LOEWS CORP
Form 10-Q
October 30, 2012
Table of Contents

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 September 30, 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	**13-2646102**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

(Address of principal executive offices) (Zip Code)

(212) 521-2000

(Registrant s telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

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

Yes x No ¨

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

Yes x 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 x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

Yes ¨ No x

Class	Outstanding at October 19, 2012
Common stock, $0.01 par value	393,601,749 shares

Table of Contents

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(Dollar amounts in millions, except per share data)	September 30, 2012	December 31, 2011
Assets:		
Investments:		
Fixed maturities, amortized cost of $38,093 and $37,466	$ 42,429	$ 40,040
Equity securities, cost of $974 and $902	1,019	927
Limited partnership investments	2,991	2,711
Other invested assets, primarily mortgage loans	368	245
Short term investments	6,107	5,105
Total investments	52,914	49,028
Cash	169	129
Receivables	9,474	9,259
Property, plant and equipment	13,564	13,618
Goodwill	939	908
Other assets	1,546	1,357
Deferred acquisition costs of insurance subsidiaries	603	552
Separate account business	345	417
Total assets	$ 79,554	$ 75,268
Liabilities and Equity:		
Insurance reserves:		
Claim and claim adjustment expense	$ 24,331	$ 24,303
Future policy benefits	10,974	9,810
Unearned premiums	3,681	3,250
Policyholders funds	165	191
Total insurance reserves	39,151	37,554
Payable to brokers	808	162
Short term debt	18	88
Long term debt	8,848	8,913
Deferred income taxes	1,122	622
Other liabilities	4,400	4,309
Separate account business	345	417
Total liabilities	54,692	52,065

Preferred stock, $0.10 par value:		
Authorized 100,000,000 shares		
Common stock, $0.01 par value:		
Authorized 1,800,000,000 shares		
Issued 397,071,327 and 396,585,226 shares	**4**	4
Additional paid-in capital	**3,595**	3,494
Retained earnings	**15,415**	14,890
Accumulated other comprehensive income	**964**	384
	19,978	18,772
Less treasury stock, at cost (3,492,830 shares)	**(139)**	
Total shareholders equity	**19,839**	18,772
Noncontrolling interests	**5,023**	4,431
Total equity	**24,862**	23,203
Total liabilities and equity	**$ 79,554**	$ 75,268

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	**2012**	2011
(In millions, except per share data)				
Revenues:				
Insurance premiums	**$ 1,781**	$ 1,732	**$ 5,098**	$ 4,942
Net investment income	**682**	333	**1,794**	1,513
Investment gains (losses):				
Other-than-temporary impairment losses	**(62)**	(75)	**(89)**	(136)
Portion of other-than-temporary impairment losses recognized in Other comprehensive income (loss)	**(2)**	(2)	**(25)**	(44)
Net impairment losses recognized in earnings	**(64)**	(77)	**(114)**	(180)
Other net investment gains	**71**	50	**173**	195
Total investment gains (losses)	**7**	(27)	**59**	15
Contract drilling revenues	**714**	861	**2,195**	2,520
Other	**531**	539	**1,701**	1,658
Total	**3,715**	3,438	**10,847**	10,648
Expenses:				
Insurance claims and policyholders benefits	**1,435**	1,400	**4,164**	4,131
Amortization of deferred acquisition costs	**333**	297	**937**	880
Contract drilling expenses	**358**	392	**1,160**	1,142
Other operating expenses	**1,071**	784	**2,891**	2,345
Interest	**109**	126	**331**	406
Total	**3,306**	2,999	**9,483**	8,904
Income before income tax	**409**	439	**1,364**	1,744
Income tax expense	**(99)**	(123)	**(337)**	(462)
Net income	**310**	316	**1,027**	1,282
Amounts attributable to noncontrolling interests	**(133)**	(154)	**(427)**	(491)
Net income attributable to Loews Corporation	**$ 177**	$ 162	**$ 600**	$ 791
Basic net income per share	**$ 0.45**	$ 0.41	**$ 1.52**	$ 1.94
Diluted net income per share	**$ 0.45**	$ 0.40	**$ 1.51**	$ 1.94

Dividends per share	**$ 0.0625**	$ 0.0625	**$ 0.1875**	$ 0.1875
Weighted-average shares outstanding:				
Shares of common stock	**394.48**	401.01	**395.88**	407.20
Dilutive potential shares of common stock	**0.81**	0.72	**0.76**	0.85
Total weighted-average shares outstanding assuming dilution	**395.29**	401.73	**396.64**	408.05

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	**2012**	2011
(In millions)				
Net income	**$ 310**	$ 316	**$ 1,027**	$ 1,282
Other comprehensive income (loss)				
Changes in:				
Net unrealized gains (losses) on investments with other-than-temporary impairments	**36**	(14)	**73**	25
Net other unrealized gains on investments	**191**	228	**528**	551
Total unrealized gains on available-for-sale investments	**227**	214	**601**	576
Unrealized gains (losses) on cash flow hedges	**(18)**	8	**(5)**	(3)
Foreign currency	**34**	(54)	**36**	(23)
Pension liability			**11**	2
Other comprehensive income	**243**	168	**643**	552
Comprehensive income	**553**	484	**1,670**	1,834
Amounts attributable to noncontrolling interests	**(160)**	(159)	**(493)**	(547)
Total comprehensive income attributable to Loews Corporation	**$ 393**	$ 325	**$ 1,177**	$ 1,287

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

(Unaudited)

		Loews Corporation Shareholders					
(In millions)	Total	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury	Noncontrolling Interests
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	1,282			791			491
Other comprehensive income	552				496		56
Dividends paid	(373)			(76)			(297)
Acquisition of CNA Surety noncontrolling interests	(475)		(59)		17		(433)
Issuance of equity securities by subsidiary	152		28		1		123
Purchase of Loews treasury stock	(690)					(690)	
Issuance of Loews common stock	4		4				
Stock-based compensation	16		14				2
Other	(6)		(1)	(2)			(3)
Balance, September 30, 2011	$ 23,490	$ 4	$ 3,653	$ 15,213	$ 744	$ (705)	$ 4,581
Balance, January 1, 2012, as reported	**$ 23,273**	**$ 4**	**$ 3,499**	**$ 14,957**	**$ 375**	**$**	**$ 4,438**
Adjustment to initially apply updated guidance on accounting for costs associated with acquiring or renewing insurance contracts	**(70)**		**(5)**	**(67)**	**9**		**(7)**
Balance, January 1, 2012, as restated	**23,203**	**4**	**3,494**	**14,890**	**384**		**4,431**
Net income	**1,027**			**600**			**427**
Other comprehensive income	**643**				**577**		**66**
Dividends paid	**(404)**			**(74)**			**(330)**
Issuance of equity securities by subsidiary	**508**		**79**		**3**		**426**
Purchase of Loews treasury stock	**(139)**					**(139)**	
Issuance of Loews common stock	**9**		**9**				
Stock-based compensation	**17**		**15**				**2**
Other	**(2)**		**(2)**	**(1)**			**1**

Balance, September 30, 2012	**$ 24,862**	**$ 4**	**$**	**3,595**	**$ 15,415**	**$**	**964**	**$ (139)**	**$**	**5,023**

See accompanying Notes to Consolidated Condensed Financial Statements.

Table of Contents

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

Nine Months Ended September 30	2012	2011
(In millions)		
Operating Activities:		
Net income	$ 1,027	$ 1,282
Adjustments to reconcile net income to net cash provided (used) by operating activities, net	1,110	975
Changes in operating assets and liabilities, net:		
Receivables	522	224
Deferred acquisition costs	(27)	(21)
Insurance reserves	(53)	(5)
Other assets	(14)	149
Other liabilities	(41)	(349)
Trading securities	(422)	(231)
Net cash flow operating activities	2,102	2,024
Investing Activities:		
Purchases of fixed maturities	(7,369)	(8,854)
Proceeds from sales of fixed maturities	4,761	5,912
Proceeds from maturities of fixed maturities	2,655	2,434
Purchases of equity securities	(30)	(51)
Proceeds from sales of equity securities	72	171
Purchases of property, plant and equipment	(825)	(502)
Deposits for construction of offshore drilling equipment	(169)	(478)
Acquisitions	(367)	
Dispositions	160	28
Change in short term investments	(637)	1,295
Change in other investments	(173)	(314)
Other, net	20	6
Net cash flow investing activities	(1,902)	(353)
Financing Activities:		
Dividends paid	(74)	(76)
Dividends paid to noncontrolling interests	(330)	(297)
Acquisition of CNA Surety noncontrolling interests		(475)
Purchases of treasury shares	(139)	(700)
Issuance of common stock	9	4
Proceeds from sale of subsidiary stock	557	172
Principal payments on debt	(2,098)	(1,630)
Issuance of debt	1,918	1,351
Other, net	(6)	(11)

Net cash flow financing activities	**(163)**	(1,662)
Effect of foreign exchange rate on cash	**3**	(1)
Net change in cash	**40**	8
Cash, beginning of period	**129**	120
Cash, end of period	**$ 169**	$ 128

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 55% 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 and third quarters of 2012 Boardwalk Pipeline sold 9.2 million and 11.6 million common units through public offerings for $245 million and $311 million, reducing the Company s ownership interest from 64% to 58%. In October of 2012, Boardwalk Pipeline sold an additional 11.2 million units for $292 million, further reducing the Company s ownership to 55%. As a result, the Company will record an increase to Additional paid-in capital (APIC) in the fourth quarter of 2012 of approximately $36 million. 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 September 30, 2012 and December 31, 2011 and the results of operations and comprehensive income for the three and nine months ended September 30, 2012 and 2011 and changes in shareholders equity and cash flows for the nine months ended September 30, 2012 and 2011.

Net income for the third quarter and first nine months 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 net income per share on the Consolidated Condensed Statements of Income. Basic net income per share excludes dilution and is computed by dividing net income attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted net income 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 of 2.3 million, 3.2 million, 2.7 million and 2.1 million shares were not included in the diluted weighted average shares amount for the three and nine months ended September 30, 2012 and 2011 due to the exercise price being greater than the average stock price.

Hardy Underwriting Bermuda Limited (Hardy) On July 2, 2012, CNA acquired Hardy, a specialized Lloyd s of London (Lloyd s) underwriter primarily of short-tail exposures in marine and aviation, non-marine property, specialty lines and property treaty reinsurance. Hardy has business operations in the United Kingdom, Bermuda, Bahrain, Guernsey and Singapore. For the year ended December 31, 2011, Hardy reported gross written premiums of $430 million. The purchase price for Hardy was $231 million and resulted in CNA recording $55 million of identifiable indefinite-lived intangible assets, $81 million of identifiable finite-lived intangible assets and $35 million of goodwill.

PL Midstream LLC On October 1, 2012, a joint venture between Boardwalk Pipeline and Boardwalk Pipelines Holding Corp. (BPHC), a wholly owned subsidiary of the Company, acquired PL Midstream LLC, a company that provides salt dome storage, pipeline transportation, fractionation and brine supply services, for approximately $625 million. The acquisition was funded with proceeds from a $225 million five-year variable rate term loan and equity contributions by BPHC of $269 million for a 65% equity interest and of $148 million by Boardwalk Pipeline for a 35% equity interest.

Table of Contents

On October 15, 2012, Boardwalk Pipeline acquired BPHC s 65% equity interest in the joint venture for $269 million, which was funded through the sale of common units, and will not result in any significant adjustments to the Consolidated Financial Statements.

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.

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 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 Statements of Income for the three and nine months ended September 30, 2011 were a $59 million and $171 million decrease in Amortization of deferred acquisition costs, a $59 million and $178 million increase in Other operating expenses, resulting in no impact and a $5 million decrease in Net income and no impact and a $0.02 and $0.01 decrease in Basic and Diluted net income per share. There were no changes to net cash flows from operating, investing or financing activities for the comparative periods presented as a result of the adoption of the new accounting standard.

2. Investments

Net investment income is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	**2012**	2011
(In millions)				
Fixed maturity securities	**$ 507**	$ 494	**$ 1,528**	$ 1,505
Short term investments	**3**	4	**10**	11
Limited partnership investments	**110**	(87)	**210**	69
Equity securities	**4**	4	**10**	16
Income (loss) from trading portfolio (a)	**66**	(70)	**62**	(55)
Other	**5**	3	**16**	12
Total investment income	**695**	348	**1,836**	1,558
Investment expenses	**(13)**	(15)	**(42)**	(45)
Net investment income	**$ 682**	$ 333	**$ 1,794**	$ 1,513

(a) Includes net unrealized gains (losses) related to changes in fair value on trading securities still held of $66, $(63), $21 and $(86) for the three and nine months ended September 30, 2012 and 2011.

Investment gains (losses) are as follows:

Fixed maturity securities	**$ 26**	$ (29)	**$ 73**	$ 11
Equity securities	**(15)**	(1)	**(14)**	(3)
Derivative instruments	**(2)**	1	**(4)**	
Short term investments and other	**(2)**	2	**4**	7
Investment gains (losses) (a)	**$ 7**	$ (27)	**$ 59**	$ 15

(a) Includes gross realized gains of $80, $57, $203 and $240 and gross realized losses of $69, $87, $144 and $232 on available-for-sale securities for the three and nine months ended September 30, 2012 and 2011.

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

	Three Months Ended	Nine Months Ended

	September 30,		September 30,	
	2012	2011	**2012**	2011
(In millions)				
Fixed maturity securities available-for-sale:				
Corporate and other bonds	**$ 7**	$ 49	**$ 23**	$ 73
States, municipalities and political subdivisions	**17**		**17**	
Asset-backed:				
Residential mortgage-backed	**20**	21	**49**	95
Other asset-backed		4		4
Total asset-backed	**20**	25	**49**	99
U.S. Treasury and obligations of government - sponsored enterprises			**1**	
Total fixed maturities available-for-sale	**44**	74	**90**	172
Equity securities available-for-sale:				
Common stock	**1**	3	**5**	7
Preferred stock	**19**		**19**	1
Total equity securities available-for-sale	**20**	3	**24**	8
Net OTTI losses recognized in earnings	**$ 64**	$ 77	**$ 114**	$ 180

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 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.

Table of Contents

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

September 30, 2012 **(In millions)**	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Unrealized OTTI Losses (Gains)**
Fixed maturity securities:					
Corporate and other bonds	**$ 19,209**	**$ 2,634**	**$ 32**	**$ 21,811**	
States, municipalities and political subdivisions	**9,415**	**1,450**	**53**	**10,812**	
Asset-backed:					
Residential mortgage-backed	**5,907**	**264**	**81**	**6,090**	**$ (12)**
Commercial mortgage-backed	**1,582**	**123**	**17**	**1,688**	**(3)**
Other asset-backed	**944**	**23**	**1**	**966**	
Total asset-backed	**8,433**	**410**	**99**	**8,744**	**(15)**
U.S. Treasury and obligations of government-sponsored enterprises	**182**	**11**	**1**	**192**	
Foreign government	**588**	**26**		**614**	
Redeemable preferred stock	**101**	**14**		**115**	
Fixed maturities available-for-sale	**37,928**	**4,545**	**185**	**42,288**	**(15)**
Fixed maturities, trading	**165**	**1**	**25**	**141**	
Total fixed maturities	**38,093**	**4,546**	**210**	**42,429**	**(15)**
Equity securities:					
Common stock	**22**	**24**		**46**	
Preferred stock	**206**	**8**		**214**	
Equity securities available-for-sale	**228**	**32**		**260**	
Equity securities, trading	**746**	**94**	**81**	**759**	
Total equity securities	**974**	**126**	**81**	**1,019**	
Total	**$ 39,067**	**$ 4,672**	**$ 291**	**$ 43,448**	**$ (15)**

December 31, 2011 (In millions)					
Fixed maturity securities:					
Corporate and other bonds	$ 19,086	$ 1,946	$ 154	$ 20,878	
States, municipalities and political subdivisions	9,018	900	136	9,782	
Asset-backed:					
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	
Total asset-backed	8,097	233	246	8,084	97
U.S. Treasury and obligations of government-sponsored enterprises	479	14		493	
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

Table of Contents

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 September 30, 2012 and December 31, 2011, the net unrealized gains on investments included in AOCI were net of Shadow Adjustments of $1.1 billion 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 is 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	
September 30, 2012	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**
(In millions)						
Fixed maturity securities:						
Corporate and other bonds	**$ 600**	**$ 18**	**$ 210**	**$ 14**	**$ 810**	**$ 32**
States, municipalities and political subdivisions	**84**	**1**	**227**	**52**	**311**	**53**
Asset-backed:						
Residential mortgage-backed	**327**	**3**	**580**	**78**	**907**	**81**
Commercial mortgage-backed	**142**	**2**	**132**	**15**	**274**	**17**
Other asset-backed	**66**	**1**			**66**	**1**
Total asset-backed	**535**	**6**	**712**	**93**	**1,247**	**99**
U.S. Treasury and obligations of government-sponsored enterprises	**22**	**1**			**22**	**1**
Total	**$ 1,241**	**$ 26**	**$ 1,149**	**$ 159**	**$ 2,390**	**$ 185**
December 31, 2011						
(In millions)						
Fixed maturity securities:						
Corporate and other bonds	$ 2,552	$ 126	$ 159	$ 28	$ 2,711	$ 154
States, municipalities and political subdivisions	67	1	721	135	788	136
Asset-backed:						
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
Total asset-backed	1,539	79	1,043	167	2,582	246
Total fixed maturities available-for-sale	4,158	206	1,923	330	6,081	536
Equity securities available-for-sale:						
Preferred stock	117	5			117	5
Total	$ 4,275	$ 211	$ 1,923	$ 330	$ 6,198	$ 541

Based on current facts and circumstances, the Company believes the unrealized losses presented in the table above are primarily attributable to broader economic conditions, changes in interest rates and credit spreads, market illiquidity and other market factors, but are not indicative of the ultimate collectibility of the current amortized costs 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 September 30, 2012.

The amount of pretax net unrealized gains (losses) on available-for-sale securities reclassified out of AOCI into earnings was $12 million, $(29) million, $59 million and $12 million for the three and nine months ended September 30, 2012 and 2011.

Table of Contents

The following table summarizes the activity for the three and nine months ended September 30, 2012 and 2011 related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held at September 30, 2012 and 2011 for which a portion of an OTTI loss was recognized in Other comprehensive income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	**2012**	2011
(In millions)				
Beginning balance of credit losses on fixed maturity securities	**$ 99**	$ 82	**$ 92**	$ 141
Additional credit losses for securities for which an OTTI loss was previously recognized	**2**	11	**23**	29
Credit losses for securities for which an OTTI loss was not previously recognized		10	**2**	11
Reductions for securities sold during the period	**(3)**	(4)	**(11)**	(50)
Reductions for securities the Company intends to sell or more likely than not will be required to sell			**(8)**	(32)
Ending balance of credit losses on fixed maturity securities	**$ 98**	$ 99	**$ 98**	$ 99

Contractual Maturity

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

	September 30, 2012		December 31, 2011	
	Cost or Amortized Cost	**Estimated Fair Value**	Cost or Amortized Cost	Estimated Fair Value
(In millions)				
Due in one year or less	**$ 1,861**	**$ 1,876**	$ 1,802	$ 1,812
Due after one year through five years	**13,382**	**14,176**	13,110	13,537
Due after five years through ten years	**8,490**	**9,337**	8,410	8,890
Due after ten years	**14,195**	**16,899**	14,017	15,692
Total	**$ 37,928**	**$ 42,288**	$ 37,339	$ 39,931

Investment Commitments

As of September 30, 2012, the Company had committed approximately $114 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 September 30, 2012, the Company had commitments to purchase $159 million and sell $154 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 September 30, 2012, the Company had obligations on unfunded bank loan participations in the amount of $6 million.

Table of Contents

3. Fair Value

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

Level 1 Quoted prices for identical instruments in active markets.

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

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

The type of financial instruments being measured and the methodologies and inputs used at September 30, 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.

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.

Table of Contents

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:

September 30, 2012 (In millions)	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
Corporate and other bonds		$ 21,552	$ 259	$ 21,811
States, municipalities and political subdivisions		10,723	89	10,812
Asset-backed:				
Residential mortgage-backed		5,653	437	6,090
Commercial mortgage-backed		1,571	117	1,688
Other asset-backed		595	371	966
Total asset-backed		7,819	925	8,744
U.S. Treasury and obligations of government-sponsored enterprises	$ 168	24		192
Foreign government	139	475		614
Redeemable preferred stock	29	60	26	115
Fixed maturities available-for-sale	336	40,653	1,299	42,288
Fixed maturities, trading		48	93	141
Total fixed maturities	$ 336	$ 40,701	$ 1,392	$ 42,429
Equity securities available-for-sale	$ 98	$ 112	$ 50	$ 260
Equity securities, trading	748		11	759
Total equity securities	$ 846	$ 112	$ 61	$ 1,019
Short term investments	$ 4,833	$ 1,223	$ 8	$ 6,064
Other invested assets			11	11
Receivables		45	11	56
Life settlement contracts			113	113
Separate account business	4	338	3	345
Payable to brokers	(69)	(18)	(6)	(93)

16

Table of Contents

December 31, 2011 (In millions)	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
Corporate and other bonds		$ 20,396	$ 482	$ 20,878
States, municipalities and political subdivisions		9,611	171	9,782
Asset-backed:				
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)

Table of Contents

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 and nine months ended September 30, 2012 and 2011:

2012 (In millions)	Balance, July 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income	 Included in OCI	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, September 30	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at September 30
Fixed maturity securities:										
Corporate and other bonds	$ 488	$ 1	$ (4)	$ 50	$ (5)	$ (11)	$	$ (260)	$ 259	$ (1)
States, municipalities and political subdivisions	89								89	
Asset-backed:										
Residential mortgage-backed	443	(17)	20	21		(8)		(22)	437	(18)
Commercial mortgage-backed	166	4	6	12		(17)	11	(65)	117	
Other asset-backed	434	2	5	143	(117)	(34)		(62)	371	
Total asset-backed	1,043	(11)	31	176	(117)	(59)	11	(149)	925	(18)
Redeemable preferred stock	27		(1)						26	
Fixed maturities available-for-sale	1,647	(10)	26	226	(122)	(70)	11	(409)	1,299	(19)
Fixed maturities, trading	94				(1)				93	
Total fixed maturities	$ 1,741	$ (10)	$ 26	$ 226	$ (123)	$ (70)	$ 11	$ (409)	$ 1,392	$ (19)
Equity securities available-for-sale	$ 93	$ (19)	$ (10)					$ (14)	$ 50	$ (19)
Equity securities trading	9	2							11	3
Total equity securities	$ 102	$ (17)	$ (10)	$	$	$	$	$ (14)	$ 61	$ (16)
Short term investments	$ 4			$ 7	$ (4)		$ 1		$ 8	
Other invested assets	11								11	
Life settlement contracts	116	$ 7				$ (10)			113	
Separate account business	3								3	
Derivative financial instruments, net	12	(1)	$ (5)			(1)			5	$ (2)

Table of Contents

2011	Balance, July 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income	Included in OCI	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, September 30	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at September 30
(In millions)										
Fixed maturity securities:										
Corporate and other bonds	$ 812	$ (7)	$ (3)	$ 113	$ (107)	$ (47)	$ 12	$ (154)	$ 619	$ (10)
States, municipalities and political subdivisions	179			3					182	
Asset-backed:										
Residential mortgage-backed	687	1	(5)	73	(81)	(13)		(31)	631	
Commercial mortgage-backed	95		(7)	76				(5)	159	
Other asset-backed	491	(5)	(6)	114	(105)	(25)	2	(37)	429	(4)
Total asset-backed	1,273	(4)	(18)	263	(186)	(38)	2	(73)	1,219	(4)
Fixed maturities available-for-sale	2,264	(11)	(21)	379	(293)	(85)	14	(227)	2,020	(14)
Fixed maturities, trading	114	(3)							111	(3)
Total fixed maturities	$ 2,378	$ (14)	$ (21)	$ 379	$ (293)	$ (85)	$ 14	$ (227)	$ 2,131	$ (17)
Equity securities available-for-sale	$ 36				$ (1)			$ (3)	$ 32	
Equity securities trading	16	$ (4)							12	$ (4)
Total equity securities	$ 52	$ (4)	$	$	$ (1)	$	$	$ (3)	$ 44	$ (4)
Short term investments	$ 6								$ 6	
Other invested assets	10								10	
Life settlement contracts	129	$ 11				$ (15)			125	$ (1)
Separate account business	37				$ (2)				35	
Derivative financial instruments, net	(37)	(13)	$ 11			11			(28)	(1)

Table of Contents

2012 (In millions)	Balance, January	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income	Included in OCI	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, September 30	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at September 30
Fixed maturity securities:										
Corporate and other bonds	$ 482	$ 7	$ 2	$ 196	$ (117)	$ (43)	$ 42	$ (310)	$ 259	$ (1)
States, municipalities and political subdivisions	171		3			(85)			89	
Asset-backed:										
Residential mortgage-backed	452	(15)	(2)	81		(24)		(55)	437	(18)
Commercial mortgage-backed	59	6	14	141	(12)	(21)	11	(81)	117	
Other asset-backed	343	8	8	501	(293)	(93)		(103)	371	
Total asset-backed	854	(1)	20	723	(305)	(138)	11	(239)	925	(18)
Redeemable preferred stock			(1)	53	(26)				26	
Fixed maturities available-for-sale	1,507	6	24	972	(448)	(266)	53	(549)	1,299	(19)
Fixed maturities, trading	101	(7)		1	(2)				93	(7)
Total fixed maturities	$ 1,608	$ (1)	$ 24	$ 973	$ (450)	$ (266)	$ 53	$ (549)	$ 1,392	$ (26)
Equity securities available-for-sale	$ 67	$ (19)	$ 6	$ 26	$ (16)			$ (14)	$ 50	$ (21)
Equity securities trading	14	(3)							11	(1)
Total equity securities	$ 81	$ (22)	$ 6	$ 26	$ (16)	$	$	$ (14)	$ 61	$ (22)
Short term investments	$ 27			$ 23	$ (4)	$ (39)	$ 1		$ 8	
Other invested assets	11								11	
Life settlement contracts	117	$ 30				(34)			113	$ 3
Separate account business	23				(20)				3	
Derivative financial instruments, net	(15)	(5)	$ 29		(6)	2			5	(1)

20

Table of Contents

2011	Balance, January 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income	Included in OCI	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, September 30	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at September 30
(In millions)										
Fixed maturity securities:										
Corporate and other bonds	$ 624	$ (5)	$ (6)	$ 459	$ (157)	$ (144)	$ 52	$ (204)	$ 619	$ (11)
States, municipalities and political subdivisions	266			3		(87)			182	
Asset-backed:										
Residential mortgage-backed	767	(11)	9	170	(164)	(54)		(86)	631	(15)
Commercial mortgage-backed	73	3	11	81	(4)			(5)	159	
Other asset-backed	359		(6)	441	(236)	(80)	2	(51)	429	(4)
Total asset-backed	1,199	(8)	14	692	(404)	(134)	2	(142)	1,219	(19)
Redeemable preferred stock	3	3	(3)		(3)					
Fixed maturities available-for-sale	2,092	(10)	5	1,154	(564)	(365)	54	(346)	2,020	(30)
Fixed maturities, trading	184	(1)			(72)				111	6
Total fixed maturities	$ 2,276	$ (11)	$ 5	$ 1,154	$ (636)	$ (365)	$ 54	$ (346)	$ 2,131	$ (24)
Equity securities available-for-sale	$ 26	$ (2)	$ (1)	$ 19	$ (12)		$ 5	$ (3)	$ 32	$ (3)
Equity securities trading	6	(9)		1			14		12	(9)
Total equity securities	$ 32	$ (11)	$ (1)	$ 20	$ (12)	$	$ 19	$ (3)	$ 44	$ (12)
Short term investments	$ 27			$ 12		$ (23)		$ (10)	$ 6	
Other invested assets	26	$ 3			$ (19)				10	$ 1
Life settlement contracts	129	20				(24)			125	2
Separate account business	41				(6)				35	
Derivative financial instruments, net	(21)	(32)	$ (5)			30			(28)	(1)

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	Investment gains (losses)

Fixed maturity securities, trading	Net investment income
Equity securities available-for-sale	Investment gains (losses)
Equity securities, trading	Net investment income
Other invested assets	Investment gains (losses)
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

Table of Contents

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 $106 million of transfers from Level 2 to Level 1 during the three and nine months ended September 30, 2012 and no transfers between Level 1 and Level 2 during the three or nine months ended September 30, 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.

September 30, 2012	Fair Value		Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
(In millions)					
Assets					
Fixed maturity securities	$	98	Discounted cash flow	Expected maturity date	3.6 5.6 years (4.6 years)
		61	Market approach	Private offering price	$60.00 $105.00 ($101.49)
Equity securities		33	Market approach	Private offering price	$0.10 $3,842.00 per share ($583.95 per share)
		17	Income approach	EBITDA(a) projection	$80 million
				EBITDA(a) multiple	1.82
Life settlement contracts		113	Discounted cash flow	Discount rate risk premium	9%
				Mortality assumption	65% 928% (185%)

(a) Earnings before interest, tax, depreciation and amortization

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, earnings projections, and earnings multiples 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.

Table of Contents

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.

	Carrying		Estimated Fair Value		
September 30, 2012	**Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
(In millions)					
Financial Assets:					
Other invested assets, primarily mortgage loans	**$ 358**			**$ 374**	**$ 374**
Financial Liabilities:					
Premium deposits and annuity contracts	**103**			**108**	**108**
Short term debt	**18**		**$ 13**	**5**	**18**
Long term debt	**8,848**		**9,693**	**285**	**9,978**

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

23

Table of Contents

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.

	September 30, 2012			December 31, 2011		
	Contractual/ Notional Amount	**Estimated Fair Value Asset**	**(Liability)**	Contractual/ Notional Amount	Estimated Fair Value Asset	(Liability)
(In millions)						
With hedge designation:						
Interest rate risk:						
Interest rate swaps	**$ 300**		**$ (6)**	$ 300	$ 3	$ (3)
Commodities:						
Forwards short	**316**	**$ 45**	**(8)**	268	64	(22)
Foreign exchange:						
Currency forwards short	**140**	**4**		154	1	(8)
Without hedge designation:						
Equity markets:						
Options purchased	**254**	**19**		286	33	
written	**350**		**(10)**	398		(23)
Equity swaps and warrants long	**11**	**8**		63	16	
Interest rate risk:						
Interest rate swaps				100	1	(1)
Credit default swaps						
purchased protection	**78**		**(1)**	145	8	(1)
sold protection	**33**		**(2)**	28		(2)
Foreign exchange:						
Currency forwards long	**32**			203	4	
short	**327**	**4**	**(2)**	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 $2 million and $4 million were recorded in Investment gains (losses) for the three and nine months ended September 30, 2012. A gain of $1 million and no impact was recorded for the three and nine months ended September 30, 2011. For the three and nine months ended September 30, 2012 and 2011, losses included in Net investment income were $17 million, $16 million, $1 million and $5 million.

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 losses on future foreign currency expenditures, as well as risks attributable to changes in interest rates on long term debt. A loss of $16 million and gains of $33 million and $11 million were recognized in OCI related to these cash flow hedges for the three and nine months ended September 30, 2012 and three months ended September 30, 2011. There was no net impact recognized in OCI for the nine months ended September 30, 2011. For the three and nine months ended September 30, 2012 and the nine months ended September 30, 2011, the amount of gains reclassified from AOCI into income were $12 million, $39 million and $2 million. Losses of $3 million were reclassified from AOCI into income for the three months ended September 30, 2011. As of September 30, 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 $35 million. The net amounts recognized due to ineffectiveness were less than $1 million for the three and nine months ended September 30, 2012 and 2011.

Table of Contents

5. Property, Plant and Equipment

		September 30, 2012		December 31, 2011
(In millions)				
Pipeline equipment (net of accumulated DD&A of $1,101 and $926)	$	**6,671**	$	6,749
Offshore drilling equipment (net of accumulated DD&A of $3,497 and $3,378)		**3,920**		4,119
Natural gas and oil proved and unproved properties (net of accumulated DD&A of $2,643 and $2,056)		**965**		1,330
Other (net of accumulated DD&A of $933 and $899)		**973**		799
Construction in process		**1,035**		621
Property, plant and equipment, net	$	**13,564**	$	13,618

HighMount Impairment of Natural Gas and Oil Properties

For the three and nine months ended September 30, 2012, HighMount recorded non-cash ceiling test impairment charges of $261 million and $527 million ($166 million and $336 million after tax) related to its carrying value of natural gas and oil properties. The impairments were recorded within Other operating expenses and as credits to Accumulated depreciation, depletion and amortization. The write-downs were the result of declines in natural gas and natural gas liquid (NGL) prices. Had the effects of HighMount s cash flow hedges not been considered in calculating the ceiling limitation, the impairments would have been $322 million and $657 million ($205 million and $419 million after tax). As a result of significant declines in natural gas and NGL prices at September 30, 2012, HighMount performed a goodwill impairment test and no impairment charges were required.

Diamond Offshore

In May of 2012, Diamond Offshore entered into a contract for a fourth ultra-deepwater drillship at a total cost of $655 million including commissioning, spares and project management. The first installment of $169 million was included in Construction in process.

During the first half of 2012, Diamond Offshore sold six jack-up rigs for total proceeds of $132 million, resulting in a pretax gain of approximately $76 million, recorded in Other revenues.

Loews Hotels

In June of 2012, Loews Hotels acquired a hotel in Hollywood, California, which is now operating as the Loews Hollywood Hotel. The hotel has approximately 630 guestrooms, including 32 suites and over 48,000 square feet of meeting space. The acquisition was funded with a combination of cash and newly incurred debt.

6. 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.

Table of Contents

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 $27 million and $123 million for the three and nine months ended September 30, 2012. Catastrophe losses in 2012 related primarily to U.S. storms and Hurricane Isaac. CNA reported catastrophe losses, net of reinsurance, of $50 million and $205 million for the three and nine months ended September 30, 2011.

Net Prior Year Development

The following tables and discussion include the net prior year development recorded for CNA Specialty, CNA Commercial and Other:

Three Months Ended September 30, 2012 **(In millions)**	**CNA Specialty**	**CNA Commercial**	**Other**	**Total**
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	**$ (39)**	**$ 2**	**$ (3)**	**$ (40)**
Pretax (favorable) unfavorable premium development	**(1)**	**(5)**	**(1)**	**(7)**
Total pretax (favorable) unfavorable net prior year development	**$ (40)**	**$ (3)**	**$ (4)**	**$ (47)**
Three Months Ended September 30, 2011				
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$ (5)	$ (42)	$ 11	$ (36)
Pretax (favorable) unfavorable premium development	(26)	(11)	1	(36)
Total pretax (favorable) unfavorable net prior year development	$ (31)	$ (53)	$ 12	$ (72)
Nine Months Ended September 30, 2012				
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	**$ (80)**	**$ (25)**	**$ (5)**	**$ (110)**
Pretax (favorable) unfavorable premium development	**(15)**	**(41)**	**1**	**(55)**
Total pretax (favorable) unfavorable net prior year development	**$ (95)**	**$ (66)**	**$ (4)**	**$ (165)**
Nine Months Ended September 30, 2011				
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$ (72)	$ (99)	$ 5	$ (166)
Pretax (favorable) unfavorable premium development	(34)	21		(13)
Total pretax (favorable) unfavorable net prior year development	$ (106)	$ (78)	$ 5	$ (179)

For the nine months ended September 30, 2012, favorable premium development was recorded for CNA Commercial primarily due to premium adjustments on auditable policies arising from increased exposures.

For the three and nine months ended September 30, 2011, favorable premium development was recorded for CNA Specialty primarily due to changes in estimates of exposures in medical professional liability tail coverages.

26

Table of Contents

For the nine months ended September 30, 2011, unfavorable premium development for CNA Commercial was recorded due to a further reduction of ultimate premium estimates relating to retrospectively rated policies, partially offset by premium adjustments on auditable policies due to 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 (development) recorded for the CNA Specialty segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	**2012**	2011
(In millions)				
Medical professional liability	**$ 9**	$ (18)	**$ (6)**	$ (52)
Other professional liability	**1**	1	**(1)**	(20)
Surety	**(60)**	1	**(59)**	(2)
Warranty			**(1)**	(12)
Other	**11**	11	**(13)**	14
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	**$ (39)**	$ (5)	**$ (80)**	$ (72)

Three Month Comparison

2012

Favorable development for surety coverages was primarily due to better than expected loss emergence in accident years 2010 and prior.

Other includes standard property and casualty coverages provided to CNA Specialty customers. Unfavorable development for other coverages was primarily due to an unfavorable outcome on an individual general liability claim in accident year 2009.

2011

Favorable development for medical professional liability was primarily due to favorable case incurred emergence in nurses and physicians in accident years 2008 and prior.

Unfavorable development for other coverages was primarily due to increased frequency of large claims in auto and workers compensation coverages in accident years 2009 and 2010.

Nine Month Comparison

2012

Favorable development for surety coverages was primarily due to better than expected loss emergence in accident years 2010 and prior.

Overall, favorable development for other coverages was primarily due to favorable loss emergence in property and workers compensation coverages in accident years 2005 and subsequent. Unfavorable development was recorded in accident year 2009 primarily due to an unfavorable outcome on an individual general liability claim.

2011

Favorable development for medical professional liability was primarily due to favorable case incurred emergence in nurses, physicians, and primary institutions in accident years 2008 and prior.

Favorable development for other professional liability was driven by better than expected loss emergence in life agents coverages.

Table of Contents

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

Unfavorable development for other coverages was primarily due to increased frequency of large claims in auto and workers compensation coverages in accident years 2009 and 2010.

CNA Commercial

The following table and discussion provide further detail of development recorded for the CNA Commercial segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	**2012**	2011
(In millions)				
Commercial auto	**$ 9**	$ (2)	**$ 11**	$ (36)
General liability	**(21)**	4	**(26)**	26
Workers compensation	**24**	3	**13**	39
Property and other	**(10)**	(47)	**(23)**	(128)
Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	**$ 2**	$ (42)	**$ (25)**	$ (99)

Three Month Comparison

2012

Favorable development for general liability coverages was primarily due to favorable loss emergence in accident years 2003 and prior related to large account business.

Unfavorable development for workers compensation was primarily due to increased medical severity in accident years 2010 and 2011.

Favorable development for property and marine coverages was due to favorable loss emergence in non-catastrophe losses in accident years 2009 and subsequent.

2011

Overall, unfavorable development for workers compensation was related to increased medical severity and higher adjusting and other payments in accident years 2008 and subsequent. Additionally, favorable development for workers compensation was due to reduced indemnity severity in accident years 2002 and prior.

Favorable development for property and other coverages was due to decreased frequency of large losses in accident year 2010 and favorable loss emergence related to non-catastrophe claims in accident years 2010 and prior.

Nine Month Comparison

2012

Unfavorable development for commercial auto coverages was primarily due to higher than expected frequency in accident years 2009 and subsequent.

Favorable development for general liability coverages was primarily due to favorable loss emergence in accident years 2003 and prior related to large account business.

Overall, unfavorable development for workers compensation was primarily due to increased medical severity in accident years 2010 and 2011 and losses related to favorable premium development in accident year 2011. Favorable development was recorded in accident years 2001 and prior reflecting favorable experience.

Favorable development for property and marine coverages was due to a favorable outcome on an individual claim in accident year 2005 and favorable loss emergence in non-catastrophe losses in accident years 2009 through 2011.

2011

Favorable development for commercial auto coverages was due to lower than expected severity on bodily injury claims in accident years 2006 and prior.

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

Unfavorable development for workers compensation was related to increased medical severity and higher adjusting and other payments in accident years 2008 and subsequent.

Favorable development for property and other coverages was due to decreased frequency of large losses in commercial multi-peril coverages primarily in accident year 2010, a favorable settlement on an individual equipment breakdown claim in accident year 2003, favorable loss emergence related to catastrophe claims in accident year 2008 and favorable loss emergence related to non-catastrophe claims in accident years 2010 and prior.

7. Debt

CNA Financial

In April of 2012, CNA entered into a $250 million revolving credit agreement with a syndicate of banks. The credit agreement which matures on April 19, 2016 bears interest at London Interbank Offered Rate plus applicable margin. At CNA s election the commitments under the unsecured credit facility 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 first and second anniversary of the closing. As of September 30, 2012, there were no borrowings under the credit facility and CNA was in compliance with all covenants.

Diamond Offshore

In September of 2012, Diamond Offshore entered into a $750 million revolving credit agreement with a syndicate of banks. The credit agreement, which matures on September 28, 2017, bears interest at Diamond Offshore s option on either an alternate base rate or Eurodollar rate, as defined in the credit agreement, plus an applicable margin. As of September 30, 2012, there were no borrowings under the credit facility and Diamond Offshore was in compliance with all covenants.

Boardwalk Pipeline

In September of 2012, Boardwalk Pipeline repaid in full its $200 million variable rate term loan due December 1, 2016. In August of 2012, Boardwalk Pipeline repaid at maturity the entire $225 million principal amount of its 5.8% senior notes.

In June of 2012, Boardwalk Pipeline issued $300 million principal amount of 4.0% senior notes due June 15, 2022.

In April of 2012, Boardwalk Pipeline entered into a Second Amended and Restated Credit Agreement (Amended Credit Agreement) with aggregate lending commitments of $1.0 billion. The Amended Credit Agreement has a maturity date of April 27, 2017. As of September 30, 2012, Boardwalk Pipeline had $350 million of loans outstanding under the revolving credit facility with a weighted-average interest rate on the borrowings of 1.3% and had no letters of credit issued. As of September 30, 2012, Boardwalk Pipeline was in compliance with all covenants under the credit facility and had available borrowing capacity of $650 million.

Boardwalk Pipeline s total debt balance amounted to $3.2 billion at September 30, 2012, as compared to $3.4 billion at December 31, 2011.

Loews Hotels

In June of 2012, Loews Hotels borrowed $81 million under a new $105 million loan agreement. The loan agreement bears interest at 4.3% and matures on June 15, 2015.

29

Table of Contents

8. 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:

	Pension Benefits			
	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2012	2011	**2012**	2011
(In millions)				
Service cost	**$ 5**	$ 6	**$ 17**	$ 18
Interest cost	**39**	41	**114**	123
Expected return on plan assets	**(47)**	(47)	**(140)**	(141)
Amortization of unrecognized net loss	**11**	8	**34**	22
Net periodic benefit cost	**$ 8**	$ 8	**$ 25**	$ 22

	Other Postretirement Benefits			
	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2012	2011	**2012**	2011
(In millions)				
Service cost	**$ 1**	$ 1	**$ 1**	$ 1
Interest cost	**1**	1	**4**	5
Expected return on plan assets	**(1)**		**(3)**	(2)
Amortization of unrecognized net loss		1		1
Amortization of unrecognized prior service benefit	**(6)**	(7)	**(19)**	(20)
Regulatory asset decrease		1		4

Net periodic benefit cost	**$ (5)**	$ (3)	**$ (17)**	$ (11)

9. 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 results are reported in four business segments: CNA Specialty, CNA Commercial, Life & Group Non-Core and Other. 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. Life & Group Non-Core primarily includes the results of the life and group lines of business that are in run-off. Other includes the operations of Hardy since its acquisition date of July 2, 2012, 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. Hardy is a specialized Lloyd s underwriter primarily of short-tail exposures.

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 44 drilling rigs, including four new-build rigs which are under construction and two rigs being constructed utilizing the hulls of two of Diamond Offshore s existing mid-water floaters. On September 30, 2012, Diamond Offshore s drilling rigs were located offshore 14 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 14,540 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 18 hotels, 16 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.

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	**2012**	2011
(In millions)				
Revenues (a):				
CNA Financial:				
CNA Specialty	**$ 957**	$ 874	**$ 2,798**	$ 2,640
CNA Commercial	**1,091**	962	**3,163**	3,040
Life & Group Non-Core	**340**	334	**1,050**	993
Other	**77**	6	**101**	29
Total CNA Financial	**2,465**	2,176	**7,112**	6,702
Diamond Offshore	**730**	881	**2,319**	2,582
Boardwalk Pipeline	**271**	269	**862**	843
HighMount	**74**	95	**219**	297
Loews Hotels	**98**	82	**272**	251
Corporate and other	**77**	(65)	**63**	(27)
Total	**$ 3,715**	$ 3,438	**$ 10,847**	$ 10,648
Income (loss) before income tax and noncontrolling interests (a):				
CNA Financial:				
CNA Specialty	**$ 214**	$ 123	**$ 589**	$ 527
CNA Commercial	**193**	81	**519**	357
Life & Group Non-Core	**(60)**	(43)	**(111)**	(136)
Other	**(33)**	(34)	**(84)**	(110)
Total CNA Financial	**314**	127	**913**	638
Diamond Offshore	**234**	335	**732**	974
Boardwalk Pipeline	**58**	46	**216**	141
HighMount	**(248)**	25	**(499)**	78
Loews Hotels	**(1)**	(1)	**17**	13
Corporate and other	**52**	(93)	**(15)**	(100)
Total	**$ 409**	$ 439	**$ 1,364**	$ 1,744
Net income (loss) - Loews (a):				
CNA Financial:				
CNA Specialty	**$ 122**	$ 69	**$ 347**	$ 297
CNA Commercial	**119**	34	**309**	199
Life & Group Non-Core	**(21)**	(15)	**(26)**	(50)
Other	**(20)**	(19)	**(53)**	(65)
Total CNA Financial	**200**	69	**577**	381
Diamond Offshore	**83**	121	**264**	363

Boardwalk Pipeline	**20**	18	**80**	56
HighMount	**(158)**	16	**(319)**	50
Loews Hotels	**(1)**		**9**	8
Corporate and other	**33**	(62)	**(11)**	(67)
Total	**$ 177**	$ 162	**$ 600**	$ 791

32

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	**2012**	2011
Revenues and Income (loss) before income tax and noncontrolling interests:				
CNA Financial:				
CNA Specialty	**$ 2**	$ (8)	**$ 18**	$ 7
CNA Commercial	**10**	(15)	**34**	13
Life & Group Non-Core	**(3)**	(4)	**14**	(7)
Other	**(1)**		**(4)**	1
Total CNA Financial	**8**	(27)	**62**	14
Corporate and other	**(1)**		**(3)**	1
Total	**$ 7**	$ (27)	**$ 59**	$ 15
Net income (loss) - Loews:				
CNA Financial:				
CNA Specialty	**$ 1**	$ (5)	**$ 11**	$ 4
CNA Commercial	**6**	(8)	**20**	8
Life & Group Non-Core	**(2)**	(2)	**8**	(4)
Other			**(2)**	1
Total CNA Financial	**5**	(15)	**37**	9
Corporate and other	**(1)**		**(2)**	
Total	**$ 4**	$ (15)	**$ 35**	$ 9

10. Legal Proceedings

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, both of which also name a former subsidiary, Lorillard, Inc. or one of its subsidiaries, as a defendant. In *Carlene 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 *April 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. Three other cases brought in Middlesex County Superior Court in Massachusetts have been dismissed. Those cases were *Fonda V. Cook vs. Hollingsworth & Vose, et al., David Sawyer and Joan Sawyer vs. Metropolitan Life Insurance Company, et al.,* and *Norma Jean VanMeter, Individually and as Administratrix of the Estate of Willie T. VanMeter vs. Hollingsworth & Vose, et al.*

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 effect 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.

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.

33

Table of Contents

11. 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 September 30, 2012, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was $758 million.

In addition, the Company has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of September 30, 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 four turnkey contracts with Hyundai Heavy Industries, Co. Ltd., (Hyundai) for the construction of four dynamically positioned, ultra-deepwater drillships, with deliveries scheduled for the second and fourth quarters of 2013 and in the second and fourth quarters of 2014. The aggregate cost of the four drillships, including commissioning, spares and project management, is expected to be approximately $2.6 billion, of which approximately $650 million has been paid. The remaining $2 billion will be paid upon delivery of the drillships in 2013 and 2014. These amounts are included in Construction in process within Property, plant and equipment in the Consolidated Condensed Balance Sheets.

In December of 2011 and August of 2012, Diamond Offshore entered into agreements for the construction of two moored semisubmersible rigs designed to operate in water depths up to 6,000 feet with expected completion dates in the third quarter of 2013 and the second quarter of 2014. The rigs will be constructed utilizing the hulls of two of Diamond Offshore s mid-water floaters and the aggregate cost of the two rigs is estimated to be approximately $670 million, including commissioning, spares and project management costs.

12. Consolidating Financial Information

The following schedules present the Company s consolidating balance sheet information at September 30, 2012 and December 31, 2011, and consolidating statements of income information for the nine months ended September 30, 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.

Table of Contents

Loews Corporation

Consolidating Balance Sheet Information

September 30, 2012 (In millions)	CNA Financial	Diamond Offshore	Boardwalk Pipeline	HighMount	Loews Hotels	Corporate and Other	Eliminations	Total
Assets:								
Investments	$ 47,788	$ 1,468	$ 2	$ 7	$ 38	$ 3,611		$ 52,914
Cash	129	24	9		7			169
Receivables	8,458	468	70	78	31	564	$ (195)	9,474
Property, plant and equipment	285	4,841	6,658	1,226	505	49		13,564
Deferred income taxes	18			683			(701)	
Goodwill	117	20	215	584	3			939
Investments in capital stocks of subsidiaries						17,366	(17,366)	
Other assets	810	371	311	19	22	13		1,546
Deferred acquisition costs of insurance subsidiaries	603							603
Separate account business	345							345
Total assets	$ 58,553	$ 7,192	$ 7,265	$ 2,597	$ 606	$ 21,603	$ (18,262)	$ 79,554
Liabilities and Equity:								
Insurance reserves	$ 39,151							$ 39,151
Payable to brokers	700		$ 1	$ 15		$ 92		808
Short term debt	13				$ 5			18
Long term debt	2,557	$ 1,489	3,163	760	285	694	$ (100)	8,848
Deferred income taxes	5	529	583		49	657	(701)	1,122
Other liabilities	3,163	609	373	116	19	215	(95)	4,400
Separate account business	345							345
Total liabilities	45,934	2,627	4,120	891	358	1,658	(896)	54,692
Total shareholders equity	11,368	2,313	1,625	1,706	248	19,945	(17,366)	19,839
Noncontrolling interests	1,251	2,252	1,520					5,023
Total equity	12,619	4,565	3,145	1,706	248	19,945	(17,366)	24,862
Total liabilities and equity	$ 58,553	$ 7,192	$ 7,265	$ 2,597	$ 606	$ 21,603	$ (18,262)	$ 79,554

35

Table of Contents

Loews Corporation

Consolidating Balance Sheet Information

December 31, 2011 (In millions)	CNA Financial	Diamond Offshore	Boardwalk Pipeline	HighMount	Loews Hotels	Corporate and Other	Eliminations	Total
Assets:								
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
Total assets	$ 55,064	$ 6,977	$ 7,372	$ 2,872	$ 478	$ 20,374	$ (17,869)	$ 75,268
Liabilities and Equity:								
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
Total liabilities	43,622	2,620	4,265	840	284	1,496	(1,062)	52,065
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
Total equity	11,442	4,357	3,107	2,032	194	18,878	(16,807)	23,203
Total liabilities and equity	$ 55,064	$ 6,977	$ 7,372	$ 2,872	$ 478	$ 20,374	$ (17,869)	$ 75,268

36

Table of Contents

Loews Corporation

Consolidating Statement of Income Information

Nine Months Ended September 30, 2012 (In millions)	CNA Financial	Diamond Offshore	Boardwalk Pipeline	HighMount	Loews Hotels	Corporate and Other	Eliminations	Total
Revenues:								
Insurance premiums	$ 5,098							$ 5,098
Net investment income	1,719	$ 4			$ 1	$ 70		1,794
Intercompany interest and dividends						512	$ (512)	
Investment gains (losses)	62		$ (3)					59
Contract drilling revenues		2,195						2,195
Other	233	120	862	$ 219	271	2	(6)	1,701
Total	7,112	2,319	859	219	272	584	(518)	10,847
Expenses:								
Insurance claims and policyholders benefits	4,164							4,164
Amortization of deferred acquisition costs	937							937
Contract drilling expenses		1,160						1,160
Other operating expenses	970	390	521	709	247	60	(6)	2,891
Interest	128	37	125	9	8	30	(6)	331
Total	6,199	1,587	646	718	255	90	(12)	9,483
Income (loss) before income tax	913	732	213	(499)	17	494	(506)	1,364
Income tax (expense) benefit	(272)	(188)	(52)	180	(8)	3		(337)
Net income (loss)	641	544	161	(319)	9	497	(506)	1,027
Amounts attributable to noncontrolling interests	(64)	(280)	(83)					(427)
Net income (loss) attributable to Loews Corporation	$ 577	$ 264	$ 78	$ (319)	$ 9	$ 497	$ (506)	$ 600

37

Table of Contents

Loews Corporation

Consolidating Statement of Income Information

Nine Months Ended September 30, 2011 (In millions)	CNA Financial	Diamond Offshore	Boardwalk Pipeline	HighMount	Loews Hotels	Corporate and Other	Eliminations	Total
Revenues:								
Insurance premiums	$ 4,942							$ 4,942
Net investment income	1,531	$ 4			$ 1	$ (23)		1,513
Intercompany interest and dividends						467	$ (467)	
Investment gains	14	1						15
Contract drilling revenues		2,520						2,520
Other	215	58	$ 843	$ 297	250	(1)	(4)	1,658
Total	6,702	2,583	843	297	251	443	(471)	10,648
Expenses:								
Insurance claims and policyholders benefits	4,131							4,131
Amortization of deferred acquisition costs	880							880
Contract drilling expenses		1,142						1,142
Other operating expenses	911	406	569	183	231	49	(4)	2,345
Interest	142	60	133	36	7	34	(6)	406
Total	6,064	1,608	702	219	238	83	(10)	8,904
Income before income tax	638	975	141	78	13	360	(461)	1,744
Income tax (expense) benefit	(199)	(229)	(35)	(28)	(5)	34		(462)
Net income	439	746	106	50	8	394	(461)	1,282
Amounts attributable to noncontrolling interests	(58)	(383)	(50)					(491)
Net income attributable to Loews Corporation	$ 381	$ 363	$ 56	$ 50	$ 8	$ 394	$ (461)	$ 791

38

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:

OVERVIEW

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 55% 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

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 t business of Loews Corporation excluding its subsidiaries.

Consolidated Financial Results

Net income for the three months ended September 30, 2012 amounted to $177 million, or $0.45 per share, as compared to $162 million, or $0.40 per share, in the prior year period. Net income for the nine months ended

Table of Contents

September 30, 2012 was $600 million, or $1.51 per share, compared to $791 million, or $1.94 per share, in the prior year period.

Net income for the three and nine months ended September 30, 2012 includes after tax non-cash ceiling test impairment charges of $166 million and $336 million at HighMount related to the carrying value of its natural gas and oil properties reflecting declines in natural gas and NGL prices.

Income before net investment gains (losses) and impairment charges for the three months ended September 30, 2012 was $339 million, as compared to $177 million in the 2011 period. The increase is due primarily to higher earnings at CNA and higher parent company investment income due primarily to increased performance of equity and limited partnership investments. These increases were partially offset by lower earnings at Diamond Offshore.

CNA s earnings increased due to higher net investment income and lower catastrophe losses. Increased investment income reflects improved performance of limited partnership investments.

Diamond Offshore s earnings decreased due to lower rig utilization and a decrease in average dayrate.

Income before net investment gains and impairment charges for the first nine months of 2012 was $901 million, as compared to $782 million in the 2011 period. The increase is due primarily to the reasons discussed above and improved earnings from Boardwalk Pipeline, primarily due to the contribution from Boardwalk HP Storage Company which was acquired in December 2011 as well as the prior year impact of an impairment charge related to steel pipe materials.

Book value per share increased to $50.41 at September 30, 2012, from $47.33 at December 31, 2011 and $47.58 at September 30, 2011.

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

Table of Contents

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.

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 and nine months ended September 30, 2012 and 2011 as presented in Note 12 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(In millions)	**2012**	2011	**2012**	2011
Revenues:				
Insurance premiums	**$ 1,781**	$ 1,732	**$ 5,098**	$ 4,942
Net investment income	**601**	394	**1,719**	1,531
Investment gains (losses)	**8**	(27)	**62**	14
Other revenue	**75**	77	**233**	215
Total	**2,465**	2,176	**7,112**	6,702
Expenses:				
Insurance claims and policyholders benefits	**1,435**	1,400	**4,164**	4,131
Amortization of deferred acquisition costs	**333**	297	**937**	880
Other operating	**340**	309	**970**	911
Interest	**43**	43	**128**	142
Total	**2,151**	2,049	**6,199**	6,064
Income before income tax	**314**	127	**913**	638
Income tax expense	**(92)**	(48)	**(272)**	(199)
Amounts attributable to noncontrolling interests	**(22)**	(10)	**(64)**	(58)
Net income attributable to Loews Corporation	**$ 200**	$ 69	**$ 577**	$ 381

Three Months Ended September 30, 2012 Compared to 2011

Net income increased $131 million for the three months ended September 30, 2012 as compared with the 2011 period. This increase was primarily due to higher net investment income and lower catastrophe losses, partially offset by decreased favorable net prior year development and unfavorable morbidity in the long term care business. Catastrophe losses were $16 million (after tax and noncontrolling interests) for the three months ended September 30, 2012 as compared to catastrophe losses of $29 million (after tax and noncontrolling interests) for the same period in 2011. Net investment income increased $207 million primarily due to favorable limited partnership results. See the Investments section of this MD&A for further discussion of net investment income.

Nine Months Ended September 30, 2012 Compared to 2011

Net income increased $196 million for the nine months ended September 30, 2012 as compared with the 2011 period. This increase was primarily due to higher net investment income, lower catastrophe losses and increased net investment gains. Catastrophe losses were $72 million (after tax and noncontrolling interests) for the nine months ended September 30, 2012 as compared to catastrophe losses of $120 million (after tax and noncontrolling interests) for the same period in 2011. Favorable net prior year developme