 19 |

HighMount's operating revenues decreased \$28 million in 2012 as compared with 2011 due to decreased natural gas prices and sales volumes. Average prices realized per Mcfe were \$5.28 in the first quarter of 2012 compared to \$6.61 in the 2011 period. HighMount sold 14.0 Bcfe in the first quarter of 2012 compared to 15.5 Bcfe in 2011. The decrease in sales volume was primarily due to reduced drilling activity.

HighMount had hedges in place as of March 31, 2012 that cover approximately 51.4% and 20.3% of total estimated 2012 and 2013 natural gas equivalent production at a weighted average price of \$6.01 and \$6.70 per Mcfe.

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For the three months ended March 31, 2012, HighMount recorded a non-cash ceiling test impairment charge of \$44 million (\$28 million after tax) related to the carrying value of its natural gas and oil properties. The write-down was the result of declines in natural gas prices. The ceiling test calculation was based on average 12-month prices of \$3.73 per MMBtu for natural gas, \$55.49 per Bbl for NGLs and \$98.15 per Bbl for oil. Had the effects of HighMount's cash flow hedges not been considered in calculating the ceiling limitation, the impairment would have been \$69 million (\$44 million after tax). If prices remain unchanged through 2012, and holding all other assumptions constant, it is likely that HighMount will incur non-cash after tax ceiling test impairments ranging from approximately \$400 million to \$450 million for the full year of 2012, inclusive of the first quarter impairment. Any future impairment charge would be based on actual pricing at each measurement date.

Operating expenses were \$63 million for the three months ended March 31, 2012 and 2011. DD&A expenses were \$27 million in 2012, compared to \$23 million in 2011. The increase in DD&A expenses was primarily due to negative reserve revisions in 2011 and projected future development activity. This increase was offset by lower production and ad valorem taxes and lower production expenses.

**Loews Hotels**

The following table summarizes the results of operations for Loews Hotels for the three months ended March 31, 2012 and 2011, as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

| <b>Three Months Ended March 31<br/>(In millions)</b> | <b>2012</b>  | 2011  |
|--|--------------|-------|
| <b>Revenues:</b>                                     |              |       |
| Other revenue, primarily operating                   | <b>\$ 80</b> | \$ 80 |
| <b>Total</b>   | <b>80</b>    | 80    |
| <b>Expenses:</b>                                     |              |       |
| Operating  | <b>71</b>    | 75    |
| Interest   | <b>2</b>     | 2     |
| <b>Total</b>   | <b>73</b>    | 77    |
| Income before income tax                             | <b>7</b>     | 3     |
| Income tax expense                                   | <b>(3)</b>   | (1)   |
| Net income attributable to Loews Corporation         | <b>\$ 4</b>  | \$ 2  |

Revenues were consistent with the 2011 period. Net income increased \$2 million primarily due to equity earnings in joint venture properties for the three months ended March 31, 2012 as compared to the 2011 period.

Revenue per available room increased \$3.24 to \$155.31 for the three months ended March 31, 2012 as compared to the 2011 period. The increase in revenue per available room reflects improving occupancy and average room rates. Occupancy rates increased to 67.8% in the three months ended March 31, 2012, from 67.6% in the 2011 period. Average room rates increased by \$4.05, or 1.8%, in the three months ended March 31, 2012, compared to the 2011 period.

Revenue per available room is an industry measure of the combined effect of occupancy rates and average room rates on room revenues. Other hotel operating revenues primarily include guest charges for food and beverages.

**Corporate and Other**

Corporate and Other operations consist primarily of investment income at the Parent Company, corporate interest expenses and other corporate administrative costs. Investment income includes earnings on cash and short term investments held at the Parent Company level to meet current and future liquidity needs, as well as results of limited partnership investments and the trading portfolio managed to take advantage of potential market opportunities.



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The following table summarizes the results of operations for Corporate and Other for the three months ended March 31, 2012 and 2011, as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

| <b>Three Months Ended March 31<br/>(In millions)</b> | <b>2012</b>  | <b>2011</b> |
|--|--------------|-------------|
| <b>Revenues:</b>                                     |              |             |
| Net investment income                                | <b>\$ 76</b> | \$ 41       |
| Other  | <b>2</b>     | 1           |
| Total  | <b>78</b>    | 42          |
| <b>Expenses:</b>                                     |              |             |
| Operating  | <b>12</b>    | 16          |
| Interest   | <b>10</b>    | 14          |
| Total  | <b>22</b>    | 30          |
| Income before income tax                             | <b>56</b>    | 12          |
| Income tax expense                                   | <b>(21)</b>  | (5)         |
| Net income attributable to Loews Corporation         | <b>\$ 35</b> | \$ 7        |

Revenues increased by \$36 million for the three months ended March 31, 2012 as compared to the 2011 period. The change in revenues is primarily attributable to increased returns on equity based investments in the trading portfolio, partially offset by lower performance of fixed income investments.

Net income increased by \$28 million for the three months ended March 31, 2012 as compared to the 2011 period. This change was due primarily to the change in revenues discussed above.

**LIQUIDITY AND CAPITAL RESOURCES****CNA Financial****Cash Flows**

CNA's principal operating cash flow sources are premiums and investment income from its insurance subsidiaries. CNA's primary operating cash flow uses are payments for claims, policy benefits and operating expenses. Additionally, cash may be paid or received for income taxes.

For the three months ended March 31, 2012, net cash provided by operating activities was \$312 million as compared with \$112 million for the same period in 2011. Cash provided by operating activities was favorably affected by increased investment income receipts in the first quarter of 2012 as compared with the same period in 2011. In addition, CNA received a \$75 million federal income tax refund in the first quarter of 2012.

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

For the three months ended March 31, 2012, net cash used by investing activities was \$287 million as compared with \$74 million for the same period in 2011. The cash flow from investing activities is affected by various factors such as the anticipated payment of claims, financing activity, asset/liability management and individual security buy and sell decisions made in the normal course of portfolio management.

Cash flows from financing activities include proceeds from the issuance of debt and equity securities, outflows for stockholder dividends or repayment of debt and outlays to reacquire equity instruments.

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For the three months ended March 31, 2012, net cash used by financing activities was \$42 million as compared with \$36 million for the same period in 2011. Net cash used by financing activities in both periods was primarily related to the payment of dividends to common stockholders.

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**Table of Contents****Liquidity**

CNA believes that its present cash flows from operations, investing activities and financing activities are sufficient to fund its current and expected working capital and debt obligation needs and CNA does not expect this to change in the near term. The Hardy acquisition, which is expected to be completed during the second quarter of 2012, will be funded through existing liquidity.

As of March 31, 2012, CNA had no outstanding borrowings under its existing credit agreement. On April 19, 2012, CNA entered into a new credit agreement with a syndicate of banks and other lenders. The new credit agreement established a four-year \$250 million senior unsecured revolving credit facility which is intended to be used for general corporate purposes. At CNA's election, the commitments under the new credit agreement may be increased from time to time up to an additional aggregate amount of \$100 million, and two one-year extensions are available prior to the first and second anniversary of the closing date subject to applicable consents. The new credit agreement includes several covenants, including maintenance of a minimum consolidated net worth and a specified ratio of consolidated indebtedness to consolidated total capitalization. In addition, under the new credit agreement, CNA's existing credit agreement automatically expired on April 19, 2012.

**Diamond Offshore**

Cash and investments totaled \$1.4 billion at March 31, 2012, compared to \$1.2 billion at December 31, 2011. During the first three months of 2012, Diamond Offshore paid cash dividends totaling \$122 million, consisting of aggregate regular cash dividends of \$17 million and aggregate special cash dividends of \$105 million. On April 18, 2012, Diamond Offshore declared a regular quarterly dividend of \$0.125 per share and a special dividend of \$0.75 per share.

Cash provided by operating activities for the three months ended March 31, 2012 decreased \$57 million compared to the 2011 period, primarily due to lower earnings resulting from an aggregate reduction in average utilization and dayrates earned by mid-water floaters. During the first quarter of 2012, Diamond Offshore sold one of its actively marketed jack-up rigs for cash proceeds of \$40 million. Cash used in investing activities for the three months ended March 31, 2012 increased \$182 million compared to the 2011 period. This increase was due to the purchase of marketable securities, net of sales, of \$377 million in the first quarter of 2012 compared to net sales of \$112 million during the 2011 period, partially offset by higher capital expenditures in the first quarter of 2011 related to the first installments for the construction of two new, ultra-deepwater drillships.

Diamond Offshore is currently obligated under a vessel modification agreement and three separate turnkey contracts for the construction of a semisubmersible rig and three new ultra-deepwater drillships. Diamond Offshore estimates that the aggregate cost for the construction of the semisubmersible rig and the three new drillships, including commissioning, spares and project management, to be approximately \$300 million and \$1.8 billion. During the first three months of 2012, Diamond Offshore spent \$42 million towards the construction of these three new drillships and the semisubmersible rig. In addition, Diamond Offshore spent approximately \$68 million during the period related to its ongoing capital maintenance programs.

For 2012, Diamond Offshore has budgeted approximately \$220 million for capital expenditures associated with the construction of its new drillships and the semisubmersible rig, and an additional \$330 million for capital expenditures associated with its ongoing rig equipment replacement and enhancement programs and other corporate requirements. Diamond Offshore expects to finance its 2012 capital expenditures through the use of existing cash balances or internally generated funds.

Diamond Offshore's liquidity and capital requirements are primarily a function of its working capital needs, capital expenditures and debt service requirements. Diamond Offshore determines the amount of cash required to meet its capital commitments by evaluating the need to upgrade rigs to meet specific customer requirements, its ongoing rig equipment replacement and enhancement programs and its obligations relating to the construction of its three new drillships and semisubmersible rig. As a result of Diamond Offshore's intention to indefinitely reinvest the earnings of its wholly owned subsidiary, Diamond Offshore International Limited ( DOIL ), to finance its foreign activities, Diamond Offshore does not expect such earnings to be available for distribution to its stockholders or to finance its domestic activities. However, Diamond Offshore believes that the operating cash flows generated by and cash reserves of DOIL, and the operating cash flows available to and cash reserves of Diamond Offshore Drilling, Inc., will be sufficient to meet both its working capital requirements and its capital commitments over the next twelve months. Diamond Offshore will, however, continue to make periodic assessments based on industry conditions and will adjust capital spending programs if required.

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### **Boardwalk Pipeline**

At March 31, 2012 and December 31, 2011, cash and investments amounted to \$4 million and \$23 million. Funds from operations for the three months ended March 31, 2012 amounted to \$110 million, compared to \$103 million in the 2011 period. For the three months ended March 31, 2012 and 2011, Boardwalk Pipeline's capital expenditures were \$26 million and \$31 million.

Boardwalk Pipeline's ability to access the capital markets for debt and equity financing under reasonable terms depends on its financial condition, credit ratings and market conditions. Boardwalk Pipeline anticipates that its existing capital resources, including the revolving credit facility and future cash flows will be adequate to fund its operations, including its maintenance capital expenditures. Boardwalk Pipeline expects to issue and sell debt and/or equity securities for general corporate purposes, including to refinance outstanding debt or to fund potential acquisitions and new growth opportunities.

As of March 31, 2012, Boardwalk Pipeline had \$498 million of loans outstanding under its revolving credit facility with a weighted-average interest rate on the borrowings of 0.5% and had no letters of credit issued. As of March 31, 2012, Boardwalk Pipeline was in compliance with all covenant requirements under the credit facility and had available borrowing capacity of \$452 million. In April of 2012, Boardwalk Pipeline entered into a Second Amended and Restated Credit Agreement (Amended Credit Agreement) with Wells Fargo Bank, N.A., as Administrative Agent, having aggregate lending commitments of \$1.0 billion. The Amended Credit Agreement has a maturity date of April 2017.

In the first quarter of 2012, Boardwalk Pipeline sold 9.2 million common units at a price of \$27.55 per unit in a public offering and received net proceeds of \$250 million, including a \$5 million contribution from us to maintain our 2% general partner interest. The net proceeds were used to repay borrowings under Boardwalk Pipeline's revolving credit facility and to purchase the remaining equity interest in HP Storage. Boardwalk Pipeline paid \$285 million to acquire the remaining 80% equity interest in HP Storage.

In 2012, Boardwalk Pipeline expects to incur costs of approximately \$260 million related to its pipeline systems, of which \$92 million is expected to be recorded as maintenance capital. This represents a \$10 million increase from 2011, primarily related to pipeline integrity projects and general pipeline maintenance and repairs, some of which are necessary to comply with regulatory requirements.

Boardwalk Pipeline expects the first 2.2 miles of its Marcellus Gathering System to be placed into service in the near future. This project is expected to be completed in the next twelve to eighteen months at a cost of approximately \$90 million.

### **HighMount**

At March 31, 2012 and December 31, 2011, cash and investments amounted to \$49 million and \$85 million. Net cash flows provided by operating activities were \$31 million and \$24 million for the three months ended March 31, 2012 and 2011. Key drivers of net operating cash flows are commodity prices, production volumes and operating costs.

Cash used in investing activities for the three months ended March 31, 2012, was \$67 million, compared to \$39 million for the 2011 period. The primary driver of cash used in investing activities was capital spent developing HighMount's natural gas and oil reserves. HighMount spent \$46 million and \$16 million on capital expenditures for its drilling program in the three months ended March 31, 2012 and 2011. HighMount expects to spend approximately \$320 million on capital expenditures in 2012 developing its natural gas and oil reserves. Capital spending in 2012 will be focused on liquid-rich and oil drilling opportunities. Funds for capital expenditures and working capital requirements are expected to be provided primarily from operating activities and the available capacity under the revolving credit facility.

At March 31, 2012, HighMount had \$600 million of term loans outstanding. In addition, \$100 million was outstanding under HighMount's \$250 million revolving credit facility with remaining available capacity of approximately \$150 million.

HighMount's credit agreement governing its term loans and revolving credit facility contains financial covenants typical for these types of agreements, including a maximum debt to capitalization ratio and a minimum present value of proved natural gas and oil reserves to total debt ratio. The credit agreement also contains customary restrictions or

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limitations on HighMount's ability to engage in certain transactions, including transactions with affiliates. At March 31, 2012, HighMount was in compliance with all of its covenants under the credit agreement.

### **Loews Hotels**

Funds from operations continue to exceed operating requirements. Cash and investments amounted to \$78 million at March 31, 2012 as compared to \$81 million at December 31, 2011. Funds for other capital expenditures, working capital requirements and mortgage debt coming due in the next twelve months are expected to be provided from existing cash balances, operations, refinancing, newly incurred debt and advances or capital contributions from us.

### **Corporate and Other**

Parent Company cash and investments, net of receivables and payables, at March 31, 2012 totaled \$3.7 billion as compared to \$3.3 billion at December 31, 2011. During the three months ended March 31, 2012, we received \$285 million from the sale of our 80% ownership interest in HP Storage to Boardwalk Pipeline and \$170 million in interest and dividends from our subsidiaries. These inflows were partially offset by the payment of \$25 million of cash dividends to our shareholders.

We have an effective Registration Statement on Form S-3 registering the future sale of an unlimited amount of our debt and equity securities.

We continue to pursue conservative financial strategies while seeking opportunities for responsible growth. These include the expansion of existing businesses, full or partial acquisitions and dispositions, and opportunities for efficiencies and economies of scale.

### **INVESTMENTS**

Investment activities of non-insurance subsidiaries primarily include investments in fixed income securities, including short term investments. The Parent Company portfolio also includes equity securities, including short sales and derivative instruments, and investments in limited partnerships. These types of investments generally present greater volatility, less liquidity and greater risk than fixed income investments and are included within Results of Operations - Corporate and Other.

We enter into short sales and invest in certain derivative instruments that are used for asset and liability management activities, income enhancements to our portfolio management strategy and to 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 our portfolio strategy.

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized change in fair value of the derivative instruments recognized in the Consolidated Condensed Balance Sheets. We mitigate the risk of non-performance by monitoring the creditworthiness of counterparties and diversifying derivatives to multiple counterparties. We occasionally require collateral from our derivative investment counterparties depending on the amount of the exposure and the credit rating of the counterparty.

### **Insurance**

CNA maintains a large portfolio of fixed maturity and equity securities, including large amounts of corporate and government issued debt securities, residential and commercial mortgage-backed securities, and other asset-backed securities and investments in limited partnerships which pursue a variety of long and short investment strategies across a broad array of asset classes. CNA's investment portfolio supports its obligation to pay future insurance claims and provides investment returns which are an important part of CNA's overall profitability.



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

The significant components of CNA's net investment income are presented in the following table:

| <b>Three Months Ended March 31<br/>(In millions)</b> | <b>2012</b>   | 2011   |
|--|---------------|--------|
| Fixed maturity securities                            | <b>\$ 516</b> | \$ 506 |
| Short term investments                               | <b>1</b>      | 2      |
| Limited partnerships                                 | <b>130</b>    | 114    |
| Equity securities                                    | <b>4</b>      | 6      |
| Trading portfolio                                    | <b>7</b>      | 3      |
| Other  | <b>4</b>      | 4      |
| Gross investment income                              | <b>662</b>    | 635    |
| Investment expense                                   | <b>(14)</b>   | (15)   |
| Net investment income                                | <b>\$ 648</b> | \$ 620 |

Net investment income increased \$28 million for the three months ended March 31, 2012 as compared with the 2011 period. The increase was primarily driven by higher income from limited partnership investments as well as higher fixed maturity securities income. Limited partnership investment results in 2012 were affected by favorable equity market returns and overall improvement in credit markets. The increase in fixed maturity securities income was driven by a higher invested asset base and the favorable net impact of changes in estimates of prepayments for asset-backed securities, partially offset by reinvestment at lower market rates.

The fixed maturity investment portfolio provided a pretax effective income yield of 5.5% for both three month periods ended March 31, 2012 and 2011. Excluding the favorable net impact of changes in estimates of prepayments for asset-backed securities as discussed above, the fixed maturity investment portfolio provided a pretax effective income yield of 5.4% for the three months ended March 31, 2012. Tax-exempt municipal bonds generated \$66 million of net investment income for the three months ended March 31, 2012 compared with \$56 million of net investment income for the 2011 period.

**Net Realized Investment Gains (Losses)**

The components of CNA's net realized investment results are presented in the following table:

| <b>Three Months Ended March 31<br/>(In millions)</b>              | <b>2012</b>  | 2011  |
|---|--------------|-------|
| Realized investment gains (losses):                               |              |       |
| Fixed maturity securities:  |              |       |
| Corporate and other bonds   | <b>\$ 23</b> | \$ 53 |
| States, municipalities and political subdivisions                 | <b>15</b>    | (21)  |
| Asset-backed  | <b>(12)</b>  | (15)  |
| U.S. Treasury and obligations of government-sponsored enterprises | <b>1</b>     |       |
| Foreign government  | <b>3</b>     |       |
| Redeemable preferred stock  |              | 3     |
| Total fixed maturity securities                                   | <b>30</b>    | 20    |
| Equity securities   | <b>1</b>     |       |
| Derivative securities   | <b>(1)</b>   | (1)   |
| Short term investments  |              | 1     |
| Other   | <b>2</b>     | 2     |

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|  |              |              |
|--|--------------|--------------|
| Total realized investment gains  | <b>32</b>    | 22           |
| Income tax expense   | <b>(11)</b>  | (8)          |
| Amounts attributable to noncontrolling interests                       | <b>(2)</b>   | (2)          |
| <b>Net realized investment gains attributable to Loews Corporation</b> | <b>\$ 19</b> | <b>\$ 12</b> |

Net realized investment results increased \$7 million for the three months ended March 31, 2012 compared to the 2011 period. The increase was primarily driven by fixed maturity securities. Further information on CNA's realized gains and losses, including CNA's OTTI losses and impairment decision process, is set forth in Note 2 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

**Table of Contents****Portfolio Quality**

CNA's fixed maturity portfolio consists primarily of high quality bonds, 92.4% and 92.1% of which were rated as investment grade (rated BBB- or higher) at March 31, 2012 and December 31, 2011. The classification between investment grade and non-investment grade is based on a ratings methodology that takes into account ratings from two major providers, Standard & Poor's (S&P) and Moody's Investors Service, Inc. (Moody's) in that order of preference. If a security is not rated by these providers, CNA formulates an internal rating. At March 31, 2012 and 2011, approximately 98% of the fixed maturity portfolio was rated by S&P or Moody's, or was issued or guaranteed by the U.S. Government, Government agencies or Government-sponsored enterprises.

The following table summarizes the ratings of CNA's fixed maturity portfolio at fair value:

| (In millions of dollars)  | March 31, 2012 |        | December 31, 2011 |        |
|---|----------------|--------|-------------------|--------|
| U.S. Government, Government agencies and Government-sponsored enterprises | \$ 4,658       | 11.4%  | \$ 4,760          | 11.9%  |
| AAA   | 3,503          | 8.6    | 3,421             | 8.6    |
| AA and A  | 18,277         | 44.8   | 17,807            | 44.6   |
| BBB   | 11,292         | 27.6   | 10,790            | 27.0   |
| Non-investment grade  | 3,107          | 7.6    | 3,159             | 7.9    |
| Total   | \$ 40,837      | 100.0% | \$ 39,937         | 100.0% |

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 CNA's analysis, are below investment grade. Non-investment grade securities generally involve a greater degree of risk than investment grade securities. The amortized cost of CNA's non-investment grade fixed maturity bond portfolio was \$3.1 billion and \$3.2 billion at March 31, 2012 and December 31, 2011. The following table summarizes the ratings of this portfolio at fair value.

| (In millions of dollars) | March 31, 2012 |        | December 31, 2011 |        |
|--------------------------|----------------|--------|-------------------|--------|
| BB                       | \$ 1,486       | 47.8%  | \$ 1,484          | 47.0%  |
| B                        | 786            | 25.3   | 867               | 27.4   |
| CCC-C                    | 709            | 22.8   | 689               | 21.8   |
| D                        | 126            | 4.1    | 119               | 3.8    |
| Total                    | \$ 3,107       | 100.0% | \$ 3,159          | 100.0% |

The gross unrealized loss on available-for-sale fixed maturity securities was \$330 million at March 31, 2012. The following table provides the maturity profile for these available-for-sale fixed maturity securities. Securities not due to mature on a single date are allocated based on weighted average life.

|                                       | Percent of<br>Fair Value | Percent<br>of<br>Unrealized<br>Loss |
|---------------------------------------|--------------------------|-------------------------------------|
| Due in one year or less               | 5%                       | 5%                                  |
| Due after one year through five years | 33                       | 18                                  |

|   |             |             |
|---|-------------|-------------|
| <b>Due after five years through ten years</b> | <b>32</b>   | <b>34</b>   |
| <b>Due after ten years</b>                    | <b>30</b>   | <b>43</b>   |
| <b>Total</b>                                  | <b>100%</b> | <b>100%</b> |

**Duration**

A primary objective in the management of the investment portfolio is to optimize return relative to corresponding liabilities and respective liquidity needs. CNA's 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. CNA also continually monitors exposure to issuers of securities held and broader industry sector exposures and may from time to time adjust such exposures based on its views of a specific issuer or industry sector.

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A further consideration in the management of the investment portfolio is the characteristics of the corresponding liabilities and the ability to align the duration of the portfolio to those liabilities and 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, CNA segregates investments for asset/liability management purposes. The segregated investments support the liabilities in the Life & Group Non-Core segment including annuities, structured settlements and long term care products.

The effective durations of fixed maturity securities, short term investments and interest rate derivatives are presented in the table below. Short term investments are net of accounts payable and receivable amounts for securities purchased and sold, but not yet settled.

|  | March 31, 2012   |                            | December 31, 2011 |                            |
|--|------------------|----------------------------|-------------------|----------------------------|
|  | Fair Value       | Effective Duration (Years) | Fair Value        | Effective Duration (Years) |
| <b>(In millions of dollars)</b>              |                  |                            |                   |                            |
| Investments supporting Life & Group Non-Core | \$ 14,003        | 11.7                       | \$ 13,820         | 11.5                       |
| Other interest sensitive investments         | 28,307           | 4.2                        | 28,071            | 3.9                        |
| <b>Total</b>                                 | <b>\$ 42,310</b> | <b>6.7</b>                 | <b>\$ 41,891</b>  | <b>6.4</b>                 |

The investment portfolio is periodically analyzed for changes in duration and related price change risk. Additionally, CNA periodically reviews the sensitivity of the portfolio to the level of foreign exchange rates and other factors that contribute to market price changes. A summary of these risks and specific analysis on changes is included in the Quantitative and Qualitative Disclosures about Market Risk in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2011.

**Select Asset Class Discussion**

CNA's fixed maturity portfolio includes exposure to sub-prime residential mortgage securities ( sub-prime ) and Alternative A residential mortgage securities that have lower than normal standards of loan documentation ( Alt-A ), as measured by the original deal structure. As of March 31, 2012, sub-prime securities had a fair value of \$266 million, 61.0% of which were rated investment grade, and net unrealized losses of \$34 million. As of March 31, 2012, Alt-A securities had a fair value of \$543 million, 69.0% of which were rated investment grade, and net unrealized losses of \$8 million. Pretax OTTI losses on asset-backed securities recognized in earnings were \$14 million for the three months ended March 31, 2012, \$5 million of which related to securities with sub-prime and Alt-A exposure. If additional deterioration in the underlying collateral occurs beyond CNA's current expectations, additional OTTI losses may be recognized in earnings. See Note 2 of the Notes to Consolidated Condensed Financial Statements included under Item 1 for additional information related to unrealized losses on asset-backed securities.

CNA's fixed maturity portfolio also includes European exposure. The following table summarizes European exposure included within fixed maturity holdings:

| March 31, 2012<br>(In millions) | Corporate        |               | Sovereign | Total  |
|---------------------------------|------------------|---------------|-----------|--------|
|                                 | Financial Sector | Other Sectors |           |        |
| AAA                             | \$ 173           | \$ 23         | \$ 157    | \$ 353 |
| AA                              | 201              | 91            | 28        | 320    |
| A                               | 885              | 793           | 8         | 1,686  |
| BBB                             | 311              | 1,073         |           | 1,384  |
| Non-investment grade            | 3                | 162           |           | 165    |

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|                             |                 |                 |               |                 |
|-----------------------------|-----------------|-----------------|---------------|-----------------|
| <b>Total fair value</b>     | <b>\$ 1,573</b> | <b>\$ 2,142</b> | <b>\$ 193</b> | <b>\$ 3,908</b> |
| <b>Total amortized cost</b> | <b>\$ 1,540</b> | <b>\$ 1,932</b> | <b>\$ 191</b> | <b>\$ 3,663</b> |

European exposure is based on application of a country of risk methodology. Country of risk is derived from the issuing entity's management location, country of primary listing, revenue and reporting currency. As of March 31, 2012, securities with a fair value and amortized cost of \$2.0 billion and \$1.9 billion relate to Eurozone countries, which consist of member states of the European Union that use the Euro as their national currency. Of this amount,

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securities with a fair value and amortized cost of \$379 million and \$366 million pertain to Greece, Italy, Ireland, Portugal and Spain.

**Short Term Investments**

The carrying value of the components of CNA's short term investment portfolio is presented in the following table:

| (In millions)                | March 31,<br>2012 | December 31,<br>2011 |
|------------------------------|-------------------|----------------------|
| Short term investments:      |                   |                      |
| Commercial paper             | \$ 509            | \$ 411               |
| U.S. Treasury securities     | 632               | 903                  |
| Money market funds           | 33                | 45                   |
| Other                        | 464               | 282                  |
| Total short term investments | \$ 1,638          | \$ 1,641             |

**FORWARD-LOOKING STATEMENTS**

Investors are cautioned that certain statements contained in this Report as well as some statements in periodic press releases and some oral statements made by our officials and our subsidiaries during presentations about us, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act). Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain the words expect, intend, plan, anticipate, estimate, believe, will be, will continue, will likely result, and similar expressions. In addition, any statement concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions taken by us or our subsidiaries, which may be provided by management are also forward-looking statements as defined by the Act.

Forward-looking statements are based on current expectations and projections about future events and are inherently subject to a variety of risks and uncertainties, many of which are beyond our control, that could cause actual results to differ materially from those anticipated or projected. These risks and uncertainties include, among others:

**Risks and uncertainties primarily affecting us and our insurance subsidiaries**

the risks and uncertainties associated with CNA's loss reserves, as outlined under Results of Operations by Business Segment CNA Financial Reserves Estimates and Uncertainties in our Annual Report on Form 10-K for the year ended December 31, 2011, including the sufficiency of the reserves and the possibility for future increases, which would be reflected in the results of operations in the period that the need for such adjustment is determined;

the risk that the other parties to the transaction in which, subject to certain limitations, CNA ceded its 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 CNA;

the impact of competitive products, policies and pricing and the competitive environment in which CNA operates, including changes in CNA's 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 CNA's insurance customers and create additional losses to CNA's lines of business, especially those that provide management and professional liability insurance, as well as surety bonds, to businesses



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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 CNA's investments;

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

the possibility of changes in CNA's 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;

regulatory limitations, impositions and restrictions upon CNA, 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;

regulatory limitations and restrictions, including limitations upon CNA's ability to receive dividends from its insurance subsidiaries imposed by regulatory authorities, including regulatory capital adequacy standards;

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 CNA's ability to contain its terrorism exposure effectively; and

the occurrence of epidemics.

**Risks and uncertainties primarily affecting us and our energy subsidiaries**

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the impact of changes in worldwide demand for oil and natural gas and oil and gas price fluctuations on E&P activity, including possible write-downs of the carrying value of natural gas and NGL properties and impairments of goodwill and reduced demand for offshore drilling services;

the continuing effects of the Macondo well blowout, including, without limitation, the impact on drilling in the U.S. Gulf of Mexico, related delays in permitting activities and related regulations and market developments;

government policies regarding exploration and development of oil and gas reserves;

market conditions in the offshore oil and gas drilling industry, including utilization levels and dayrates;

timing and duration of required regulatory inspections for offshore oil and gas drilling rigs;

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the risk of physical damage to rigs and equipment caused by named windstorms in the U.S. Gulf of Mexico;

the availability and cost of insurance;

the impact of new pipelines or new gas supply sources on competition and basis spreads on Boardwalk Pipeline's pipeline systems, which may impact its ability to maintain or replace expiring gas transportation and storage contracts and to sell short term capacity on its pipelines;

the costs of maintaining and ensuring the integrity and reliability of our pipeline systems;

the impact of current and future environmental laws and regulations and exposure to environmental liabilities including matters related to global climate change;

regulatory issues affecting natural gas transmission, including ratemaking and other proceedings particularly affecting our gas transmission subsidiaries;

the timing, cost, scope and financial performance of Boardwalk Pipeline's recent, current and future growth projects including the expansion into new product lines and geographic areas; and

the development of additional natural gas reserves and changes in reserve estimates.

**Risks and uncertainties affecting us and our subsidiaries generally**

general economic and business conditions;

changes in domestic and foreign political, social and economic conditions including developing social and political interest in Egypt and other parts of the Middle East;

the impact of the global war on terrorism, current and future hostilities in the Middle East and elsewhere and future acts of terrorism;

potential changes in accounting policies by the Financial Accounting Standards Board, the Securities and Exchange Commission or regulatory agencies for any of our subsidiaries' industries which may cause us or our subsidiaries to revise their financial accounting and/or disclosures in the future, and which may change the way analysts measure our and our subsidiaries' business or financial performance;

the impact of regulatory initiatives and compliance with governmental regulations, judicial rulings and jury verdicts;

the results of financing efforts; by us and our subsidiaries, including any additional investments by us in our subsidiaries;

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the ability of customers and suppliers to meet their obligations to us and our subsidiaries;

the consummation of contemplated transactions and agreements;

the successful integration, transition and management of acquired businesses;

the outcome of pending or future litigation, including any tobacco-related suits to which we are or may become a party;

possible casualty losses;

the availability of indemnification by Lorillard and its subsidiaries for any tobacco-related liabilities that we may incur as a result of tobacco-related lawsuits or otherwise, as provided in the Separation Agreement; and

potential future asset impairments.

Developments in any of these or other areas of risk and uncertainty, which are more fully described elsewhere in this Report and our other filings with the SEC, could cause our results to differ materially from results that have been or may be anticipated or projected. Given these risks and uncertainties, investors should not place undue

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reliance on forward-looking statements. Forward-looking statements speak only as of the date of this Report and we expressly disclaim any obligation or undertaking to update these statements to reflect any change in our expectations or beliefs or any change in events, conditions or circumstances on which any forward-looking statement is based.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

There were no material changes in our market risk components for the three months ended March 31, 2012. See the Quantitative and Qualitative Disclosures About Market Risk included in Item 7A of our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2011 for further information. Additional information related to portfolio duration and market conditions is discussed in the Investments section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part I, Item 2.

**Item 4. Controls and Procedures.**

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

The Company's principal executive officer (CEO) and principal financial officer (CFO) undertook an evaluation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. The CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2012.

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the foregoing evaluation that occurred during the quarter ended March 31, 2012 that have materially affected or that are reasonably likely to materially affect the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

Information with respect to legal proceedings is incorporated by reference to Note 8 of the Notes to Consolidated Condensed Financial Statements included in Part I of this Report.

**Item 1A. Risk Factors.**

Our Annual Report on Form 10-K for the year ended December 31, 2011 includes a detailed discussion of certain material risk factors facing our company. No updates or additions have been made to such risk factors as of March 31, 2012.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

Items 2 (a), (b) and (c) are inapplicable.

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**Item 6. Exhibits.**

| <b>Description of Exhibit</b>  | <b>Exhibit<br/>Number</b> |
|--|---------------------------|
| Certification by the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) and Rule 15d-14(a)  | 31.1*                     |
| Certification by the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) and Rule 15d-14(a)  | 31.2*                     |
| Certification by the Chief Executive Officer of the Company pursuant to 18 U.S.C. Section 1350 (as adopted by Section 906 of the Sarbanes-Oxley Act of 2002) | 32.1*                     |
| Certification by the Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350 (as adopted by Section 906 of the Sarbanes-Oxley Act of 2002) | 32.2*                     |
| XBRL Instance Document   | 101.INS *                 |
| XBRL Taxonomy Extension Schema   | 101.SCH *                 |
| XBRL Taxonomy Extension Calculation Linkbase   | 101.CAL *                 |
| XBRL Taxonomy Extension Definition Linkbase  | 101.DEF *                 |
| XBRL Taxonomy Label Linkbase   | 101.LAB *                 |
| XBRL Taxonomy Extension Presentation Linkbase  | 101.PRE *                 |

\*Filed herewith.

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SIGNATURES

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

LOEWS CORPORATION  
(Registrant)

Dated: May 1, 2012

By: /s/ Peter W. Keegan  
PETER W. KEEGAN  
Senior Vice President and Chief Financial Officer

(Duly authorized officer and principal financial officer)