

LOEWS CORP  
Form 10-Q  
August 01, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**  
**THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended June 30, 2016**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_**  
**Commission File Number 1-6541**

**LOEWS CORPORATION**

**(Exact name of registrant as specified in its charter)**

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

**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)**

**13-2646102**  
**(I.R.S. Employer**  
**Identification No.)**

**NOT APPLICABLE**

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

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

Yes

No

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

Yes

No

Not Applicable

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

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

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

Yes

No

Class  
Common stock, \$0.01 par value

Outstanding at July 22, 2016  
337,106,639 shares

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

|  | <b>June 30,<br/>2016</b> | December 31,<br>2015 |
|--|--------------------------|----------------------|
| <b>(Dollar amounts in millions, except per share data)</b> |                          |                      |
| <b>Assets:</b>   |                          |                      |
| Investments:   |                          |                      |
| Fixed maturities, amortized cost of \$38,285 and \$37,407  | \$ 42,307                | \$ 39,701            |
| Equity securities, cost of \$642 and \$824                 | 667                      | 752                  |
| Limited partnership investments                            | 3,355                    | 3,313                |
| Other invested assets, primarily mortgage loans            | 696                      | 824                  |
| Short term investments                                     | 5,334                    | 4,810                |
| <b>Total investments</b>                                   | <b>52,359</b>            | 49,400               |
| Cash   | 348                      | 440                  |
| Receivables  | 8,616                    | 8,041                |
| Property, plant and equipment                              | 15,126                   | 15,477               |
| Goodwill   | 348                      | 351                  |
| Other assets   | 1,766                    | 1,699                |
| Deferred acquisition costs of insurance subsidiaries       | 620                      | 598                  |
| <b>Total assets</b>  | <b>\$ 79,183</b>         | \$ 76,006            |
| <b>Liabilities and Equity:</b>                             |                          |                      |
| Insurance reserves:  |                          |                      |
| Claim and claim adjustment expense                         | \$ 22,975                | \$ 22,663            |
| Future policy benefits                                     | 11,140                   | 10,152               |
| Unearned premiums  | 3,865                    | 3,671                |
| <b>Total insurance reserves</b>                            | <b>37,980</b>            | 36,486               |
| Payable to brokers   | 1,310                    | 567                  |
| Short term debt  | 330                      | 1,040                |
| Long term debt   | 10,735                   | 9,520                |
| Deferred income taxes                                      | 604                      | 382                  |

|   |                  |           |
|---|------------------|-----------|
| Other liabilities                               | <b>5,193</b>     | 5,201     |
| <b>Total liabilities</b>                        | <b>56,152</b>    | 53,196    |
| Commitments and contingent liabilities          |                  |           |
| Preferred stock, \$0.10 par value:              |                  |           |
| Authorized 100,000,000 shares                   |                  |           |
| Common stock, \$0.01 par value:                 |                  |           |
| Authorized 1,800,000,000 shares                 |                  |           |
| Issued 339,941,534 and 339,897,547 shares       | <b>3</b>         | 3         |
| Additional paid-in capital                      | <b>3,197</b>     | 3,184     |
| Retained earnings                               | <b>14,724</b>    | 14,731    |
| Accumulated other comprehensive income (loss)   | <b>119</b>       | (357)     |
|   | <b>18,043</b>    | 17,561    |
| Less treasury stock, at cost (2,552,593 shares) | <b>(98)</b>      |           |
| <b>Total shareholders' equity</b>               | <b>17,945</b>    | 17,561    |
| Noncontrolling interests                        | <b>5,086</b>     | 5,249     |
| <b>Total equity</b>                             | <b>23,031</b>    | 22,810    |
| <b>Total liabilities and equity</b>             | <b>\$ 79,183</b> | \$ 76,006 |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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

|  | <b>Three Months Ended</b> |                | <b>Six Months Ended</b> |                |
|--|---------------------------|----------------|-------------------------|----------------|
|  | <b>June 30,</b>           |                | <b>June 30,</b>         |                |
|  | <b>2016</b>               | <b>2015</b>    | <b>2016</b>             | <b>2015</b>    |
| <b>(In millions, except per share data)</b>          |                           |                |                         |                |
| <b>Revenues:</b>                                     |                           |                |                         |                |
| Insurance premiums                                   | \$ 1,730                  | \$ 1,735       | \$ 3,429                | \$ 3,422       |
| Net investment income                                | 587                       | 510            | 1,009                   | 1,098          |
| Investment gains (losses):                           |                           |                |                         |                |
| Other-than-temporary impairment losses               | (15)                      | (31)           | (38)                    | (43)           |
| Other net investment gains                           | 16                        | 29             | 11                      | 51             |
| Total investment gains (losses)                      | 1                         | (2)            | (27)                    | 8              |
| Contract drilling revenues                           | 357                       | 617            | 801                     | 1,217          |
| Other revenues                                       | 632                       | 575            | 1,268                   | 1,168          |
| Total  | 3,307                     | 3,435          | 6,480                   | 6,913          |
| <b>Expenses:</b>                                     |                           |                |                         |                |
| Insurance claims and policyholders' benefits         | 1,339                     | 1,469          | 2,747                   | 2,808          |
| Amortization of deferred acquisition costs           | 305                       | 314            | 612                     | 617            |
| Contract drilling expenses                           | 198                       | 344            | 411                     | 695            |
| Other operating expenses (Note 4)                    | 1,611                     | 879            | 2,518                   | 2,128          |
| Interest   | 130                       | 134            | 273                     | 265            |
| Total  | 3,583                     | 3,140          | 6,561                   | 6,513          |
| Income (loss) before income tax                      | (276)                     | 295            | (81)                    | 400            |
| Income tax expense                                   | (12)                      | (48)           | (8)                     | (104)          |
| Net income (loss)                                    | (288)                     | 247            | (89)                    | 296            |
| Amounts attributable to noncontrolling interests     | 223                       | (77)           | 126                     | (17)           |
| Net income (loss) attributable to Loews Corporation  | \$ (65)                   | \$ 170         | \$ 37                   | \$ 279         |
| <b>Basic and diluted net income (loss) per share</b> | <b>\$ (0.19)</b>          | <b>\$ 0.46</b> | <b>\$ 0.11</b>          | <b>\$ 0.75</b> |

|                            |                  |           |                 |          |
|----------------------------|------------------|-----------|-----------------|----------|
| <b>Dividends per share</b> | <b>\$ 0.0625</b> | \$ 0.0625 | <b>\$ 0.125</b> | \$ 0.125 |
|----------------------------|------------------|-----------|-----------------|----------|

**Weighted average shares outstanding:**

|   |               |        |               |        |
|---|---------------|--------|---------------|--------|
| Shares of common stock                    | <b>338.72</b> | 369.61 | <b>338.91</b> | 371.21 |
| Dilutive potential shares of common stock |               | 0.36   | <b>0.19</b>   | 0.36   |

|   |               |        |               |        |
|---|---------------|--------|---------------|--------|
| Total weighted average shares outstanding assuming dilution | <b>338.72</b> | 369.97 | <b>339.10</b> | 371.57 |
|---|---------------|--------|---------------|--------|

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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

|  | <b>Three Months Ended<br/>June 30,</b> |         | <b>Six Months Ended<br/>June 30,</b> |        |
|--|--|---------|--------------------------------------|--------|
|  | <b>2016</b>                            | 2015    | <b>2016</b>                          | 2015   |
| <b>(In millions)</b>   |  |         |                                      |        |
| Net income (loss)  | <b>\$ (288)</b>                        | \$ 247  | <b>\$ (89)</b>                       | \$ 296 |
| Other comprehensive income (loss), after tax                                       |  |         |                                      |        |
| Changes in:  |  |         |                                      |        |
| Net unrealized gains (losses) on investments with other-than-temporary impairments | <b>(1)</b>                             | (4)     | <b>4</b>                             | (5)    |
| Net other unrealized gains (losses) on investments                                 | <b>321</b>                             | (363)   | <b>549</b>                           | (253)  |
| Total unrealized gains (losses) on available-for-sale investments                  | <b>320</b>                             | (367)   | <b>553</b>                           | (258)  |
| Unrealized gains on cash flow hedges   |  | 1       | <b>1</b>                             | 4      |
| Pension liability  | <b>5</b>                               | 43      | <b>13</b>                            | 47     |
| Foreign currency   | <b>(48)</b>                            | 49      | <b>(34)</b>                          | (47)   |
| Other comprehensive income (loss)  | <b>277</b>                             | (274)   | <b>533</b>                           | (254)  |
| Comprehensive income (loss)  | <b>(11)</b>                            | (27)    | <b>444</b>                           | 42     |
| Amounts attributable to noncontrolling interests                                   | <b>191</b>                             | (48)    | <b>69</b>                            | 9      |
| Total comprehensive income (loss) attributable to Loews Corporation                | <b>\$ 180</b>                          | \$ (75) | <b>\$ 513</b>                        | \$ 51  |

*See accompanying Notes to Consolidated Condensed Financial Statements.*



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## Loews Corporation and Subsidiaries

## CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

(Unaudited)

|   | Loews Corporation Shareholders |                 |                                  |                      |   |  |  |                             |
|---|--------------------------------|-----------------|----------------------------------|----------------------|---|--|--|-----------------------------|
|   |                                |                 |                                  |                      | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Common<br>Stock<br>Held in<br>Treasury |  | Noncontrolling<br>Interests |
|   | Total                          | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings |   |  |  |                             |
| <b>(In millions)</b>  |                                |                 |                                  |                      |   |  |  |                             |
| Balance, January 1, 2015                                    | \$ 24,650                      | \$ 4            | \$ 3,481                         | \$ 15,515            | \$ 280  | \$ -                                   |  | \$ 5,370                    |
| Net income  | 296                            |                 |                                  | 279                  |   |  |  | 17                          |
| Other comprehensive loss                                    | (254)                          |                 |                                  |                      | (228)   |  |  | (26)                        |
| Dividends paid  | (156)                          |                 |                                  | (46)                 |   |  |  | (110)                       |
| Issuance of equity securities by subsidiary                 | 115                            |                 | (2)                              |                      | 1   |  |  | 116                         |
| Purchases of subsidiary stock from noncontrolling interests | (26)                           |                 | 3                                |                      |   |  |  | (29)                        |
| Purchases of Loews treasury stock                           | (305)                          |                 |                                  |                      |   | (305)                                  |  |                             |
| Issuance of Loews common stock                              | 7                              |                 | 7                                |                      |   |  |  |                             |
| Stock-based compensation                                    | 12                             |                 | 12                               |                      |   |  |  |                             |
| Other   | (7)                            |                 | (18)                             | (1)                  |   |  |  | 12                          |
| Balance, June 30, 2015                                      | \$ 24,332                      | \$ 4            | \$ 3,483                         | \$ 15,747            | \$ 53   | \$ (305)                               |  | \$ 5,350                    |
| <b>Balance, January 1, 2016</b>                             | <b>\$ 22,810</b>               | <b>\$ 3</b>     | <b>\$ 3,184</b>                  | <b>\$ 14,731</b>     | <b>\$ (357)</b>   | <b>\$ -</b>                            |  | <b>\$ 5,249</b>             |

|  |                  |             |                 |                  |                 |
|--|------------------|-------------|-----------------|------------------|-----------------|
| <b>Net income (loss)</b>   | <b>(89)</b>      |             | <b>37</b>       |                  | <b>(126)</b>    |
| <b>Other comprehensive income</b>                                  | <b>533</b>       |             | <b>476</b>      |                  | <b>57</b>       |
| <b>Dividends paid</b>  | <b>(136)</b>     |             | <b>(42)</b>     |                  | <b>(94)</b>     |
| <b>Purchases of subsidiary stock from noncontrolling interests</b> | <b>(9)</b>       | <b>3</b>    |                 |                  | <b>(12)</b>     |
| <b>Purchases of Loews treasury stock</b>                           | <b>(98)</b>      |             |                 | <b>(98)</b>      |                 |
| <b>Stock-based compensation</b>                                    | <b>24</b>        | <b>23</b>   |                 |                  | <b>1</b>        |
| <b>Other</b>   | <b>(4)</b>       | <b>(13)</b> | <b>(2)</b>      |                  | <b>11</b>       |
| <b>Balance, June 30, 2016</b>                                      | <b>\$ 23,031</b> | <b>\$ 3</b> | <b>\$ 3,197</b> | <b>\$ 14,724</b> | <b>\$ 119</b>   |
|  |                  |             |                 | <b>(98)</b>      | <b>\$ 5,086</b> |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

**Table of Contents****Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(Unaudited)****Six Months Ended June 30****2016****2015****(In millions)****Operating Activities:**

|   |         |        |
|---|---------|--------|
| Net income (loss)   | \$ (89) | \$ 296 |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities, net | 1,389   | 803    |
| Changes in operating assets and liabilities, net:   |         |        |
| Receivables   | (429)   | (243)  |
| Deferred acquisition costs  | (25)    | (8)    |
| Insurance reserves  | 666     | 451    |
| Other assets  | (87)    | (102)  |
| Other liabilities   | (106)   | (120)  |
| Trading securities  | (548)   | 10     |
| Net cash flow operating activities  | 771     | 1,087  |

**Investing Activities:**

|  |         |         |
|--|---------|---------|
| Purchases of fixed maturities                          | (4,874) | (5,029) |
| Proceeds from sales of fixed maturities                | 3,070   | 2,859   |
| Proceeds from maturities of fixed maturities           | 1,247   | 2,304   |
| Purchases of limited partnership investments           | (280)   | (78)    |
| Proceeds from sales of limited partnership investments | 124     | 85      |
| Purchases of property, plant and equipment             | (974)   | (1,227) |
| Dispositions   | 274     | 20      |
| Change in short term investments                       | 148     | 119     |
| Other, net   | 148     | (87)    |
| Net cash flow investing activities                     | (1,117) | (1,034) |

**Financing Activities:**

|   |      |       |
|---|------|-------|
| Dividends paid  | (42) | (46)  |
| Dividends paid to noncontrolling interests                  | (94) | (110) |
| Purchases of subsidiary stock from noncontrolling interests | (8)  | (24)  |
| Purchases of Loews treasury stock                           | (86) | (287) |

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|   |               |               |
|---|---------------|---------------|
| Issuance of Loews common stock            |               | 7             |
| Proceeds from sale of subsidiary stock    |               | 114           |
| Principal payments on debt                | (2,352)       | (1,329)       |
| Issuance of debt                          | 2,843         | 1,503         |
| Other, net                                | (1)           | 6             |
| <b>Net cash flow financing activities</b> | <b>260</b>    | <b>(166)</b>  |
| Effect of foreign exchange rate on cash   | (6)           | (2)           |
| <b>Net change in cash</b>                 | <b>(92)</b>   | <b>(115)</b>  |
| Cash, beginning of period                 | 440           | 364           |
| <b>Cash, end of period</b>                | <b>\$ 348</b> | <b>\$ 249</b> |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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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 53% owned subsidiary); transportation and storage of natural gas and natural gas liquids and gathering and processing of natural gas (Boardwalk Pipeline Partners, LP ( Boardwalk Pipeline ), a 51% owned subsidiary); and the operation of a chain of hotels (Loews Hotels Holding Corporation ( Loews Hotels ), a wholly owned subsidiary). Unless the context otherwise requires, the terms Company, Loews and Registrant as used herein mean Loews Corporation excluding its subsidiaries and the term Net income (loss) attributable to Loews Corporation as used herein means Net income (loss) attributable to Loews Corporation shareholders.

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 Company's financial position as of June 30, 2016 and December 31, 2015, results of operations and comprehensive income for the three and six months ended June 30, 2016 and 2015 and changes in shareholders' equity and cash flows for the six months ended June 30, 2016 and 2015. Net income (loss) for the second quarter and first half of each of the years is not necessarily indicative of net income (loss) for that entire year. These Consolidated Condensed Financial Statements should be read in conjunction with the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

The Company presents basic and diluted net income (loss) per share on the Consolidated Condensed Statements of Income. Basic net income (loss) per share excludes dilution and is computed by dividing net income (loss) attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted 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. Shares attributable to employee stock-based compensation plans of 4.7 million, 3.7 million, 5.1 million and 3.6 million shares were not included in the diluted weighted average shares amounts for the three and six months ended June 30, 2016 and 2015 because the effect would have been antidilutive.

**Accounting changes** In April of 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The updated accounting guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, rather than as a deferred asset. As required, the Company's Consolidated Condensed Balance Sheet has been retrospectively adjusted to reflect the effect of the adoption of the updated accounting guidance, which resulted in a decrease of \$23 million in Other assets and Long term debt at December 31, 2015.

**Recently issued ASUs** In May of 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the new accounting guidance is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new accounting guidance provides a five-step analysis of transactions to determine when and how revenue is recognized and requires enhanced disclosures

about revenue. In August of 2015, the FASB formally amended the effective date of this update to annual reporting periods beginning after December 15, 2017, including interim periods, and it can be adopted either retrospectively or with a cumulative effect adjustment at the date of adoption. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated financial statements.

In May of 2015, the FASB issued ASU 2015-09, Financial Services – Insurance (Topic 944): Disclosures about Short-Duration Contracts. The updated accounting guidance requires enhanced disclosures to provide additional information about insurance liabilities for short-duration contracts. The guidance is effective for annual periods

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beginning after December 15, 2015 and for interim periods beginning after December 15, 2016. The Company is currently evaluating the effect the updated guidance will have on its financial statement disclosures, but expects to provide additional incurred and paid claims development information by accident year, quantitative information about claim frequency and the history of claims duration for significant lines of business within the annual financial statements.

In January of 2016, the FASB issued ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The updated accounting guidance requires changes to the reporting model for financial instruments. The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company is currently evaluating the effect the guidance will have on its consolidated financial statements, and expects the primary change to be the requirement for equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income (loss).

In February of 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The updated guidance requires lessees to recognize lease assets and lease liabilities for most operating leases. In addition, the updated guidance requires that lessors separate lease and nonlease components in a contract in accordance with the new revenue guidance in ASU 2014-09. The updated guidance is effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the effect the updated guidance will have on its consolidated financial statements.

In June of 2016, the FASB issued ASU 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The updated accounting guidance requires changes to the recognition of credit losses on financial instruments not accounted for at fair value through net income (loss). The guidance is effective for interim and annual periods beginning after December 15, 2019. The Company is currently evaluating the effect the guidance will have on its consolidated financial statements, and expects the primary changes to be the use of the expected credit loss model for the mortgage loan portfolio and reinsurance receivables and the presentation of credit losses within the available-for-sale fixed maturities portfolio through an allowance method rather than as a direct write-down. The expected credit loss model will require a financial asset to be presented at the net amount expected to be collected. The allowance method for available-for-sale debt securities will allow the Company to record reversals of credit losses when the estimate of credit losses declines.

**2. Investments**

Net investment income is as follows:

|                                 | Three Months Ended |        | Six Months Ended |        |
|---------------------------------|--------------------|--------|------------------|--------|
|                                 | June 30,<br>2016   | 2015   | June 30,<br>2016 | 2015   |
| <b>(In millions)</b>            |                    |        |                  |        |
| Fixed maturity securities       | \$ 449             | \$ 452 | \$ 895           | \$ 895 |
| Limited partnership investments | 47                 | 50     | 7                | 210    |
| Short term investments          | 2                  |        | 5                | 3      |
| Equity securities               | 4                  | 3      | 7                | 6      |

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|  |               |        |                 |          |
|--|---------------|--------|-----------------|----------|
| Income (loss) from trading portfolio (a) | <b>87</b>     | 11     | <b>102</b>      | (4)      |
| Other                                    | <b>13</b>     | 9      | <b>22</b>       | 17       |
| Total investment income                  | <b>602</b>    | 525    | <b>1,038</b>    | 1,127    |
| Investment expenses                      | <b>(15)</b>   | (15)   | <b>(29)</b>     | (29)     |
| Net investment income                    | <b>\$ 587</b> | \$ 510 | <b>\$ 1,009</b> | \$ 1,098 |

(a) Includes net unrealized gains (losses) related to changes in fair value on trading securities still held of \$60, \$(10), \$81 and \$(17) for the three and six months ended June 30, 2016 and 2015.



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Investment gains (losses) are as follows:

|                                  | Three Months Ended |         | Six Months Ended |        |
|----------------------------------|--------------------|---------|------------------|--------|
|                                  | June 30,<br>2016   | 2015    | June 30,<br>2016 | 2015   |
| <b>(In millions)</b>             |                    |         |                  |        |
| Fixed maturity securities        | \$ 4               | \$ (12) | \$ (13)          |        |
| Equity securities                | 3                  | (1)     | (2)              | \$ (1) |
| Derivative instruments           | (6)                | 11      | (13)             | 10     |
| Short term investments and other |                    |         | 1                | (1)    |
| Investment gains (losses) (a)    | \$ 1               | \$ (2)  | \$ (27)          | \$ 8   |

(a) Includes gross realized gains of \$44, \$36, \$89 and \$70 and gross realized losses of \$37, \$49, \$104 and \$71 on available-for-sale securities for the three and six months ended June 30, 2016 and 2015.

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

|   | Three Months Ended |       | Six Months Ended |       |
|---|--------------------|-------|------------------|-------|
|   | June 30,<br>2016   | 2015  | June 30,<br>2016 | 2015  |
| <b>(In millions)</b>                                |                    |       |                  |       |
| Fixed maturity securities available-for-sale:       |                    |       |                  |       |
| Corporate and other bonds                           | \$ 13              | \$ 11 | \$ 29            | \$ 16 |
| States, municipalities and political subdivisions   |                    | 13    |                  | 18    |
| Asset-backed:                                       |                    |       |                  |       |
| Residential mortgage-backed                         | 1                  | 5     | 1                | 6     |
| Other asset-backed                                  | 1                  | 1     | 3                | 1     |
| Total asset-backed                                  | 2                  | 6     | 4                | 7     |
| Total fixed maturities available-for-sale           | 15                 | 30    | 33               | 41    |
| Equity securities available-for-sale - common stock |                    |       | 5                | 1     |
| Short term investments                              |                    | 1     |                  | 1     |
| Net OTTI losses recognized in earnings              | \$ 15              | \$ 31 | \$ 38            | \$ 43 |



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

| June 30, 2016   | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | Unrealized OTTI Losses (Gains) |
|---|------------------------|------------------------|-------------------------|----------------------|--------------------------------|
| <b>(In millions)</b>  |                        |                        |                         |                      |                                |
| <b>Fixed maturity securities:</b>                                 |                        |                        |                         |                      |                                |
| Corporate and other bonds   | \$ 17,613              | \$ 1,684               | \$ 93                   | \$ 19,204            | \$ (1)                         |
| States, municipalities and political subdivisions                 | 11,661                 | 2,114                  | 2                       | 13,773               | (25)                           |
| <b>Asset-backed:</b>  |                        |                        |                         |                      |                                |
| Residential mortgage-backed                                       | 4,994                  | 215                    | 20                      | 5,189                | (21)                           |
| Commercial mortgage-backed  | 2,080                  | 91                     | 8                       | 2,163                |                                |
| Other asset-backed  | 928                    | 8                      | 5                       | 931                  |                                |
| <b>Total asset-backed</b>   | <b>8,002</b>           | <b>314</b>             | <b>33</b>               | <b>8,283</b>         | <b>(21)</b>                    |
| U.S. Treasury and obligations of government-sponsored enterprises | 81                     | 11                     |                         | 92                   |                                |
| Foreign government  | 438                    | 22                     |                         | 460                  |                                |
| Redeemable preferred stock  | 33                     | 2                      |                         | 35                   |                                |
| <b>Fixed maturities available-for-sale</b>                        | <b>37,828</b>          | <b>4,147</b>           | <b>128</b>              | <b>41,847</b>        | <b>(47)</b>                    |
| <b>Fixed maturities trading</b>                                   | <b>457</b>             | <b>4</b>               | <b>1</b>                | <b>460</b>           |                                |
| <b>Total fixed maturities</b>                                     | <b>38,285</b>          | <b>4,151</b>           | <b>129</b>              | <b>42,307</b>        | <b>(47)</b>                    |
| <b>Equity securities:</b>   |                        |                        |                         |                      |                                |
| Common stock  | 20                     | 5                      | 2                       | 23                   |                                |
| Preferred stock   | 97                     | 6                      | 3                       | 100                  |                                |
| <b>Equity securities available-for-sale</b>                       | <b>117</b>             | <b>11</b>              | <b>5</b>                | <b>123</b>           | <b>-</b>                       |
| <b>Equity securities trading</b>                                  | <b>525</b>             | <b>108</b>             | <b>89</b>               | <b>544</b>           |                                |
| <b>Total equity securities</b>                                    | <b>642</b>             | <b>119</b>             | <b>94</b>               | <b>667</b>           | <b>-</b>                       |
| <b>Total</b>  | <b>\$ 38,927</b>       | <b>\$ 4,270</b>        | <b>\$ 223</b>           | <b>\$ 42,974</b>     | <b>\$ (47)</b>                 |

December 31, 2015

(In millions)

|                                   |           |          |        |           |  |
|-----------------------------------|-----------|----------|--------|-----------|--|
| <b>Fixed maturity securities:</b> |           |          |        |           |  |
| Corporate and other bonds         | \$ 17,097 | \$ 1,019 | \$ 347 | \$ 17,769 |  |

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|   |           |          |        |           |         |
|---|-----------|----------|--------|-----------|---------|
| States, municipalities and political subdivisions                 | 11,729    | 1,453    | 8      | 13,174    | \$ (4)  |
| Asset-backed:   |           |          |        |           |         |
| Residential mortgage-backed                                       | 4,935     | 154      | 17     | 5,072     | (37)    |
| Commercial mortgage-backed  | 2,154     | 55       | 12     | 2,197     |         |
| Other asset-backed  | 923       | 6        | 8      | 921       |         |
| Total asset-backed  | 8,012     | 215      | 37     | 8,190     | (37)    |
| U.S. Treasury and obligations of government-sponsored enterprises |           |          |        |           |         |
|   | 62        | 5        |        | 67        |         |
| Foreign government  | 334       | 13       | 1      | 346       |         |
| Redeemable preferred stock  | 33        | 2        |        | 35        |         |
| Fixed maturities available-for-sale                               |           |          |        |           |         |
|   | 37,267    | 2,707    | 393    | 39,581    | (41)    |
| Fixed maturities, trading   | 140       |          | 20     | 120       |         |
| Total fixed maturities  | 37,407    | 2,707    | 413    | 39,701    | (41)    |
| Equity securities:  |           |          |        |           |         |
| Common stock  | 46        | 3        | 1      | 48        |         |
| Preferred stock   | 145       | 7        | 3      | 149       |         |
| Equity securities available-for-sale                              |           |          |        |           |         |
|   | 191       | 10       | 4      | 197       | -       |
| Equity securities, trading  | 633       | 56       | 134    | 555       |         |
| Total equity securities   | 824       | 66       | 138    | 752       | -       |
| Total   | \$ 38,231 | \$ 2,773 | \$ 551 | \$ 40,453 | \$ (41) |

The net unrealized gains on investments included in the tables above are recorded as a component of Accumulated other comprehensive income ( AOCI ). When presented in AOCI, these amounts are net of tax and noncontrolling interests and any required Shadow Adjustments. To the extent that unrealized gains on fixed income securities supporting certain products within CNA's Life & Group Non-Core business would result in a premium deficiency if

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realized, a related increase in Insurance reserves is recorded, net of tax and noncontrolling interests, as a reduction of net unrealized gains through Other comprehensive income ( Shadow Adjustments ). As of June 30, 2016 and December 31, 2015, the net unrealized gains on investments included in AOCI were correspondingly reduced by Shadow Adjustments of \$1.5 billion and \$996 million.

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

|  | Less than<br>12 Months | Gross<br>Unrealized<br>Estimated<br>Fair Value | 12 Months<br>or Longer | Gross<br>Unrealized<br>Estimated<br>Fair Value | Total<br>Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses |
|--|------------------------|--|------------------------|--|----------------------------------|-------------------------------|
| <b>June 30, 2016</b>                                     |                        |  |                        |  |                                  |                               |
| <b>(In millions)</b>                                     |                        |  |                        |  |                                  |                               |
| <b>Fixed maturity securities:</b>                        |                        |  |                        |  |                                  |                               |
| <b>Corporate and other bonds</b>                         | <b>\$ 1,032</b>        | <b>\$ 43</b>                                   | <b>\$ 562</b>          | <b>\$ 50</b>                                   | <b>\$ 1,594</b>                  | <b>\$ 93</b>                  |
| <b>States, municipalities and political subdivisions</b> | <b>68</b>              | <b>2</b>                                       | <b>10</b>              |  | <b>78</b>                        | <b>2</b>                      |
| <b>Asset-backed:</b>                                     |                        |  |                        |  |                                  |                               |
| <b>Residential mortgage-backed</b>                       | <b>293</b>             | <b>8</b>                                       | <b>234</b>             | <b>12</b>                                      | <b>527</b>                       | <b>20</b>                     |
| <b>Commercial mortgage-backed</b>                        | <b>386</b>             | <b>7</b>                                       | <b>118</b>             | <b>1</b>                                       | <b>504</b>                       | <b>8</b>                      |
| <b>Other asset-backed</b>                                | <b>306</b>             | <b>5</b>                                       | <b>5</b>               |  | <b>311</b>                       | <b>5</b>                      |
| <b>Total asset-backed</b>                                | <b>985</b>             | <b>20</b>                                      | <b>357</b>             | <b>13</b>                                      | <b>1,342</b>                     | <b>33</b>                     |
| <b>Foreign government</b>                                | <b>8</b>               |  | <b>5</b>               |  | <b>13</b>                        |                               |
| <b>Total fixed maturity securities</b>                   | <b>2,093</b>           | <b>65</b>                                      | <b>934</b>             | <b>63</b>                                      | <b>3,027</b>                     | <b>128</b>                    |
| <b>Common stock</b>                                      | <b>4</b>               | <b>2</b>                                       |                        |  | <b>4</b>                         | <b>2</b>                      |
| <b>Preferred stock</b>                                   | <b>23</b>              | <b>3</b>                                       |                        |  | <b>23</b>                        | <b>3</b>                      |
| <b>Total</b>   | <b>\$ 2,120</b>        | <b>\$ 70</b>                                   | <b>\$ 934</b>          | <b>\$ 63</b>                                   | <b>\$ 3,054</b>                  | <b>\$ 133</b>                 |

December 31, 2015

(In millions)

|  |                 |               |               |              |                 |               |
|--|-----------------|---------------|---------------|--------------|-----------------|---------------|
| <b>Fixed maturity securities:</b>                        |                 |               |               |              |                 |               |
| <b>Corporate and other bonds</b>                         | <b>\$ 4,882</b> | <b>\$ 302</b> | <b>\$ 174</b> | <b>\$ 45</b> | <b>\$ 5,056</b> | <b>\$ 347</b> |
| <b>States, municipalities and political subdivisions</b> | <b>338</b>      | <b>8</b>      | <b>75</b>     |              | <b>413</b>      | <b>8</b>      |
| <b>Asset-backed:</b>                                     |                 |               |               |              |                 |               |
| <b>Residential mortgage-backed</b>                       | <b>963</b>      | <b>9</b>      | <b>164</b>    | <b>8</b>     | <b>1,127</b>    | <b>17</b>     |

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|   |          |        |        |       |          |        |
|---|----------|--------|--------|-------|----------|--------|
| Commercial mortgage-backed  | 652      | 10     | 96     | 2     | 748      | 12     |
| Other asset-backed  | 552      | 8      | 5      |       | 557      | 8      |
| Total asset-backed  | 2,167    | 27     | 265    | 10    | 2,432    | 37     |
| U.S. Treasury and obligations of government-sponsored enterprises | 4        |        |        |       | 4        |        |
| Foreign government  | 54       | 1      |        |       | 54       | 1      |
| Redeemable preferred stock  | 3        |        |        |       | 3        |        |
| Total fixed maturity securities                                   | 7,448    | 338    | 514    | 55    | 7,962    | 393    |
| Common stock  | 3        | 1      |        |       | 3        | 1      |
| Preferred stock   | 13       | 3      |        |       | 13       | 3      |
| Total   | \$ 7,464 | \$ 342 | \$ 514 | \$ 55 | \$ 7,978 | \$ 397 |

Based on current facts and circumstances, the Company believes the unrealized losses presented in the table above are not indicative of the ultimate collectibility of the current amortized cost of the securities, but rather are attributable to changes in interest rates, credit spreads and other factors. The Company has no current intent to sell securities with unrealized losses, 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 as of June 30, 2016.

The following table presents the activity related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held as of June 30, 2016 and 2015 for which a portion of an OTTI loss was recognized in Other comprehensive income.

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|  | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |      |
|--|--------------------------------|------|------------------------------|------|
|  | 2016                           | 2015 | 2016                         | 2015 |

**(In millions)**

|   |       |       |       |       |
|---|-------|-------|-------|-------|
| Beginning balance of credit losses on fixed maturity securities | \$ 48 | \$ 61 | \$ 53 | \$ 62 |
| Reductions for securities sold during the period                | (7)   | (2)   | (12)  | (3)   |
| Ending balance of credit losses on fixed maturity securities    | \$ 41 | \$ 59 | \$ 41 | \$ 59 |

**Contractual Maturity**

The following table presents available-for-sale fixed maturity securities by contractual maturity.

|  | June 30, 2016                |                            | December 31, 2015            |                            |
|--|------------------------------|----------------------------|------------------------------|----------------------------|
|  | Cost or<br>Amortized<br>Cost | Estimated<br>Fair<br>Value | Cost or<br>Amortized<br>Cost | Estimated<br>Fair<br>Value |

**(In millions)**

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Due in one year or less                | \$ 1,817  | \$ 1,855  | \$ 1,574  | \$ 1,595  |
| Due after one year through five years  | 8,616     | 9,114     | 7,738     | 8,082     |
| Due after five years through ten years | 14,583    | 15,466    | 14,652    | 14,915    |
| Due after ten years                    | 12,812    | 15,412    | 13,303    | 14,989    |
| Total                                  | \$ 37,828 | \$ 41,847 | \$ 37,267 | \$ 39,581 |

Actual maturities may differ from contractual maturities because certain securities may be called or prepaid. Securities not due at a single date are allocated based on weighted average life.

**Table of Contents****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. Gross estimated fair values of derivative positions are currently presented in Equity securities, Receivables and Payable to brokers on the Consolidated Condensed Balance Sheets.

|   | June 30, 2016            |                      |             | December 31, 2015        |                      |             |
|---|--------------------------|----------------------|-------------|--------------------------|----------------------|-------------|
|   | Contractual/<br>Notional | Estimated Fair Value |             | Contractual/<br>Notional | Estimated Fair Value |             |
|   | Amount                   | Asset                | (Liability) | Amount                   | Asset                | (Liability) |
| <b>(In millions)</b>                            |                          |                      |             |                          |                      |             |
| <b>Without hedge designation:</b>               |                          |                      |             |                          |                      |             |
| Equity markets:                                 |                          |                      |             |                          |                      |             |
| Options purchased                               | \$ 229                   | \$ 24                |             | \$ 501                   | \$ 16                |             |
| Options written                                 | 198                      |                      | \$ (10)     | 614                      |                      | \$ (28)     |
| Futures long                                    |                          |                      |             | 312                      |                      | (1)         |
| Futures short                                   | 51                       |                      | (1)         |                          |                      |             |
| Interest rate risk:                             |                          |                      |             |                          |                      |             |
| Futures long                                    |                          |                      |             | 63                       |                      |             |
| Foreign exchange:                               |                          |                      |             |                          |                      |             |
| Currency forwards long                          |                          |                      |             | 133                      | 2                    |             |
| Currency forwards short                         |                          |                      |             | 152                      |                      |             |
| Currency options long                           | 250                      | 1                    |             | 550                      | 7                    |             |
| Commodities:                                    |                          |                      |             |                          |                      |             |
| Futures long                                    | 62                       |                      | (1)         |                          |                      |             |
| Swaps short                                     | 50                       |                      |             |                          |                      |             |
| Embedded derivative on funds withheld liability | 177                      |                      | (8)         | 179                      | 5                    |             |

**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.

Prices may fall within Level 1, 2 or 3 depending upon the methodology 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 a methodology and inputs the Company believes market participants would use to value the assets. Prices obtained from third-party pricing services or brokers are not adjusted by the Company.

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

The fair values of CNA's life settlement contracts are included in Other assets on the Consolidated Condensed Balance Sheets. 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 presented in the following tables:

| June 30, 2016  | Level 1  | Level 2   | Level 3 | Total     |
|--|----------|-----------|---------|-----------|
| <b>(In millions)</b>   |          |           |         |           |
| <b>Fixed maturity securities:</b>  |          |           |         |           |
| <b>Corporate and other bonds</b>   |          | \$ 18,962 | \$ 242  | \$ 19,204 |
| <b>States, municipalities and political subdivisions</b>                 |          | 13,771    | 2       | 13,773    |
| <b>Asset-backed:</b>   |          |           |         |           |
| <b>Residential mortgage-backed</b>                                       |          | 5,055     | 134     | 5,189     |
| <b>Commercial mortgage-backed</b>  |          | 2,152     | 11      | 2,163     |
| <b>Other asset-backed</b>  |          | 886       | 45      | 931       |
| <b>Total asset-backed</b>  |          | 8,093     | 190     | 8,283     |
| <b>U.S. Treasury and obligations of government-sponsored enterprises</b> | \$ 91    | 1         |         | 92        |
| <b>Foreign government</b>  |          | 460       |         | 460       |
| <b>Redeemable preferred stock</b>  | 35       |           |         | 35        |
| <b>Fixed maturities available-for-sale</b>                               | 126      | 41,287    | 434     | 41,847    |
| <b>Fixed maturities trading</b>  |          | 454       | 6       | 460       |
| <b>Total fixed maturities</b>  | \$ 126   | \$ 41,741 | \$ 440  | \$ 42,307 |
| <b>Equity securities available-for-sale</b>                              | \$ 104   |           | \$ 19   | \$ 123    |
| <b>Equity securities trading</b>   | 542      |           | 2       | 544       |
| <b>Total equity securities</b>   | \$ 646   | \$ -      | \$ 21   | \$ 667    |
| <b>Short term investments</b>  | \$ 4,289 | \$ 950    |         | \$ 5,239  |
| <b>Other invested assets</b>   | 53       | 5         |         | 58        |

|                                  |              |             |              |
|----------------------------------|--------------|-------------|--------------|
| <b>Receivables</b>               |              | <b>\$ 1</b> | <b>1</b>     |
| <b>Life settlement contracts</b> |              | <b>67</b>   | <b>67</b>    |
| <b>Payable to brokers</b>        | <b>(657)</b> |             | <b>(657)</b> |

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| December 31, 2015   | Level 1  | Level 2   | Level 3 | Total     |
|---|----------|-----------|---------|-----------|
| (In millions)   |          |           |         |           |
| <b>Fixed maturity securities:</b>                                 |          |           |         |           |
| Corporate and other bonds   |          | \$ 17,601 | \$ 168  | \$ 17,769 |
| States, municipalities and political subdivisions                 |          | 13,172    | 2       | 13,174    |
| <b>Asset-backed:</b>  |          |           |         |           |
| Residential mortgage-backed                                       |          | 4,938     | 134     | 5,072     |
| Commercial mortgage-backed  |          | 2,175     | 22      | 2,197     |
| Other asset-backed  |          | 868       | 53      | 921       |
| Total asset-backed  |          | 7,981     | 209     | 8,190     |
| U.S. Treasury and obligations of government-sponsored enterprises | \$ 66    | 1         |         | 67        |
| Foreign government  |          | 346       |         | 346       |
| Redeemable preferred stock  | 35       |           |         | 35        |
| Fixed maturities available-for-sale                               | 101      | 39,101    | 379     | 39,581    |
| Fixed maturities trading  |          | 35        | 85      | 120       |
| Total fixed maturities  | \$ 101   | \$ 39,136 | \$ 464  | \$ 39,701 |
| Equity securities available-for-sale                              | \$ 177   |           | \$ 20   | \$ 197    |
| Equity securities trading   | 554      |           | 1       | 555       |
| Total equity securities   | \$ 731   | \$ -      | \$ 21   | \$ 752    |
| Short term investments  | \$ 3,600 | \$ 1,134  |         | \$ 4,734  |
| Other invested assets   | 102      | 44        |         | 146       |
| Receivables   |          | 9         | \$ 3    | 12        |
| Life settlement contracts   |          |           | 74      | 74        |
| Payable to brokers  | (196)    |           |         | (196)     |

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The following tables 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 six months ended June 30, 2016 and 2015:

|  | Balance       | Net Income  | Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in |               |                |                | Transfers into Level 3 | Transfers out of Level 3 | Balance, June 30 | Unrealized Gains (Losses) Recognized in Net Income (Loss) on Level 3 Assets and Liabilities Held at June 30 |
|--|---------------|-------------|---|---------------|----------------|----------------|------------------------|--------------------------|------------------|---|
|  |               |             | April 1   | (Loss)        | OCI            | Purchases      |                        |                          |                  |   |
| <b>2016</b>  |               |             |   |               |                |                |                        |                          |                  |   |
| <b>(In millions)</b>                                     |               |             |   |               |                |                |                        |                          |                  |   |
| <b>Fixed maturity securities:</b>                        |               |             |   |               |                |                |                        |                          |                  |   |
| <b>Corporate and other bonds</b>                         |               |             |   |               |                |                |                        |                          |                  |   |
|  | \$ 193        | \$ 1        | \$ 3  | \$ 94         | \$ (20)        | \$ (7)         |                        | \$ (22)                  | \$ 242           |   |
| <b>States, municipalities and political subdivisions</b> |               |             |   |               |                |                |                        |                          |                  |   |
|  | 2             |             |   |               |                |                |                        |                          | 2                |   |
| <b>Asset-backed:</b>                                     |               |             |   |               |                |                |                        |                          |                  |   |
| <b>Residential mortgage-backed</b>                       |               |             |   |               |                |                |                        |                          |                  |   |
|  | 128           | 1           | (1)   | 10            |                | (4)            |                        |                          | 134              |   |
| <b>Commercial mortgage-backed</b>                        |               |             |   |               |                |                |                        |                          |                  |   |
|  | 27            |             |   |               |                | (9)            | \$ 3                   | (10)                     | 11               |   |
| <b>Other asset-backed</b>                                |               |             |   |               |                |                |                        |                          |                  |   |
|  | 50            |             | 2   | 35            | (25)           | (1)            |                        | (16)                     | 45               |   |
| <b>Total asset-backed</b>                                | <b>205</b>    | <b>1</b>    | <b>1</b>  | <b>45</b>     | <b>(25)</b>    | <b>(14)</b>    | <b>3</b>               | <b>(26)</b>              | <b>190</b>       | <b>\$ -</b>   |
| <b>Fixed maturities available-for-sale</b>               |               |             |   |               |                |                |                        |                          |                  |   |
|  | 400           | 2           | 4   | 139           | (45)           | (21)           | 3                      | (48)                     | 434              |   |
| <b>Fixed maturities trading</b>                          |               |             |   |               |                |                |                        |                          |                  |   |
|  | 3             | 4           |   |               | (1)            |                |                        |                          | 6                | 4   |
| <b>Total fixed maturities</b>                            | <b>\$ 403</b> | <b>\$ 6</b> | <b>\$ 4</b>   | <b>\$ 139</b> | <b>\$ (46)</b> | <b>\$ (21)</b> | <b>\$ 3</b>            | <b>\$ (48)</b>           | <b>\$ 440</b>    | <b>\$ 4</b>   |

|  |              |             |             |             |             |             |             |                |             |              |              |               |
|--|--------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|-------------|--------------|--------------|---------------|
| <b>Equity securities available-for-sale</b>  | <b>\$ 19</b> |             |             |             |             |             |             |                |             |              | <b>\$ 19</b> |               |
| <b>Equity securities trading</b>             | <b>-</b>     | <b>\$ 1</b> |             | <b>\$ 1</b> |             |             |             |                |             |              | <b>2</b>     | <b>\$ 1</b>   |
| <b>Total equity securities</b>               | <b>\$ 19</b> | <b>\$ 1</b> | <b>\$ -</b> | <b>\$ 1</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ -</b>    | <b>\$ -</b> | <b>\$ 21</b> |              | <b>\$ 1</b>   |
| <b>Life settlement contracts</b>             | <b>\$ 72</b> | <b>\$ 6</b> |             |             |             |             |             | <b>\$ (11)</b> |             | <b>\$ 67</b> |              | <b>\$ (3)</b> |
| <b>Derivative financial instruments, net</b> |              | <b>(2)</b>  |             |             |             |             |             | <b>\$ 3</b>    |             | <b>1</b>     |              | <b>(3)</b>    |

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|   | Balance<br>April 1 | Net Realized<br>Gains<br>(Losses) and Net Change<br>in<br>Unrealized<br>Gains<br>(Losses)<br>Included in |        |           | Sales   | Settlements | Transfers                       |                                      | Balance,<br>June 30 | Unrealized<br>Gains<br>(Losses)<br>Recognized in<br>Net Income<br>on Level<br>3 Assets<br>and<br>Liabilities<br>Held at<br>June 30 |
|---|--------------------|--|--------|-----------|---------|-------------|---------------------------------|--------------------------------------|---------------------|--|
|   |                    | Net Income   | OCI    | Purchases |         |             | Transfers<br>into<br>Level<br>3 | Transfers<br>out<br>of<br>Level<br>3 |                     |  |
| 2015  |                    |  |        |           |         |             |                                 |                                      |                     |  |
| (In millions)                                     |                    |  |        |           |         |             |                                 |                                      |                     |  |
| Fixed maturity securities:                        |                    |  |        |           |         |             |                                 |                                      |                     |  |
| Corporate and other bonds                         | \$ 186             | \$ (2)   | \$ (1) |           |         | \$ (7)      |                                 | \$ (35)                              | \$ 141              | \$ (3)   |
| States, municipalities and political subdivisions | 86                 |  |        |           |         | (1)         |                                 |                                      | 85                  |  |
| Asset-backed:                                     |                    |  |        |           |         |             |                                 |                                      |                     |  |
| Residential mortgage-backed                       | 232                | 1  | (2)    |           |         | (11)        |                                 | (13)                                 | 207                 |  |
| Commercial mortgage-backed                        | 64                 | 1  | (1)    | \$ 9      |         | (1)         | \$ 17                           | (2)                                  | 87                  |  |
| Other asset-backed                                | 553                | 2  | 1      | 47        | \$ (90) | (17)        |                                 | (6)                                  | 490                 |  |
| Total asset-backed                                | 849                | 4  | (2)    | 56        | (90)    | (29)        | 17                              | (21)                                 | 784                 | -  |
| Fixed maturities available-for-sale               | 1,121              | 2  | (3)    | 56        | (90)    | (37)        | 17                              | (56)                                 | 1,010               | (3)  |
| Fixed maturities trading                          | 89                 |  |        |           |         |             |                                 |                                      | 89                  |  |
| Total fixed maturities                            | \$ 1,210           | \$ 2   | \$ (3) | \$ 56     | \$ (90) | \$ (37)     | \$ 17                           | \$ (56)                              | \$ 1,099            | \$ (3)   |
| Equity securities available-for-sale              | \$ 13              |  | \$ 3   |           |         |             |                                 |                                      | \$ 16               |  |
| Equity securities trading                         | 1                  |  |        |           |         |             |                                 |                                      | 1                   |  |
| Total equity securities                           | \$ 14              | \$ -   | \$ 3   | \$ -      | \$ -    | \$ -        | \$ -                            | \$ -                                 | \$ 17               | \$ -   |
| Life settlement contracts                         | \$ 79              | \$ 4   |        |           |         | \$ (8)      |                                 |                                      | \$ 75               | \$ (2)   |





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|  | Included in   |             | Net         |               | Realized        |                | Gains       |                | Unrealized |               | Gains |  | Unrealized |  | Gains |  | Recognized |  | in |  | (Loss) on Level |  | 3 Assets and |  | Liabilities |  | Held at |  |  |  |  |  |  |  |  |  |  |  |  |  |
|--|---------------|-------------|-------------|---------------|-----------------|----------------|-------------|----------------|------------|---------------|-------|--|------------|--|-------|--|------------|--|----|--|-----------------|--|--------------|--|-------------|--|---------|--|--|--|--|--|--|--|--|--|--|--|--|--|
| 2016   | Balance       | Net Income  | OCI         | Purchases     | Sales           | Settlements    | Transfers   | Transfers      | Balance,   |               |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | January 1     | (Loss)      |             |               |                 |                | into        | out of         | June 30    |               |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |               |             |             |               |                 |                | Level       | Level          |            |               |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
| <b>Fixed maturity securities:</b>                        |               |             |             |               |                 |                |             |                |            |               |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
| <b>Corporate and other bonds</b>                         |               |             |             |               |                 |                |             |                |            |               |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | \$ 168        |             | \$ 7        | \$ 147        | \$ (36)         | \$ (10)        |             | \$ (34)        | \$         | 242           |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
| <b>States, municipalities and political subdivisions</b> |               |             |             |               |                 |                |             |                |            |               |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | 2             |             |             |               |                 |                |             |                |            | 2             |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
| <b>Asset-backed:</b>                                     |               |             |             |               |                 |                |             |                |            |               |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
| <b>Residential mortgage-backed</b>                       |               |             |             |               |                 |                |             |                |            |               |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | 134           | \$ 2        | (1)         | 10            |                 | (9)            |             | (2)            |            | 134           |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
| <b>Commercial mortgage-backed</b>                        |               |             |             |               |                 |                |             |                |            |               |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | 22            |             |             | 9             |                 | (9)            | \$ 3        | (14)           |            | 11            |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
| <b>Other asset-backed</b>                                |               |             |             |               |                 |                |             |                |            |               |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | 53            |             | 2           | 35            | (25)            | (1)            | 2           | (21)           |            | 45            |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
| <b>Total asset-backed</b>                                | <b>209</b>    | <b>2</b>    | <b>1</b>    | <b>54</b>     | <b>(25)</b>     | <b>(19)</b>    | <b>5</b>    | <b>(37)</b>    |            | <b>190</b>    |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
| <b>Fixed maturities available-for-sale</b>               |               |             |             |               |                 |                |             |                |            |               |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | 379           | 2           | 8           | 201           | (61)            | (29)           | 5           | (71)           |            | 434           |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
| <b>Fixed maturities trading</b>                          |               |             |             |               |                 |                |             |                |            |               |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | 85            | 5           |             | 2             | (86)            |                |             |                |            | 6             |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
| <b>Total fixed maturities</b>                            | <b>\$ 464</b> | <b>\$ 7</b> | <b>\$ 8</b> | <b>\$ 203</b> | <b>\$ (147)</b> | <b>\$ (29)</b> | <b>\$ 5</b> | <b>\$ (71)</b> |            | <b>\$ 440</b> |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
| <b>Equity securities available-for-sale</b>              |               |             |             |               |                 |                |             |                |            |               |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | \$ 20         |             | \$ (1)      |               |                 |                |             |                |            | \$ 19         |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | 1             | \$ 1        |             | \$ 1          | \$ (1)          |                |             |                |            | 2             |       |  |            |  |       |  |            |  |    |  |                 |  |              |  |             |  |         |  |  |  |  |  |  |  |  |  |  |  |  |  |

**Equity securities trading**

|                                |       |      |        |      |        |      |      |      |       |      |
|--------------------------------|-------|------|--------|------|--------|------|------|------|-------|------|
| <b>Total equity securities</b> | \$ 21 | \$ 1 | \$ (1) | \$ 1 | \$ (1) | \$ - | \$ - | \$ - | \$ 21 | \$ 1 |
|--------------------------------|-------|------|--------|------|--------|------|------|------|-------|------|

**Life settlement contracts**

|  |       |       |  |  |         |  |  |       |        |
|--|-------|-------|--|--|---------|--|--|-------|--------|
|  | \$ 74 | \$ 10 |  |  | \$ (17) |  |  | \$ 67 | \$ (3) |
|--|-------|-------|--|--|---------|--|--|-------|--------|

**Derivative financial instruments, net**

|  |   |     |  |        |      |  |  |   |     |
|--|---|-----|--|--------|------|--|--|---|-----|
|  | 3 | (3) |  | \$ (2) | \$ 3 |  |  | 1 | (3) |
|--|---|-----|--|--------|------|--|--|---|-----|

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|   | Net Realized Gains<br>(Losses) and Net Change<br>in Unrealized Gains<br>(Losses) |                           |        |                          |          |             |         | Transfers<br>into | Transfers<br>out of<br>Level<br>3 | Balance,<br>June 30 | Unrealized<br>Gains<br>(Losses)<br>Recognized in<br>Net<br>Income<br>on<br>Level<br>3 Assets<br>and<br>Liabilities<br>Held at<br>June 30 |
|---|--|---------------------------|--------|--------------------------|----------|-------------|---------|-------------------|-----------------------------------|---------------------|--|
| 2015  | Balance,<br>January 1  | Included in<br>Net Income | OCI    | Included in<br>Purchases | Sales    | Settlements | Level 3 |                   |                                   | June 30             | June 30  |
| (In millions)                                     |  |                           |        |                          |          |             |         |                   |                                   |                     |  |
| Fixed maturity securities:                        |  |                           |        |                          |          |             |         |                   |                                   |                     |  |
| Corporate and other bonds                         | \$ 162   | \$ (1)                    | \$ (1) | \$ 12                    | \$ (12)  | \$ (21)     | \$ 37   | \$ (35)           | \$ 141                            | \$ (3)              |  |
| States, municipalities and political subdivisions | 94   | 1                         |        |                          |          | (10)        |         |                   | 85                                |                     |  |
| Asset-backed:                                     |  |                           |        |                          |          |             |         |                   |                                   |                     |  |
| Residential mortgage-backed                       | 189  | 2                         | (2)    | 72                       |          | (21)        |         | (33)              | 207                               |                     |  |
| Commercial mortgage-backed                        | 83   | 2                         |        | 15                       |          | (2)         | 17      | (28)              | 87                                |                     |  |
| Other asset-backed                                | 655  | 3                         | 10     | 82                       | (234)    | (20)        |         | (6)               | 490                               |                     |  |
| Total asset-backed                                | 927  | 7                         | 8      | 169                      | (234)    | (43)        | 17      | (67)              | 784                               | -                   |  |
| Fixed maturities available-for-sale               | 1,183  | 7                         | 7      | 181                      | (246)    | (74)        | 54      | (102)             | 1,010                             | (3)                 |  |
| Fixed maturities trading                          | 90   |                           |        |                          | (1)      |             |         |                   | 89                                |                     |  |
| Total fixed maturities                            | \$ 1,273   | \$ 7                      | \$ 7   | \$ 181                   | \$ (247) | \$ (74)     | \$ 54   | \$ (102)          | \$ 1,099                          | \$ (3)              |  |
| Equity securities available-for-sale              | \$ 16  |                           |        |                          |          |             |         |                   | \$ 16                             |                     |  |
| Equity securities trading                         | 1  |                           |        |                          |          |             |         |                   | 1                                 |                     |  |

|                         |       |      |      |      |      |      |      |      |      |      |       |      |
|-------------------------|-------|------|------|------|------|------|------|------|------|------|-------|------|
| Total equity securities | \$ 17 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 17 | \$ - |
|-------------------------|-------|------|------|------|------|------|------|------|------|------|-------|------|

|                           |       |       |  |  |  |  |  |  |  |  |       |        |
|---------------------------|-------|-------|--|--|--|--|--|--|--|--|-------|--------|
| Life settlement contracts | \$ 82 | \$ 17 |  |  |  |  |  |  |  |  | \$ 75 | \$ (1) |
|---------------------------|-------|-------|--|--|--|--|--|--|--|--|-------|--------|

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

| Major Category of Assets and Liabilities                     | Consolidated Condensed Statements of 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) and Net investment income    |
| Derivative financial instruments held in a trading portfolio | Net investment income                                  |
| Derivative financial instruments, other                      | Investment gains (losses) and Other revenues           |
| Life settlement contracts                                    | Other revenues   |

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Securities may be transferred in or out of levels within the fair value hierarchy based on the availability of observable market information and quoted prices used to determine the fair value of the security. The availability of observable market information and quoted prices varies based on market conditions and trading volume. During the three and six months ended June 30, 2016 and 2015 there were no transfers between Level 1 and Level 2. The Company's policy is to recognize transfers between levels at the beginning of quarterly reporting periods.

**Valuation Methodologies and Inputs**

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

*Fixed Maturity Securities*

Level 1 securities include highly liquid and exchange traded bonds and redeemable preferred stock, valued using quoted market prices. Level 2 securities include most other fixed maturity securities as the significant inputs are observable in the marketplace. All classes of Level 2 fixed maturity securities are valued using a methodology based on information generated by market transactions involving identical or comparable assets, a discounted cash flow methodology or a combination of both when necessary. Common inputs for all classes of fixed maturity securities include prices from recently executed transactions of similar securities, marketplace quotes, benchmark yields, spreads off benchmark yields, interest rates and U.S. Treasury or swap curves. Specifically for asset-backed securities, key inputs include prepayment and default projections based on past performance of the underlying collateral and current market data. Fixed maturity securities are primarily assigned to Level 3 in cases where broker/dealer quotes are significant inputs to the valuation and there is a lack of transparency as to whether these quotes are based on information that is observable in the marketplace. Level 3 securities also include private placement debt securities whose fair value is determined using internal models with inputs that are not market observable.

*Equity Securities*

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

*Derivative Financial Instruments*

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

*Short Term Investments*

Securities that are actively traded or have quoted prices are classified as Level 1. These securities include money market funds and treasury bills. Level 2 primarily includes commercial paper, for which all inputs are market observable. Fixed maturity securities purchased within one year of maturity are valued consistent with fixed maturity

securities discussed above. Short term investments as presented in the tables above differ from the amounts presented in the Consolidated Condensed Balance Sheets because certain short term investments, such as time deposits, are not measured at fair value.

**Table of Contents***Other Invested Assets*

Level 1 securities include exchange traded open-end funds valued using quoted market prices.

*Life Settlement Contracts*

The fair values of life settlement contracts are determined as the present value of the anticipated death benefits less anticipated premium payments based on contract terms that are distinct for each insured, as well as CNA's own assumptions for mortality, premium expense, and the rate of return that a buyer would require on the contracts, as no comparable market pricing data is available.

**Significant Unobservable Inputs**

The following tables present quantitative information about the significant unobservable inputs utilized by the Company in the fair value measurement of Level 3 assets. Valuations for assets and liabilities not presented in the tables 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.

| June 30, 2016                    | Estimated     | Valuation<br>Techniques | Unobservable                                       | Range                   |
|----------------------------------|---------------|-------------------------|--|-------------------------|
|                                  | Fair<br>Value |                         | Inputs   | (Weighted<br>Average)   |
| (In millions)                    |               |                         |  |                         |
| <b>Fixed maturity securities</b> | \$ 226        | Discounted cash flow    | Credit spread                                      | 1% 40% (6%)             |
| <b>Life settlement contracts</b> | 67            | Discounted cash flow    | Discount rate risk premium<br>Mortality assumption | 9%<br>55% 1,676% (162%) |

December 31,  
2015

|                                  |        |                      |  |                         |
|----------------------------------|--------|----------------------|--|-------------------------|
| <b>Fixed maturity securities</b> | \$ 138 | Discounted cash flow | Credit spread                                      | 3% 184% (6%)            |
| <b>Life settlement contracts</b> | 74     | Discounted cash flow | Discount rate risk premium<br>Mortality assumption | 9%<br>55% 1,676% (164%) |

For fixed maturity securities, an increase to the credit spread assumptions would result in a lower 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.





**Table of Contents****Financial Assets and Liabilities Not Measured at Fair Value**

The carrying amount, estimated fair value and the level of the fair value hierarchy of the Company's financial assets and liabilities which are not measured at fair value on the Consolidated Condensed Balance Sheets are presented in the following tables. The carrying amounts and estimated fair values of short term debt and long term debt exclude capital lease obligations. 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.

| <b>June 30, 2016</b><br><b>(In millions)</b>    | <b>Carrying<br/>Amount</b> | <b>Estimated Fair Value</b> |                |                | <b>Total</b> |
|---|----------------------------|-----------------------------|----------------|----------------|--------------|
|   |                            | <b>Level 1</b>              | <b>Level 2</b> | <b>Level 3</b> |              |
| <b>Assets:</b>                                  |                            |                             |                |                |              |
| Other invested assets, primarily mortgage loans | \$ 610                     |                             |                | \$ 638         | \$ 638       |
| <b>Liabilities:</b>                             |                            |                             |                |                |              |
| Short term debt                                 | 329                        |                             | \$ 327         | 2              | 329          |
| Long term debt                                  | 10,721                     |                             | 10,267         | 648            | 10,915       |

December 31, 2015

|   |        |  |          |        |        |
|---|--------|--|----------|--------|--------|
| <b>Assets:</b>                                  |        |  |          |        |        |
| Other invested assets, primarily mortgage loans | \$ 678 |  |          | \$ 688 | \$ 688 |
| <b>Liabilities:</b>                             |        |  |          |        |        |
| Short term debt                                 | 1,038  |  | \$ 1,050 | 2      | 1,052  |
| Long term debt                                  | 9,507  |  | 8,538    | 595    | 9,133  |

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

The fair value of mortgage loans, included in Other invested assets, was based on the present value of the expected future cash flows discounted at the current interest rate for similar financial instruments, adjusted for specific loan risk.

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

**4. Property, Plant and Equipment****Diamond Offshore***Sale of Assets*

In February of 2016, Diamond Offshore entered into a ten-year agreement with a subsidiary of GE Oil & Gas ( GE ) to provide services with respect to certain blowout preventer and related well control equipment on four newly-built drillships. Such services include management of maintenance, certification and reliability with respect to such equipment. In connection with the contractual services agreement with GE, Diamond Offshore will sell the well control equipment to a GE affiliate and subsequently lease back such equipment pursuant to separate ten-year operating leases. During the six months ended June 30, 2016, Diamond Offshore executed three sale and leaseback transactions and received \$158 million in proceeds, which was less than the carrying value of the equipment. The

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resulting difference was recorded as prepaid rent with no gain or loss recognized on the transactions, and will be amortized over the terms of the operating leases. Future commitments under the operating leases and contractual services agreements are estimated to aggregate approximately \$491 million over the term of the agreements. Diamond Offshore expects to complete the remaining sale and leaseback transaction in the third quarter of 2016.

*Asset Impairments*

During the second quarter of 2016, in response to the continuing decline in industry-wide utilization for semisubmersible rigs, further exacerbated by additional and more frequent contract cancellations by customers, declining dayrates, as well as the results of a third-party strategic review of Diamond Offshore's long-term business plan completed in the second quarter of 2016, Diamond Offshore reassessed its projections for a recovery in the offshore drilling market. As a result, Diamond Offshore concluded that an expected market recovery is now likely further in the future than had previously been estimated. Consequently, Diamond Offshore believes its cold-stacked rigs, as well as those rigs expected to be cold-stacked in the near term after they come off contract, will likely remain cold-stacked for an extended period of time. Diamond Offshore also believes that the re-entry costs for these rigs will be higher than previously estimated, negatively impacting the undiscounted, projected probability-weighted cash flow projections utilized in its impairment analysis. In addition, in response to the declining market, Diamond Offshore also reduced anticipated market pricing and expected utilization of these rigs after reactivation. In the second quarter of 2016, Diamond Offshore evaluated 15 of its drilling rigs with indications that their carrying amounts may not be recoverable. Based on updated assumptions and analyses, Diamond Offshore determined that the carrying values of eight of these rigs, consisting of three ultra-deepwater, three deepwater and two mid-water semisubmersible rigs, were impaired.

Diamond Offshore estimated the fair value of the eight impaired rigs using an income approach. The fair value of each rig was estimated based on a calculation of the rig's discounted future net cash flows over its remaining economic life, which utilized significant unobservable inputs, including, but not limited to, assumptions related to estimated dayrate revenue, rig utilization, estimated reactivation and regulatory survey costs, as well as estimated proceeds that may be received on ultimate disposition of the rig. The fair value estimates were representative of Level 3 fair value measurements due to the significant level of estimation involved and the lack of transparency as to the inputs used. During the second quarter of 2016, Diamond Offshore recognized an impairment loss of \$672 million (\$263 million after tax and noncontrolling interests).

As of June 30, 2016, there were seven rigs in Diamond Offshore's drilling fleet for which there were no indications that their carrying amounts may not be recoverable and, thus, were not evaluated for impairment at this time. If market fundamentals in the offshore oil and gas industry deteriorate further, Diamond Offshore may be required to recognize additional impairment losses in future periods.

During the first quarter of 2015, Diamond Offshore evaluated 17 of its drilling rigs with indications that their carrying amounts may not be recoverable. Based on this evaluation, Diamond Offshore determined that seven mid-water semisubmersibles as well as an older drillship were impaired and an impairment loss was recognized aggregating \$359 million (\$158 million after tax and noncontrolling interests) for the six months ended June 30, 2015.

See Note 6 of the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for further discussion of Diamond Offshore's 2015 asset impairments.

**Table of Contents****5. Claim and Claim Adjustment Expense Reserves**

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

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

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in CNA's results of operations and/or equity. CNA reported catastrophe losses, net of reinsurance, of \$85 million and \$60 million for the three months ended June 30, 2016 and 2015 and \$121 million and \$89 million for the six months ended June 30, 2016 and 2015. Catastrophe losses in 2016 resulted primarily from U.S. weather-related events and the Fort McMurray wildfires.

**Net Prior Year Development**

The following tables and discussion present net prior year development.

| <b>Three Months Ended June 30, 2016</b>   | <b>Specialty</b> | <b>Commercial</b> | <b>International</b> | <b>Total</b>    |
|---|------------------|-------------------|----------------------|-----------------|
| <b>(In millions)</b>  |                  |                   |                      |                 |
| <b>Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development</b> | <b>\$ (65)</b>   | <b>\$ (18)</b>    | <b>\$ (15)</b>       | <b>\$ (98)</b>  |
| <b>Pretax (favorable) unfavorable premium development</b>   | <b>(7)</b>       | <b>(2)</b>        | <b>1</b>             | <b>(8)</b>      |
| <b>Total pretax (favorable) unfavorable net prior year development</b>  | <b>\$ (72)</b>   | <b>\$ (20)</b>    | <b>\$ (14)</b>       | <b>\$ (106)</b> |

Three Months Ended June 30, 2015

|  |         |       |         |         |
|--|---------|-------|---------|---------|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$ (13) | \$ 16 | \$ (8)  | \$ (5)  |
| Pretax (favorable) unfavorable premium development   | (2)     | (11)  | (2)     | (15)    |
| Total pretax (favorable) unfavorable net prior year development  | \$ (15) | \$ 5  | \$ (10) | \$ (20) |

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**Six Months Ended June 30, 2016** Specialty Commercial International Total

**(In millions)**

|   |                 |                |                |                 |
|---|-----------------|----------------|----------------|-----------------|
| <b>Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development</b> | <b>\$ (99)</b>  | <b>\$ (32)</b> | <b>\$ (19)</b> | <b>\$ (150)</b> |
| <b>Pretax (favorable) unfavorable premium development</b>   | <b>(18)</b>     | <b>(4)</b>     |                | <b>(22)</b>     |
| <b>Total pretax (favorable) unfavorable net prior year development</b>  | <b>\$ (117)</b> | <b>\$ (36)</b> | <b>\$ (19)</b> | <b>\$ (172)</b> |

Six Months Ended June 30, 2015

|  |         |        |         |         |
|--|---------|--------|---------|---------|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$ (11) | \$ 11  | \$ (12) | \$ (12) |
| Pretax (favorable) unfavorable premium development   | (8)     | (12)   | 14      | (6)     |
| Total pretax (favorable) unfavorable net prior year development  | \$ (19) | \$ (1) | \$ 2    | \$ (18) |

**Specialty**

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

|   | <b>Three Months Ended<br/>June 30,</b> |                | <b>Six Months Ended<br/>June 30,</b> |                |
|---|--|----------------|--------------------------------------|----------------|
|   | <b>2016</b>                            | <b>2015</b>    | <b>2016</b>                          | <b>2015</b>    |
| <b>(In millions)</b>                                  |  |                |                                      |                |
| Medical professional liability                        | \$ (23)                                | \$ (6)         | \$ (30)                              | \$ 8           |
| Other professional liability and management liability | (41)                                   | (1)            | (50)                                 | (4)            |
| Surety  |  |                |                                      | 1              |
| Warranty  | 3                                      | 1              | 5                                    | 1              |
| Other   | (4)                                    | (7)            | (24)                                 | (17)           |
|   | <b>\$ (65)</b>                         | <b>\$ (13)</b> | <b>\$ (99)</b>                       | <b>\$ (11)</b> |

Total pretax (favorable) unfavorable  
development

*Three Months*

**2016**

Favorable development in medical professional liability was due to lower than expected severity for individual healthcare professionals and allied facilities for accident years 2014 and prior.

Favorable development in other professional liability and management liability was primarily related to lower than expected frequency of claims in accident years 2010 through 2015, mainly driven by professional services. This was partially offset by unfavorable development in accident year 2015 related to an increase in management liability frequency of larger claims.

**2015**

Overall, favorable development in medical professional liability was primarily due to lower than expected severity for individual healthcare professionals and allied facilities in accident years 2009 through 2012. Unfavorable development was recorded related to increased claim frequency in the aging services business in accident years 2009 and 2010.

Favorable development of \$38 million was recorded in other professional liability and management liability related to lower than expected severity for professional services primarily in accident years 2010 and prior. Unfavorable development of \$37 million was recorded primarily related to increased claim frequency on public company management liability in accident years 2012 through 2014.

Favorable development for other coverages was primarily due to better than expected claim frequency in property coverages provided to Specialty customers in accident year 2014.

**Table of Contents*****Six Months*****2016**

Favorable development for medical professional liability was primarily due to lower than expected severities for individual healthcare professionals, allied facilities, and hospitals in accident years 2011 and prior. This was partially offset by unfavorable development in accident years 2012 and 2013 related to higher than expected large loss emergence in hospitals and higher than expected severity in accident years 2014 and 2015 in the aging services business.

Favorable development in other professional liability and management liability was primarily related to lower than expected frequency of claims in accident years 2010 through 2015, mainly driven by professional services. Additional favorable development was related to favorable outcomes on larger claims in 2013 and prior in professional services. This was partially offset by unfavorable development in accident years 2014 and 2015 related to an increase in management liability frequency of larger claims.

Favorable development for other coverages was due to better than expected claim frequency in property coverages provided to Specialty customers in accident year 2015.

**2015**

Overall, unfavorable development for medical professional liability was primarily related to increased claim frequency in the aging services business for accident years 2009 through 2014, partially offset by lower than expected severity in accident years 2010 and prior. Additional favorable development was due to lower than expected severity for individual healthcare professionals and allied facilities in accident years 2009 through 2012.

Favorable development of \$41 million was recorded in other professional liability and management liability primarily related to lower than expected severity in accident years 2010 and prior for professional services. Unfavorable development of \$37 million was recorded primarily related to increased claim frequency on public company management liability in accident years 2012 through 2014.

Favorable development for other coverages was primarily due to better than expected claim frequency in property coverages provided to Specialty customers in accident year 2014.

**Commercial**

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

|                      | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|----------------------|--|-------------|--------------------------------------|-------------|
|                      | <b>2016</b>                            | <b>2015</b> | <b>2016</b>                          | <b>2015</b> |
| <b>(In millions)</b> |  |             |                                      |             |
| Commercial auto      | \$ (20)                                | \$ 7        | \$ (35)                              | \$ 7        |



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|  |         |       |         |       |
|--|---------|-------|---------|-------|
| General liability                                | (37)    | 1     | (52)    | 5     |
| Workers compensation                             | 50      | 24    | 54      | 23    |
| Property and other                               | (11)    | (16)  | 1       | (24)  |
| Total pretax (favorable) unfavorable development | \$ (18) | \$ 16 | \$ (32) | \$ 11 |

*Three Months*

**2016**

Favorable development for commercial auto was primarily due to favorable settlements on claims in accident years 2010 through 2014.

Favorable development for general liability was primarily due to better than expected claim settlements in accident years 2012 through 2014 and better than expected severity on umbrella claims in accident years 2010 through 2013.

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Unfavorable development for workers compensation was due to a reduction in estimated recoveries on war hazard claims for Defense Base Act contractors, which was partially offset by favorable development related to lower than expected frequencies for the small and middle market businesses in accident years 2009 through 2014.

Favorable development for property and other was primarily due to better than expected loss emergence in accident years 2013 through 2015.

### **2015**

In the aggregate, the unfavorable loss development of \$16 million was driven by an extra contractual obligation loss and losses associated with premium development. The reserve development discussed below was largely offsetting.

Unfavorable development for workers compensation was primarily due to higher than expected severity related to Defense Base Act contractors in accident years 2008 through 2013.

Favorable development for property and other was primarily due to better than expected loss emergence from 2012 catastrophe events and better than expected claim frequency of large claims in accident year 2014.

### ***Six Months***

#### **2016**

Favorable development for commercial auto was primarily due to favorable settlements on claims in accident years 2010 through 2014.

Favorable development for general liability was primarily due to better than expected claim settlements in accident years 2012 through 2014 and better than expected severity on umbrella claims in accident years 2010 through 2013.

Unfavorable development for workers compensation was due to a reduction in estimated recoveries on war hazard claims for Defense Base Act contractors, which was partially offset by favorable development related to lower than expected frequencies for the small and middle market businesses in accident years 2009 through 2014.

Unfavorable development for property and other was primarily due to higher than expected severity from a 2015 catastrophe event. Favorable development was primarily due to better than expected loss emergence in accident years 2013 through 2015.

#### **2015**

In addition to the favorable property development noted in the three month discussion, there was additional favorable development for property related to better than expected loss emergence from 2014 catastrophe events.

### **International**

The following table and discussion present further detail of the development recorded for the International segment:

|  | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |         |
|--|--------------------------------|--------|------------------------------|---------|
|  | 2016                           | 2015   | 2016                         | 2015    |
| <b>(In millions)</b>                             |                                |        |                              |         |
| Medical professional liability                   | \$ (1)                         |        | \$ (1)                       |         |
| Other professional liability                     | 18                             | \$ (5) | 17                           | \$ (5)  |
| Liability  | (19)                           | (2)    | (19)                         | (7)     |
| Property & marine                                | (3)                            | (8)    | (7)                          | (14)    |
| Other  | (10)                           | 7      | (9)                          | 14      |
| Total pretax (favorable) unfavorable development | \$ (15)                        | \$ (8) | \$ (19)                      | \$ (12) |

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***Three Months***

**2016**

Unfavorable development for other professional liability was primarily due to higher than expected large loss emergence in accident years 2011 through 2015.

Favorable development for liability was primarily due to better than expected severity in accident years 2013 and prior.

Favorable development for other coverages was primarily due to better than expected severity in auto liability in accident years 2011 through 2015.

**2015**

Favorable development in property and marine was due to better than expected emergence in accident years 2012 through 2014.

Unfavorable development in other is due to large losses in financial institutions and political risk primarily in accident year 2014.

***Six Months***

**2016**

Unfavorable development for other professional liability was primarily due to higher than expected large loss emergence in accident years 2011 through 2015.

Favorable development for liability was primarily due to better than expected severity in accident years 2013 and prior.

Favorable development for other coverages was primarily due to better than expected severity in auto liability in accident years 2011 through 2015.

**2015**

Favorable development in property and marine was due to better than expected emergence in accident years 2012 through 2014.

Unfavorable development in other is due to large losses in financial institutions and political risk primarily in accident year 2014.

**Asbestos and Environmental Pollution ( A&EP ) Reserves**

In 2010, Continental Casualty Company ( CCC ) together with several of CNA 's insurance subsidiaries completed a transaction with National Indemnity Company ( NICO ), a subsidiary of Berkshire Hathaway Inc., under which substantially all of CNA 's legacy A&EP liabilities were ceded to NICO through a loss portfolio transfer (loss portfolio transfer or LPT ). At the effective date of the transaction, CNA ceded approximately \$1.6 billion of net A&EP claim

and allocated claim adjustment expense reserves to NICO under a retroactive reinsurance agreement with an aggregate limit of \$4.0 billion. The \$1.6 billion of claim and allocated claim adjustment expense reserves ceded to NICO was net of \$1.2 billion of ceded claim and allocated claim adjustment expense reserves under existing third party reinsurance contracts. The NICO LPT aggregate reinsurance limit also covers credit risk on the existing third party reinsurance related to these liabilities. CNA paid NICO a reinsurance premium of \$2.0 billion and transferred to NICO billed third party reinsurance receivables related to A&EP claims with a net book value of \$215 million, resulting in total consideration of \$2.2 billion.

Through December 31, 2013, CNA recognized \$0.9 billion of additional amounts ceded under the LPT. As a result, the cumulative amounts ceded under the LPT exceeded the \$2.2 billion consideration paid, resulting in the NICO LPT moving into a gain position, requiring deferred retroactive reinsurance accounting treatment. This deferred gain is recognized in earnings in proportion to actual paid recoveries under the LPT. Over the life of the contract, there is no economic impact as long as any additional losses incurred are within the limit of the LPT. In a

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period in which a change in the estimate of ceded incurred losses is recognized, the change to the deferred gain is cumulatively recognized in earnings as if the revised estimate was available at the effective date of the LPT.

The following table presents the impact of the loss portfolio transfer on the Consolidated Condensed Statements of Income.

|  | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |        |
|--|--------------------------------|--------|------------------------------|--------|
|  | 2016                           | 2015   | 2016                         | 2015   |
| <b>(In millions)</b>   |                                |        |                              |        |
| Net A&EP adverse development before consideration of LPT               | \$ -                           | \$ 150 | \$ 200                       | \$ 150 |
| Provision for uncollectible third party reinsurance on A&EP            |                                |        |                              |        |
| Additional amounts ceded under LPT                                     | -                              | 150    | 200                          | 150    |
| Retroactive reinsurance benefit recognized                             | \$ (9)                         | (66)   | (82)                         | (71)   |
| Pretax impact of unrecognized deferred retroactive reinsurance benefit | \$ (9)                         | \$ 84  | \$ 118                       | \$ 79  |

CNA completed its reserve review of A&EP reserves in the first quarter of 2016. Based upon CNA's review, net unfavorable development prior to cessions to the LPT of \$200 million was recognized. The unfavorable development was driven by an increase in anticipated future expenses associated with determination of coverage, higher anticipated payouts associated with a limited number of historical accounts having significant asbestos exposures and higher than expected severity on pollution claims. This unfavorable development was ceded to NICO under the LPT, however CNA's reported earnings were negatively affected due to the application of retroactive reinsurance accounting, as only a portion of the additional amounts ceded under the LPT were recognized that quarter. All amounts recognized related to the LPT are recorded within Insurance claims and policyholders' benefits in the Consolidated Condensed Statement of Income.

As of June 30, 2016 and December 31, 2015, the cumulative amounts ceded under the LPT were \$2.8 billion and \$2.6 billion. The unrecognized deferred retroactive reinsurance benefit was \$359 million and \$241 million as of June 30, 2016 and December 31, 2015.

NICO established a collateral trust account as security for its obligations to CNA. The fair value of the collateral trust account was \$2.6 billion and \$2.8 billion as of June 30, 2016 and December 31, 2015. In addition, Berkshire Hathaway Inc. guaranteed the payment obligations of NICO up to the full aggregate reinsurance limit as well as certain of NICO's performance obligations under the trust agreement. NICO is responsible for claims handling and billing and collection from third-party reinsurers related to CNA's A&EP claims.



**Table of Contents****6. Income Taxes**

The components of U.S. and foreign income before income tax and a reconciliation between the federal income tax expense at statutory rates and the actual income tax expense is as follows:

|   | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |        |
|---|--------------------------------|--------|------------------------------|--------|
|   | 2016                           | 2015   | 2016                         | 2015   |
| <b>(In millions)</b>  |                                |        |                              |        |
| Income (loss) before income tax:  |                                |        |                              |        |
| U.S.  | \$ (142)                       | \$ 129 | \$ (103)                     | \$ 266 |
| Foreign   | (134)                          | 166    | 22                           | 134    |
| Total   | \$ (276)                       | \$ 295 | \$ (81)                      | \$ 400 |
| Income tax expense (benefit) at statutory rate  |                                |        |                              |        |
|   | \$ (97)                        | \$ 103 | \$ (28)                      | \$ 140 |
| Increase (decrease) in income tax expense resulting from:   |                                |        |                              |        |
| Exempt investment income  | (33)                           | (29)   | (64)                         | (58)   |
| Foreign related tax differential  | 63                             | (32)   | 23                           | (5)    |
| Valuation allowance   | 77                             |        | 77                           |        |
| Amortization of deferred charges associated with<br>intercompany rig sales to other tax jurisdictions |                                | 4      |                              | 41     |
| Taxes related to domestic affiliate   | (2)                            | 4      | 1                            | (6)    |
| Partnership earnings not subject to taxes   | (11)                           | (7)    | (28)                         | (20)   |
| Unrecognized tax benefit  | 5                              | 2      | 10                           | 5      |
| Other   | 10                             | 3      | 17                           | 7      |
| Income tax expense  | \$ 12                          | \$ 48  | \$ 8                         | \$ 104 |

The effective tax rate is impacted by the change in the relative components of earnings or losses generated in foreign tax jurisdictions with lower tax rates.

In the second quarter of 2016, a valuation allowance of \$77 million was established for the future tax benefit of foreign tax credits in the U.S. which Diamond Offshore no longer expects to be able to realize prior to their expiration.

**7. Debt****CNA Financial**

In the first quarter of 2016, CNA completed a public offering of \$500 million aggregate principal amount of 4.5% senior notes due March 1, 2026 and used the net proceeds to repay the entire \$350 million outstanding principal amount of its 6.5% senior notes due August 15, 2016.



### **Diamond Offshore**

In the first quarter of 2016, Diamond Offshore cancelled its commercial paper program and repaid the \$287 million in commercial paper outstanding at December 31, 2015 with proceeds from Eurodollar loans under its revolving credit agreement. As of June 30, 2016, there was \$327 million outstanding under the revolving credit agreement.

### **Boardwalk Pipeline**

In May of 2016, Boardwalk Pipeline completed a public offering of \$550 million aggregate principal amount of 6.0% senior notes due June 1, 2026 and used the proceeds to reduce borrowings under its revolving credit facility.

### **Loews**

In March of 2016, the Company completed a public offering of \$500 million aggregate principal amount of 3.8% senior notes due April 1, 2026 and repaid in full the entire \$400 million aggregate principal amount of its 5.3% senior notes at maturity.

**Table of Contents****8. Shareholders' Equity****Accumulated other comprehensive income (loss)**

The tables below display the changes in Accumulated other comprehensive income ( AOCI ) by component for the three and six months ended June 30, 2015 and 2016:

|   | OTTI     |                |           |           | Foreign     | Total      |
|---|----------|----------------|-----------|-----------|-------------|------------|
|   | Gains    | Unrealized     | Cash Flow | Pension   | Currency    | Accumulat  |
|   | (Losses) | Gains (Losses) | Hedges    | Liability | Translation | Other      |
|   |          | on Investments |           |           |             | Comprehens |
|   |          |                |           |           |             | Income     |
| (in   |          |                |           |           |             | (Loss)     |
| millions)   |          |                |           |           |             |            |
| Balance, April 1, 2015  | \$ 31    | \$ 944         | \$ (3)    | \$ (636)  | \$ (38)     | \$ 298     |
| Changes during the period   |          |                |           |           |             |            |
| Other comprehensive income (loss) before reclassifications, net of tax of \$2, \$5, \$0, \$(18)           | (4)      | (370)          |           | 37        | 49          | (288)      |
| Classification changes from accumulated other comprehensive income, after tax of \$0, \$(5), \$0, and \$0 |          | 7              | 1         | 6         |             | 14         |
| Other comprehensive income (loss) attributable to controlling interests                                   | (4)      | (363)          | 1         | 43        | 49          | (274)      |
| Balance, June 30, 2015  | \$ 28    | \$ 619         | \$ (3)    | \$ (598)  | \$ 7        | \$ 53      |

|  |       |        |        |          |          |          |
|--|-------|--------|--------|----------|----------|----------|
| Balance, April 1, 2016   | \$ 29 | \$ 554 | \$ (2) | \$ (643) | \$ (64)  | \$ (126) |
| Other comprehensive income (loss) before reclassifications, net of tax of \$1,544, \$0, \$0                | (1)   | 322    |        |          | (48)     | 273      |
| Classification (gains) losses on accumulated other comprehensive income, after tax of \$0, \$6, \$0, \$(4) |       | (1)    |        | 5        |          | 4        |
| Other comprehensive income (loss) attributable to controlling interests                                    | (1)   | 321    | -      | 5        | (48)     | 277      |
|  |       | (37)   |        | (1)      | 6        | (32)     |
| Balance, June 2016   | \$ 28 | \$ 838 | \$ (2) | \$ (639) | \$ (106) | \$ 119   |

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|   | OTTI     |                |           |           | Foreign     | Total      |
|---|----------|----------------|-----------|-----------|-------------|------------|
|   | Gains    | Unrealized     | Cash Flow | Pension   | Currency    | Accumulat  |
|   | (Losses) | Gains (Losses) | Hedges    | Liability | Translation | Other      |
|   |          | on Investments |           |           |             | Comprehens |
| (in millions)   |          |                |           |           |             | Income     |
|   |          |                |           |           |             | (Loss)     |
| Balance, January 1, 2015  | \$ 32    | \$ 846         | \$ (6)    | \$ (641)  | \$ 49       | \$ 280     |
| Change during period  |          |                |           |           |             |            |
| Comprehensive income (loss) before reclassifications, net of tax of \$2, \$4, \$1, \$(18) and \$0 | (5)      | (251)          | (2)       | 37        | (47)        | (268)      |
| Classification (gains) losses   |          |                |           |           |             |            |
| on accumulated comprehensive income, after tax of \$0, \$(5), \$(2), and \$0                      |          | (2)            | 6         | 10        |             | 14         |
| Change during period  | (5)      | (253)          | 4         | 47        | (47)        | (254)      |
| Balance of equity securities by subsidiary  |          |                |           | 1         |             | 1          |
| accounts attributable to controlling interests  | 1        | 26             | (1)       | (5)       | 5           | 26         |
| Balance, June 30, 2015  | \$ 28    | \$ 619         | \$ (3)    | \$ (598)  | \$ 7        | \$ 53      |
| Balance, January 1, 2016  | \$ 24    | \$ 347         | \$ (3)    | \$ (649)  | \$ (76)     | \$ (357)   |
| Change during period  | 2        | 539            |           |           | (34)        | 507        |
| Comprehensive income (loss)   |          |                |           |           |             |            |

|  |       |        |        |          |          |        |
|--|-------|--------|--------|----------|----------|--------|
| ore<br>assifications,<br>r tax of \$(1),<br>2), \$0, \$0<br>\$0  |       |        |        |          |          |        |
| lassification<br>osses from<br>mulated<br>er<br>prehensive<br>me, after tax<br>(1), \$(1), \$0,<br>and \$0 | 2     | 10     | 1      | 13       |          | 26     |
| er<br>prehensive<br>me (loss)  | 4     | 549    | 1      | 13       | (34)     | 533    |
| ounts<br>tributable to<br>controlling<br>rests   |       | (58)   |        | (3)      | 4        | (57)   |
| ance, June<br>2016   | \$ 28 | \$ 838 | \$ (2) | \$ (639) | \$ (106) | \$ 119 |

Amounts reclassified from AOCI shown above are reported in Net income (loss) as follows:

| Major Category of AOCI                   | Affected Line Item                            |
|--|---|
| OTTI gains (losses)                      | Investment gains (losses)                     |
| Unrealized gains (losses) on investments | Investment gains (losses)                     |
| Cash flow hedges                         | Other revenues and Contract drilling expenses |
| Pension liability                        | Other operating expenses                      |

**Table of Contents****Subsidiary Equity Transactions**

Loews purchased 0.3 million shares of CNA common stock at an aggregate cost of \$8 million during the six months ended June 30, 2016. The Company's percentage ownership interest in CNA remained unchanged as a result of these transactions, at 90%. The Company's purchase price of the shares was lower than the carrying value of its investment in CNA, resulting in an increase to Additional paid-in capital ( APIC ) of \$3 million.

**Treasury Stock**

The Company repurchased 2.6 million and 7.6 million shares of Loews common stock at aggregate costs of \$98 million and \$305 million during the six months ended June 30, 2016 and 2015.

**9. Benefit Plans**

The Company has several non-contributory defined benefit plans and postretirement benefit plans covering eligible employees and retirees.

The following table provides the components of net periodic benefit cost for the plans:

|                                       | <b>Pension Benefits</b>                |        |                                      |        |
|---------------------------------------|--|--------|--------------------------------------|--------|
|                                       | <b>Three Months Ended<br/>June 30,</b> |        | <b>Six Months Ended<br/>June 30,</b> |        |
|                                       | <b>2016</b>                            | 2015   | <b>2016</b>                          | 2015   |
| <b>(In millions)</b>                  |  |        |                                      |        |
| Service cost                          | \$ 2                                   | \$ 4   | \$ 4                                 | \$ 8   |
| Interest cost                         | 32                                     | 32     | 64                                   | 64     |
| Expected return on plan assets        | (44)                                   | (49)   | (88)                                 | (97)   |
| Amortization of unrecognized net loss | 12                                     | 12     | 23                                   | 23     |
| Settlement charge                     | 1                                      |        | 2                                    |        |
| Net periodic benefit cost             | \$ 3                                   | \$ (1) | \$ 5                                 | \$ (2) |

|                      | <b>Other Postretirement Benefits</b>   |      |                                      |      |
|----------------------|--|------|--------------------------------------|------|
|                      | <b>Three Months Ended<br/>June 30,</b> |      | <b>Six Months Ended<br/>June 30,</b> |      |
|                      | <b>2016</b>                            | 2015 | <b>2016</b>                          | 2015 |
| <b>(In millions)</b> |  |      |                                      |      |

|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Interest cost                                      |        |        | \$ 1   | \$ 1   |
| Expected return on plan assets                     | \$ (1) | \$ (1) | (2)    | (2)    |
| Amortization of unrecognized prior service benefit | (1)    | (3)    | (2)    | (5)    |
| Amortization of unrecognized net loss              |        | 1      |        | 1      |
| Net periodic benefit cost                          | \$ (2) | \$ (3) | \$ (3) | \$ (5) |

## 10. Business Segments

The Company's segments are CNA Financial's core property and casualty commercial insurance operations which include Specialty, Commercial and International; CNA's Other Non-Core operations; Diamond Offshore; Boardwalk Pipeline; Loews Hotels; and Corporate and other. The Company's reportable segments are primarily based on its individual operating subsidiaries. Each of the principal operating subsidiaries is 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. For additional disclosures regarding the composition of the Company's segments see Note 20 of the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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

|                        | Three Months Ended<br>June 30, |          | Six Months Ended June<br>30, |          |
|------------------------|--------------------------------|----------|------------------------------|----------|
|                        | 2016                           | 2015     | 2016                         | 2015     |
| <b>(In millions)</b>   |                                |          |                              |          |
| <b>Revenues (a):</b>   |                                |          |                              |          |
| CNA Financial:         |                                |          |                              |          |
| Property and Casualty: |                                |          |                              |          |
| Specialty              | \$ 928                         | \$ 904   | \$ 1,793                     | \$ 1,821 |
| Commercial             | 876                            | 883      | 1,678                        | 1,778    |
| International          | 214                            | 220      | 429                          | 426      |
| Other Non-Core         | 330                            | 320      | 651                          | 654      |
| Total CNA Financial    | 2,348                          | 2,327    | 4,551                        | 4,679    |
| Diamond Offshore       | 390                            | 632      | 861                          | 1,259    |
| Boardwalk Pipeline     | 308                            | 299      | 655                          | 629      |
| Loews Hotels           | 189                            | 167      | 352                          | 306      |
| Corporate and other    | 72                             | 10       | 61                           | 40       |
| Total                  | \$ 3,307                       | \$ 3,435 | \$ 6,480                     | \$ 6,913 |

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

|                        |          |        |         |        |
|------------------------|----------|--------|---------|--------|
| CNA Financial:         |          |        |         |        |
| Property and Casualty: |          |        |         |        |
| Specialty              | \$ 250   | \$ 206 | \$ 430  | \$ 413 |
| Commercial             | 146      | 122    | 241     | 308    |
| International          | (27)     | 35     | (17)    | 48     |
| Other Non-Core         | (79)     | (198)  | (306)   | (290)  |
| Total CNA Financial    | 290      | 165    | 348     | 479    |
| Diamond Offshore       | (657)    | 106    | (574)   | (181)  |
| Boardwalk Pipeline     | 65       | 38     | 164     | 115    |
| Loews Hotels           | 4        | 14     | 13      | 24     |
| Corporate and other    | 22       | (28)   | (32)    | (37)   |
| Total                  | \$ (276) | \$ 295 | \$ (81) | \$ 400 |



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

## CNA Financial:

## Property and Casualty:

|                     |         |        |        |        |
|---------------------|---------|--------|--------|--------|
| Specialty           | \$ 150  | \$ 124 | \$ 257 | \$ 247 |
| Commercial          | 86      | 72     | 142    | 182    |
| International       | (21)    | 19     | (13)   | 28     |
| Other Non-Core      | (26)    | (91)   | (137)  | (123)  |
| Total CNA Financial | 189     | 124    | 249    | 334    |
| Diamond Offshore    | (290)   | 45     | (247)  | (81)   |
| Boardwalk Pipeline  | 17      | 12     | 48     | 37     |
| Loews Hotels        | 1       | 8      | 4      | 13     |
| Corporate and other | 18      | (19)   | (17)   | (24)   |
| Total               | \$ (65) | \$ 170 | \$ 37  | \$ 279 |

**Table of Contents**

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

|   | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |      |
|---|--------------------------------|--------|------------------------------|------|
|   | 2016                           | 2015   | 2016                         | 2015 |
| <b>Revenues and Income (loss) before income tax and noncontrolling interests:</b> |                                |        |                              |      |
| CNA Financial:  |                                |        |                              |      |
| Property and Casualty:  |                                |        |                              |      |
| Specialty   | \$ 4                           |        | \$ (7)                       | \$ 4 |
| Commercial  | 8                              | \$ 2   | (10)                         | 6    |
| International   | 4                              | 1      | 8                            | 2    |
| Other Non-Core  | (3)                            | (5)    | (6)                          | (4)  |
| Total CNA Financial   | 13                             | (2)    | (15)                         | 8    |
| Corporate and other   | (12)                           |        | (12)                         |      |
| Total   | \$ 1                           | \$ (2) | \$ (27)                      | \$ 8 |

**Net income (loss):**

|                        |      |      |         |       |
|------------------------|------|------|---------|-------|
| CNA Financial:         |      |      |         |       |
| Property and Casualty: |      |      |         |       |
| Specialty              | \$ 3 | \$ 1 | \$ (4)  | \$ 3  |
| Commercial             | 4    |      | (6)     | 3     |
| International          | 3    |      | 6       | 1     |
| Other Non-Core         | (4)  | 2    | (7)     | 4     |
| Total CNA Financial    | 6    | 3    | (11)    | 11    |
| Corporate and other    | (4)  |      | (4)     |       |
| Total                  | \$ 2 | \$ 3 | \$ (15) | \$ 11 |

**11. Legal Proceedings**

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

**12. Commitments and Contingencies****CNA Financial**

In the course of selling business entities and assets to third parties, CNA agreed to guarantee the performance of certain obligations of a previously owned subsidiary and to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such guarantee and indemnification agreements in effect for sales of business entities, assets and third party loans may include provisions that survive indefinitely. As of June 30, 2016, the aggregate amount related to quantifiable guarantees was \$375 million and the aggregate amount related to indemnification agreements was \$259 million. Should CNA be required to make payments under the guarantee, it would have the right to seek reimbursement in certain cases from an affiliate of a previously owned subsidiary.

In addition, CNA 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 June 30, 2016, CNA 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. Certain provisions of the indemnification agreements survive indefinitely while others survive until the applicable statutes of limitation expire, or until the agreed upon contract terms expire.

CNA also provided guarantees, if the primary obligor fails to perform, to holders of structured settlement annuities provided by a previously owned subsidiary. As of June 30, 2016, the potential amount of future payments CNA could be required to pay under these guarantees was approximately \$2.0 billion, which will be paid over the lifetime of the annuitants. CNA does not believe any payment is likely under these guarantees, as CNA is the beneficiary of a trust that must be maintained at a level that approximates the discounted reserves for these annuities.

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**13. Consolidating Financial Information**

The following schedules present the Company's consolidating balance sheet information at June 30, 2016 and December 31, 2015, and consolidating statements of income information for the six months ended June 30, 2016 and 2015. These schedules present the individual subsidiaries of the Company and their contribution to the Consolidated Condensed Financial Statements. Amounts presented will not necessarily be the same as those in the individual financial statements of the Company's subsidiaries due to adjustments for purchase accounting, income taxes and noncontrolling interests. In addition, many of the Company's subsidiaries use a classified balance sheet which also leads to differences in amounts reported for certain line items.

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

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Loews Corporation

Consolidating Balance Sheet Information

| June 30, 2016  | CNA<br>Financial | Diamond<br>Offshore | Boardwalk<br>Pipeline | Loews<br>Hotels | Corporate<br>and Other | Eliminations       | Total            |
|--|------------------|---------------------|-----------------------|-----------------|------------------------|--------------------|------------------|
| <b>(In millions)</b>   |                  |                     |                       |                 |                        |                    |                  |
| <b>Assets:</b>   |                  |                     |                       |                 |                        |                    |                  |
| Investments  | \$ 46,549        | \$ 90               | \$ 150                | \$ 93           | \$ 5,477               |                    | \$ 52,359        |
| Cash   | 289              | 14                  | 13                    | 13              | 19                     |                    | 348              |
| Receivables  | 7,799            | 328                 | 74                    | 37              | 399                    | \$ (21)            | 8,616            |
| Property,<br>plant and<br>equipment                              | 269              | 5,849               | 7,865                 | 1,099           | 44                     |                    | 15,126           |
| Deferred<br>income taxes   | 314              |                     |                       | 3               | 58                     | (375)              | -                |
| Goodwill   | 111              |                     | 237                   |                 |                        |                    | 348              |
| Investments in<br>capital stocks<br>of subsidiaries              |                  |                     |                       |                 | 15,232                 | (15,232)           | -                |
| Other assets   | 930              | 225                 | 317                   | 272             | 7                      | 15                 | 1,766            |
| Deferred<br>acquisition<br>costs of<br>insurance<br>subsidiaries | 620              |                     |                       |                 |                        |                    | 620              |
| <b>Total assets</b>  | <b>\$ 56,881</b> | <b>\$ 6,506</b>     | <b>\$ 8,656</b>       | <b>\$ 1,517</b> | <b>\$ 21,236</b>       | <b>\$ (15,613)</b> | <b>\$ 79,183</b> |

**Liabilities and  
Equity:**

|                          |           |        |          |      |        |          |           |
|--------------------------|-----------|--------|----------|------|--------|----------|-----------|
| Insurance<br>reserves    | \$ 37,980 |        |          |      |        |          | \$ 37,980 |
| Payable to<br>brokers    | 448       |        |          |      | \$ 862 |          | 1,310     |
| Short term<br>debt       | 1         | \$ 327 |          | \$ 2 |        |          | 330       |
| Long term<br>debt        | 2,711     | 1,980  | \$ 3,626 | 644  | 1,774  |          | 10,735    |
| Deferred<br>income taxes | 2         | 115    | 799      | 48   |        | \$ (360) | 604       |

|                                     |                  |                 |                 |                 |                  |                    |                  |
|-------------------------------------|------------------|-----------------|-----------------|-----------------|------------------|--------------------|------------------|
| <b>Other liabilities</b>            | <b>3,878</b>     | <b>467</b>      | <b>509</b>      | <b>67</b>       | <b>293</b>       | <b>(21)</b>        | <b>5,193</b>     |
| <b>Total liabilities</b>            | <b>45,020</b>    | <b>2,889</b>    | <b>4,934</b>    | <b>761</b>      | <b>2,929</b>     | <b>(381)</b>       | <b>56,152</b>    |
| <b>Total shareholders equity</b>    | <b>10,638</b>    | <b>1,928</b>    | <b>1,550</b>    | <b>754</b>      | <b>18,307</b>    | <b>(15,232)</b>    | <b>17,945</b>    |
| <b>Noncontrolling interests</b>     | <b>1,223</b>     | <b>1,689</b>    | <b>2,172</b>    | <b>2</b>        |                  |                    | <b>5,086</b>     |
| <b>Total equity</b>                 | <b>11,861</b>    | <b>3,617</b>    | <b>3,722</b>    | <b>756</b>      | <b>18,307</b>    | <b>(15,232)</b>    | <b>23,031</b>    |
| <b>Total liabilities and equity</b> | <b>\$ 56,881</b> | <b>\$ 6,506</b> | <b>\$ 8,656</b> | <b>\$ 1,517</b> | <b>\$ 21,236</b> | <b>\$ (15,613)</b> | <b>\$ 79,183</b> |

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Loews Corporation

Consolidating Balance Sheet Information

| December 31,<br>2015 | CNA<br>Financial | Diamond<br>Offshore | Boardwalk<br>Pipeline | Loews<br>Hotels | Corporate<br>and Other | Eliminations | Total |
|----------------------|------------------|---------------------|-----------------------|-----------------|------------------------|--------------|-------|
|----------------------|------------------|---------------------|-----------------------|-----------------|------------------------|--------------|-------|

(In millions)

**Assets:**

|  |                  |                 |                 |                 |                  |                    |                  |
|--|------------------|-----------------|-----------------|-----------------|------------------|--------------------|------------------|
| Investments  | \$ 44,699        | \$ 117          |                 | \$ 81           | \$ 4,503         |                    | \$ 49,400        |
| Cash   | 387              | 13              | \$ 4            | 12              | 24               |                    | 440              |
| Receivables  | 7,384            | 409             | 93              | 35              | 96               | \$ 24              | 8,041            |
| Property, plant<br>and equipment                                 | 333              | 6,382           | 7,712           | 1,003           | 47               |                    | 15,477           |
| Deferred<br>income taxes   | 662              |                 |                 | 3               | 68               | (733)              | -                |
| Goodwill   | 114              |                 | 237             |                 |                  |                    | 351              |
| Investments in<br>capital stocks<br>of subsidiaries              |                  |                 |                 |                 | 15,129           | (15,129)           | -                |
| Other assets   | 848              | 233             | 319             | 282             |                  | 17                 | 1,699            |
| Deferred<br>acquisition<br>costs of<br>insurance<br>subsidiaries | 598              |                 |                 |                 |                  |                    | 598              |
| <b>Total assets</b>  | <b>\$ 55,025</b> | <b>\$ 7,154</b> | <b>\$ 8,365</b> | <b>\$ 1,416</b> | <b>\$ 19,867</b> | <b>\$ (15,821)</b> | <b>\$ 76,006</b> |

**Liabilities and  
Equity:**

|                          |           |        |          |      |        |          |           |
|--------------------------|-----------|--------|----------|------|--------|----------|-----------|
| Insurance<br>reserves    | \$ 36,486 |        |          |      |        |          | \$ 36,486 |
| Payable to<br>brokers    | 358       |        |          |      | \$ 209 |          | 567       |
| Short term<br>debt       | 351       | \$ 287 |          | \$ 2 | 400    |          | 1,040     |
| Long term<br>debt        | 2,213     | 1,980  | \$ 3,458 | 590  | 1,279  |          | 9,520     |
| Deferred<br>income taxes | 5         | 276    | 766      | 47   |        | \$ (712) | 382       |
|                          | 3,883     | 496    | 510      | 70   | 222    | 20       | 5,201     |



Other  
liabilities

|                                 |           |          |          |          |           |             |           |
|---------------------------------|-----------|----------|----------|----------|-----------|-------------|-----------|
| Total liabilities               | 43,296    | 3,039    | 4,734    | 709      | 2,110     | (692)       | 53,196    |
| Total<br>shareholders<br>equity | 10,516    | 2,195    | 1,517    | 705      | 17,757    | (15,129)    | 17,561    |
| Noncontrolling<br>interests     | 1,213     | 1,920    | 2,114    | 2        |           |             | 5,249     |
| Total equity                    | 11,729    | 4,115    | 3,631    | 707      | 17,757    | (15,129)    | 22,810    |
| Total liabilities<br>and equity | \$ 55,025 | \$ 7,154 | \$ 8,365 | \$ 1,416 | \$ 19,867 | \$ (15,821) | \$ 76,006 |

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Loews Corporation

Consolidating Statement of Income Information

| Six Months Ended June 30, 2016      | CNA Financial | Diamond Offshore | Boardwalk Pipeline | Loews Hotels | Corporate and Other | Eliminations | Total        |
|-------------------------------------|---------------|------------------|--------------------|--------------|---------------------|--------------|--------------|
| <b>(In millions)</b>                |               |                  |                    |              |                     |              |              |
| <b>Revenues:</b>                    |               |                  |                    |              |                     |              |              |
| Insurance premiums                  | \$ 3,429      |                  |                    |              |                     |              | \$ 3,429     |
| Net investment income               | 937           |                  |                    |              | \$ 72               |              | 1,009        |
| Intercompany interest and dividends |               |                  |                    |              | 632                 | \$ (632)     | -            |
| Investment losses                   | (15)          | \$ (12)          |                    |              |                     |              | (27)         |
| Contract drilling revenues          |               | 801              |                    |              |                     |              | 801          |
| Other revenues                      | 200           | 60               | \$ 655             | \$ 352       | 1                   |              | 1,268        |
| <b>Total</b>                        | <b>4,551</b>  | <b>849</b>       | <b>655</b>         | <b>352</b>   | <b>705</b>          | <b>(632)</b> | <b>6,480</b> |

**Expenses:**

|   |              |              |            |            |           |          |              |
|---|--------------|--------------|------------|------------|-----------|----------|--------------|
| Insurance claims and policyholders benefits | 2,747        |              |            |            |           |          | 2,747        |
| Amortization of deferred acquisition costs  | 612          |              |            |            |           |          | 612          |
| Contract drilling expenses                  |              | 411          |            |            |           |          | 411          |
| Other operating expenses                    | 756          | 974          | 403        | 328        | 57        |          | 2,518        |
| Interest                                    | 88           | 50           | 88         | 11         | 36        |          | 273          |
| <b>Total</b>                                | <b>4,203</b> | <b>1,435</b> | <b>491</b> | <b>339</b> | <b>93</b> | <b>-</b> | <b>6,561</b> |
| Income (loss) before income tax             | 348          | (586)        | 164        | 13         | 612       | (632)    | (81)         |
| Income tax (expense) benefit                | (71)         | 100          | (35)       | (9)        | 7         |          | (8)          |
| Net income (loss)                           | 277          | (486)        | 129        | 4          | 619       | (632)    | (89)         |
|   | (28)         | 235          | (81)       |            |           |          | 126          |

**Amounts attributable to  
noncontrolling interests**

|  |               |                 |              |             |               |                 |              |
|--|---------------|-----------------|--------------|-------------|---------------|-----------------|--------------|
| <b>Net income (loss)<br/>attributable to Loews<br/>Corporation</b> | <b>\$ 249</b> | <b>\$ (251)</b> | <b>\$ 48</b> | <b>\$ 4</b> | <b>\$ 619</b> | <b>\$ (632)</b> | <b>\$ 37</b> |
|--|---------------|-----------------|--------------|-------------|---------------|-----------------|--------------|

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Loews Corporation

Consolidating Statement of Income Information

| Six Months Ended June 30, 2015      | CNA Financial | Diamond Offshore | Boardwalk Pipeline | Loews Hotels | Corporate and Other | Eliminations | Total        |
|-------------------------------------|---------------|------------------|--------------------|--------------|---------------------|--------------|--------------|
| (In millions)                       |               |                  |                    |              |                     |              |              |
| <b>Revenues:</b>                    |               |                  |                    |              |                     |              |              |
| Insurance premiums                  | \$ 3,422      |                  |                    |              |                     |              | \$ 3,422     |
| Net investment income               | 1,058         | \$ 1             |                    |              | \$ 39               |              | 1,098        |
| Intercompany interest and dividends |               |                  |                    |              | 650                 | \$ (650)     | -            |
| Investment gains                    | 8             |                  |                    |              |                     |              | 8            |
| Contract drilling revenues          |               | 1,217            |                    |              |                     |              | 1,217        |
| Other revenues                      | 191           | 41               | \$ 629             | \$ 306       | 1                   |              | 1,168        |
| <b>Total</b>                        | <b>4,679</b>  | <b>1,259</b>     | <b>629</b>         | <b>306</b>   | <b>690</b>          | <b>(650)</b> | <b>6,913</b> |

**Expenses:**

|  |              |              |            |            |           |          |              |
|--|--------------|--------------|------------|------------|-----------|----------|--------------|
| Insurance claims and policyholders benefits      | 2,808        |              |            |            |           |          | 2,808        |
| Amortization of deferred acquisition costs       | 617          |              |            |            |           |          | 617          |
| Contract drilling expenses                       |              | 695          |            |            |           |          | 695          |
| Other operating expenses                         | 697          | 696          | 423        | 272        | 40        |          | 2,128        |
| Interest   | 78           | 49           | 91         | 10         | 37        |          | 265          |
| <b>Total</b>                                     | <b>4,200</b> | <b>1,440</b> | <b>514</b> | <b>282</b> | <b>77</b> | <b>-</b> | <b>6,513</b> |
| Income (loss) before income tax                  | 479          | (181)        | 115        | 24         | 613       | (650)    | 400          |
| Income tax (expense) benefit                     | (107)        | 22           | (21)       | (11)       | 13        |          | (104)        |
| Net income (loss)                                | 372          | (159)        | 94         | 13         | 626       | (650)    | 296          |
| Amounts attributable to noncontrolling interests | (38)         | 78           | (57)       |            |           |          | (17)         |
| Net income (loss) attributable to Loews          | \$ 334       | \$ (81)      | \$ 37      | \$ 13      | \$ 626    | \$ (650) | \$ 279       |

Corporation

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**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, 2015. This MD&A is comprised of the following sections:

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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 53% owned subsidiary);

transportation and storage of natural gas and natural gas liquids and gathering and processing of natural gas (Boardwalk Pipeline Partners, LP ( Boardwalk Pipeline ), a 51% owned subsidiary); and

operation of a chain 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, Parent Company, we, our, us or like terms refer to the business of Loews Corporation excluding its subsidiaries.

### **Consolidated Financial Results**

Net loss for the three months ended June 30, 2016 was \$65 million, or \$0.19 per share, compared to net income of \$170 million, or \$0.46 per share, in the prior year period. Net income for the six months ended June 30, 2016 was \$37 million, or \$0.11 per share, compared to \$279 million, or \$0.75 per share, in the prior year period.

Results include asset impairment charges at Diamond Offshore Drilling, Inc. of \$267 million (after tax and noncontrolling interests) for the three and six months ended June 30, 2016 and \$158 million (after tax and noncontrolling interests) for the six months ended June 30, 2015.

Book value per share excluding accumulated other comprehensive income (AOCI) increased to \$52.84 at June 30, 2016 from \$52.72 at December 31, 2015.

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### ***Three Months Ended June 30, 2016 Compared to 2015***

Results for the three months ended June 30, 2016 decreased \$235 million as compared to the prior year due to an asset impairment charge at Diamond Offshore partially offset by higher earnings at CNA and improved results from the parent company investment portfolio due to higher income from equity securities.

CNA's earnings increased due to the impact of a \$49 million charge (after tax and noncontrolling interests) in 2015 related to the 2010 retroactive reinsurance agreement to cede its legacy asbestos and environmental pollution liabilities (loss portfolio transfer or LPT). CNA's earnings also benefited from increased favorable net prior year development.

Diamond Offshore's earnings decreased due to an asset impairment charge of \$680 million (\$267 million after tax and noncontrolling interests) related to the carrying value of Diamond Offshore's drilling rigs. Absent this charge, Diamond Offshore's earnings declined due to a substantial reduction in the number of rigs operating as compared to the year ago period partially offset by lower depreciation expense resulting mainly from the asset impairment charges recorded in 2015.

Boardwalk Pipeline's earnings increased partially due to new rates in effect following the Gulf South rate case and proceeds received from a one-time legal settlement. Additionally, the Evangeline pipeline, which was placed into service in mid-2015, and new growth projects contributed to earnings.

Loews Hotels' earnings decreased due to an impairment charge related to a joint venture property.

### ***Six Months Ended June 30, 2016 Compared to 2015***

Net income for the six months ended June 30, 2016 decreased primarily due to lower earnings at CNA and Diamond Offshore partially offset by higher earnings at Boardwalk Pipeline and improved results from the parent company investment portfolio due to higher income from equity securities.

CNA's earnings decreased due to lower net investment income driven by limited partnership investment results, realized investment losses in 2016 as compared to gains in 2015 and a higher LPT charge in 2016 as compared to the prior year period. These items were partially offset by increased favorable net prior year development.

Diamond Offshore's earnings decreased due to increased asset impairment charges. Excluding these impairment charges, year-over-year earnings decreased as a result of a substantial reduction in the number of operating rigs partially offset by revenue earned by newbuild drillships and lower depreciation expense as a result of the asset impairment charges recorded in 2015.

The change in Boardwalk Pipeline's and Loews Hotels' results are primarily due to the reasons discussed above in the three month comparison.

## **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**

Certain accounting estimates require us to make judgments that affect the amounts reflected in the Consolidated Condensed Financial Statements. Such estimates and judgments necessarily involve varying, and possibly significant, degrees of uncertainty. Accordingly, certain amounts currently recorded in the financial statements will likely be adjusted in the future based on new available information and changes in other facts and circumstances. 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 Annual Report on Form 10-K for the year ended December 31, 2015 for further information.

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

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

**CNA Financial**

The following table summarizes the results of operations for CNA for the three and six months ended June 30, 2016 and 2015 as presented in Note 13 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report. For further discussion of Net investment income and Net realized investment results, see the Investments section of this MD&A.

|   | Three Months Ended |               | Six Months Ended |               |
|---|--------------------|---------------|------------------|---------------|
|   | June 30,           |               | June 30,         |               |
|   | 2016               | 2015          | 2016             | 2015          |
| <b>(In millions)</b>                                |                    |               |                  |               |
| <b>Revenues:</b>                                    |                    |               |                  |               |
| Insurance premiums                                  | \$ 1,730           | \$ 1,735      | \$ 3,429         | \$ 3,422      |
| Net investment income                               | 502                | 500           | 937              | 1,058         |
| Investment gains (losses)                           | 13                 | (2)           | (15)             | 8             |
| Other revenues                                      | 103                | 94            | 200              | 191           |
| <b>Total</b>  | <b>2,348</b>       | <b>2,327</b>  | <b>4,551</b>     | <b>4,679</b>  |
| <b>Expenses:</b>                                    |                    |               |                  |               |
| Insurance claims and policyholders benefits         | 1,339              | 1,469         | 2,747            | 2,808         |
| Amortization of deferred acquisition costs          | 305                | 314           | 612              | 617           |
| Other operating expenses                            | 376                | 340           | 756              | 697           |
| Interest  | 38                 | 39            | 88               | 78            |
| <b>Total</b>  | <b>2,058</b>       | <b>2,162</b>  | <b>4,203</b>     | <b>4,200</b>  |
| Income before income tax                            | 290                | 165           | 348              | 479           |
| Income tax expense                                  | (80)               | (27)          | (71)             | (107)         |
| <b>Net income</b>                                   | <b>210</b>         | <b>138</b>    | <b>277</b>       | <b>372</b>    |
| Amounts attributable to noncontrolling interests    | (21)               | (14)          | (28)             | (38)          |
| <b>Net income attributable to Loews Corporation</b> | <b>\$ 189</b>      | <b>\$ 124</b> | <b>\$ 249</b>    | <b>\$ 334</b> |

***Three Months Ended June 30, 2016 Compared to 2015***

Net income increased \$65 million for the three months ended June 30, 2016 as compared with the same period in 2015. Results in 2015 were negatively affected by a \$49 million (after tax and noncontrolling interests) charge related to the application of retroactive reinsurance accounting to adverse reserve development ceded under the 2010 asbestos and environmental pollution ( A&EP ) loss portfolio transfer, as further discussed in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1. In addition, the current year benefitted from improved underwriting results largely due to favorable net prior year development of \$106 million for the three months ended June 30, 2016 as compared to \$20 million in 2015 and improved results from the long term care business, partially offset by foreign currency exchange rate losses.

**Table of Contents*****Six Months Ended June 30, 2016 Compared to 2015***

Net income decreased \$85 million for the six months ended June 30, 2016 as compared with the same period in 2015. Net income in 2016 and 2015 was negatively affected by a \$74 million (after tax and noncontrolling interests) charge and a \$49 million (after tax and noncontrolling interests) charge related to the loss portfolio transfer. Net income also decreased due to lower net investment income, primarily due to lower limited partnership returns, and higher non-catastrophe current accident year losses. These decreases were partially offset by higher favorable net prior year development of \$172 million for the six months ended June 30, 2016 as compared to \$18 million in 2015 and improved results in the long term care business.

**CNA SEGMENT RESULTS**

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

CNA's three business segments: Specialty, Commercial and International, are aggregated and reported in CNA's core property and casualty insurance operations, CNA's Life & Group, Non-Core and Other operations are reported in Other Non-Core.

**CNA Property and Casualty Insurance Operations**

In evaluating the results of the property and casualty businesses, CNA utilizes the loss ratio, the expense ratio, the dividend ratio and the combined ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of insurance underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of policyholders' dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios. In addition, CNA also utilizes rate, retention and new business in evaluating operating trends. Rate represents the average change in price on policies that renew excluding exposure change. Retention represents the percentage of premium dollars renewed in comparison to the expiring premium dollars from policies available to renew. New business represents premiums from policies written with new customers and additional policies written with existing customers.

The following tables summarize the results of CNA's property and casualty operations for the three and six months ended June 30, 2016 and 2015:

| <b>Three Months Ended June 30, 2016</b> | <b>Specialty</b> | <b>Commercial</b> | <b>International</b> | <b>Total</b> |
|---|------------------|-------------------|----------------------|--------------|
|---|------------------|-------------------|----------------------|--------------|

(In millions, except %)

|                                      |               |               |               |                 |
|--------------------------------------|---------------|---------------|---------------|-----------------|
| <b>Net written premiums</b>          | <b>\$ 691</b> | <b>\$ 740</b> | <b>\$ 194</b> | <b>\$ 1,625</b> |
| <b>Net earned premiums</b>           | <b>702</b>    | <b>696</b>    | <b>197</b>    | <b>1,595</b>    |
| <b>Net investment income</b>         | <b>133</b>    | <b>164</b>    | <b>13</b>     | <b>310</b>      |
| <b>Net operating income (loss)</b>   | <b>147</b>    | <b>83</b>     | <b>(24)</b>   | <b>206</b>      |
| <b>Net realized investment gains</b> | <b>3</b>      | <b>3</b>      | <b>3</b>      | <b>9</b>        |

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|   |              |               |               |               |
|---|--------------|---------------|---------------|---------------|
| <b>Net income (loss)</b>                      | <b>150</b>   | <b>86</b>     | <b>(21)</b>   | <b>215</b>    |
| <b>Other performance metrics:</b>             |              |               |               |               |
| <b>Loss and loss adjustment expense ratio</b> | <b>53.9%</b> | <b>67.4%</b>  | <b>79.8%</b>  | <b>63.0%</b>  |
| <b>Expense ratio</b>                          | <b>31.3</b>  | <b>35.7</b>   | <b>38.8</b>   | <b>34.2</b>   |
| <b>Dividend ratio</b>                         | <b>0.2</b>   | <b>0.4</b>    |               | <b>0.2</b>    |
| <b>Combined ratio</b>                         | <b>85.4%</b> | <b>103.5%</b> | <b>118.6%</b> | <b>97.4%</b>  |
| <b>Rate</b>                                   | <b>1%</b>    | <b>0%</b>     | <b>(2)%</b>   | <b>0%</b>     |
| <b>Retention</b>                              | <b>86</b>    | <b>83</b>     | <b>70</b>     | <b>82</b>     |
| <b>New business (a)</b>                       | <b>\$ 61</b> | <b>\$ 146</b> | <b>\$ 62</b>  | <b>\$ 269</b> |

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| Three Months Ended June 30, 2015              | Specialty       | Commercial      | International | Total           |
|---|-----------------|-----------------|---------------|-----------------|
| (In millions, except %)                       |                 |                 |               |                 |
| Net written premiums                          | \$ 672          | \$ 717          | \$ 249        | \$ 1,638        |
| Net earned premiums                           | 689             | 703             | 207           | 1,599           |
| Net investment income                         | 134             | 169             | 13            | 316             |
| Net operating income                          | 123             | 72              | 19            | 214             |
| Net realized investment gains                 | 1               |                 |               | 1               |
| Net income                                    | 124             | 72              | 19            | 215             |
| <b>Other performance metrics:</b>             |                 |                 |               |                 |
| Loss and loss adjustment expense ratio        | 60.3%           | 72.1%           | 55.0%         | 64.8%           |
| Expense ratio                                 | 30.7            | 34.9            | 37.2          | 33.4            |
| Dividend ratio                                | 0.2             | 0.2             |               | 0.2             |
| <b>Combined ratio</b>                         | <b>91.2%</b>    | <b>107.2%</b>   | <b>92.2%</b>  | <b>98.4%</b>    |
| <b>Rate</b>                                   | <b>1%</b>       | <b>2%</b>       | <b>(2)%</b>   | <b>1%</b>       |
| <b>Retention</b>                              | <b>86</b>       | <b>79</b>       | <b>76</b>     | <b>81</b>       |
| <b>New business (a)</b>                       | <b>\$ 63</b>    | <b>\$ 149</b>   | <b>\$ 25</b>  | <b>\$ 237</b>   |
| <b>Six Months Ended June 30, 2016</b>         |                 |                 |               |                 |
| <b>Net written premiums</b>                   | <b>\$ 1,375</b> | <b>\$ 1,488</b> | <b>\$ 430</b> | <b>\$ 3,293</b> |
| <b>Net earned premiums</b>                    | <b>1,384</b>    | <b>1,384</b>    | <b>395</b>    | <b>3,163</b>    |
| <b>Net investment income</b>                  | <b>240</b>      | <b>290</b>      | <b>25</b>     | <b>555</b>      |
| <b>Net operating income (loss)</b>            | <b>261</b>      | <b>149</b>      | <b>(19)</b>   | <b>391</b>      |
| <b>Net realized investment gains (losses)</b> | <b>(4)</b>      | <b>(7)</b>      | <b>6</b>      | <b>(5)</b>      |
| <b>Net income (loss)</b>                      | <b>257</b>      | <b>142</b>      | <b>(13)</b>   | <b>386</b>      |
| <b>Other performance metrics:</b>             |                 |                 |               |                 |
| <b>Loss and loss adjustment expense ratio</b> | <b>55.5%</b>    | <b>65.8%</b>    | <b>70.5%</b>  | <b>61.9%</b>    |
| <b>Expense ratio</b>                          | <b>31.7</b>     | <b>36.5</b>     | <b>38.3</b>   | <b>34.7</b>     |
| <b>Dividend ratio</b>                         | <b>0.2</b>      | <b>0.4</b>      |               | <b>0.2</b>      |
| <b>Combined ratio</b>                         | <b>87.4%</b>    | <b>102.7%</b>   | <b>108.8%</b> | <b>96.8%</b>    |
| <b>Rate</b>                                   | <b>1%</b>       | <b>0%</b>       | <b>(1)%</b>   | <b>0%</b>       |
| <b>Retention</b>                              | <b>87</b>       | <b>83</b>       | <b>75</b>     | <b>83</b>       |
| <b>New business (a)</b>                       | <b>\$ 126</b>   | <b>\$ 283</b>   | <b>\$ 122</b> | <b>\$ 531</b>   |

Six Months Ended June 30, 2015

|                      |          |          |        |          |
|----------------------|----------|----------|--------|----------|
| Net written premiums | \$ 1,370 | \$ 1,476 | \$ 461 | \$ 3,307 |
|----------------------|----------|----------|--------|----------|

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|  |        |        |       |        |
|--|--------|--------|-------|--------|
| Net earned premiums                    | 1,369  | 1,381  | 398   | 3,148  |
| Net investment income                  | 289    | 373    | 27    | 689    |
| Net operating income                   | 244    | 179    | 27    | 450    |
| Net realized investment gains          | 3      | 3      | 1     | 7      |
| Net income                             | 247    | 182    | 28    | 457    |
| <b>Other performance metrics:</b>      |        |        |       |        |
| Loss and loss adjustment expense ratio | 61.7%  | 69.6%  | 57.7% | 64.7%  |
| Expense ratio                          | 31.0   | 35.4   | 37.4  | 33.7   |
| Dividend ratio                         | 0.2    | 0.3    |       | 0.2    |
| Combined ratio                         | 92.9%  | 105.3% | 95.1% | 98.6%  |
| Rate                                   | 1%     | 2%     | (1)%  | 1%     |
| Retention                              | 86     | 77     | 77    | 80     |
| New business (a)                       | \$ 139 | \$ 287 | \$ 60 | \$ 486 |

(a) International includes Hardy new business of \$36 million and \$67 million for the three and six months ended June 30, 2016. Prior year amounts are not included for Hardy.

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**Table of Contents*****Three Months Ended June 30, 2016 Compared to 2015***

Net written premiums decreased slightly for the three months ended June 30, 2016 as compared with the same period in 2015. Excluding the effect of foreign currency exchange rates and the timing of reinsurance purchases, net written premiums decreased 12% in International primarily due to lower retention and rate. These decreases were partially offset by increases in Specialty and Commercial, primarily reflecting steady retention, positive rate and a modest amount of new business in Specialty and higher retention and a steady level of new business in Commercial. The increase in net earned premiums for Specialty and the decrease for International were consistent with the trend in net written premiums. For Commercial, excluding the effect of premium development, the increase in net earned premiums, was consistent with the trend in net written premiums.

Net operating income decreased \$8 million for the three months ended June 30, 2016 as compared with the same period in 2015. The decrease in net operating income was primarily due to a higher level of large losses, higher catastrophe losses and the negative effect of fluctuations in foreign currency exchange rates in International, partially offset by higher favorable net prior year reserve development in Specialty and Commercial. Catastrophe losses were \$52 million (after tax and noncontrolling interests) for the three months ended June 30, 2016 as compared to catastrophe losses of \$35 million (after tax and noncontrolling interests) for the same period in 2015.

Favorable net prior year development of \$106 million and \$20 million was recorded for the three months ended June 30, 2016 and 2015. For the three months ended June 30, 2016 and 2015, Specialty recorded favorable net prior year development of \$72 million and \$15 million, Commercial recorded favorable net prior year development of \$20 million and unfavorable net prior year development of \$5 million and International recorded favorable net prior year development of \$14 million and \$10 million. Further information on net prior year development is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

Specialty's combined ratio improved 5.8 points for the three months ended June 30, 2016 as compared with the same period in 2015. The loss ratio improved 6.4 points due to higher favorable net prior year reserve development, partially offset by a higher non-catastrophe current accident year loss ratio. The expense ratio increased 0.6 points for the three months ended June 30, 2016 as compared with the same period in 2015, primarily due to higher net commissions.

Commercial's combined ratio improved 3.7 points for the three months ended June 30, 2016 as compared with the same period in 2015. The loss ratio improved 4.7 points due to favorable net prior year reserve development and an improved non-catastrophe current accident year loss ratio. The expense ratio increased 0.8 points for the three months ended June 30, 2016 as compared with the same period in 2015, due to higher underwriting expenses.

International's combined ratio increased 26.4 points for the three months ended June 30, 2016 as compared with the same period in 2015. The loss ratio increased 24.8 points due to an increase in the current accident year loss ratio driven by large losses related to political risk, property and financial institutions, partially offset by higher favorable net prior year loss development. The expense ratio increased 1.6 points for the three months ended June 30, 2016 as compared with the same period in 2015 due to lower net earned premiums.

***Six Months Ended June 30, 2016 Compared to 2015***

Net written premiums decreased slightly for the six months ended June 30, 2016 as compared with the same period in 2015. Excluding the effect of foreign currency exchange rates and premium development, net written premiums decreased 6% for International primarily due to lower retention and rate, partially offset by an increase in Specialty and Commercial, reflecting steady retention, positive rate and a modest amount of new business in Specialty and



higher retention and a steady level of new business in Commercial. The increase in net earned premiums for Specialty and Commercial and the decrease for International were consistent with the trend in net written premiums.

Net operating income decreased \$59 million for the six months ended June 30, 2016 as compared with the same period in 2015. The decrease in net operating income was primarily due to a higher level of large losses, higher catastrophe losses and the negative effect of fluctuations in foreign currency exchange rates for International and lower net investment income for Specialty and Commercial, partially offset by favorable net prior year reserve development in Specialty and Commercial. Catastrophe losses were \$73 million (after tax and noncontrolling interests) for the six months ended June 30, 2016 as compared to catastrophe losses of \$52 million (after tax and noncontrolling interests) for the same period in 2015.

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Favorable net prior year development of \$172 million and \$18 million was recorded for the six months ended June 30, 2016 and 2015. For the six months ended June 30, 2016 and 2015, Specialty recorded favorable net prior year development of \$117 million and \$19 million, Commercial recorded favorable net prior year development of \$36 million and \$1 million and International recorded favorable net prior year development of \$19 million and unfavorable net prior year development of \$2 million. Further information on net prior year development is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

Specialty's combined ratio improved 5.5 points for the six months ended June 30, 2016 as compared with the same period in 2015. The loss ratio improved 6.2 points primarily due to higher favorable net prior year reserve development, partially offset by a higher non-catastrophe current accident year loss ratio. The expense ratio increased 0.7 points for the six months ended June 30, 2016 as compared with the same period in 2015 due to higher underwriting expenses and net commissions.

Commercial's combined ratio improved 2.6 points for the six months ended June 30, 2016 as compared with the same period in 2015. The loss ratio improved 3.8 points, due to favorable net prior year reserve development and an improved non-catastrophe current accident year loss ratio. The expense ratio increased 1.1 point for the six months ended June 30, 2016 as compared with the same period in 2015, due to higher underwriting expenses.

International's combined ratio increased 13.7 points for the six months ended June 30, 2016 as compared with the same period in 2015. The loss ratio increased 12.8 points due to an increase in the current accident year loss ratio driven by large losses related to political risk, property and financial institutions, partially offset by favorable net prior year development. The expense ratio increased 0.9 point for the six months ended June 30, 2016 as compared with the same period in 2015, due to higher underwriting expenses and a decrease in net earned premiums.

**Referendum on the United Kingdom's Membership in the European Union**

On June 23, 2016, the United Kingdom ( U.K. ) held a referendum in which voters approved an exit from the European Union ( E.U. ), commonly referred to as Brexit. As a result of the referendum, it is expected that the British government will formally commence the process to leave the E.U. and begin negotiating the terms of treaties that will govern the U.K.'s future relationship with the E.U. Although the terms of any future treaties are unknown, changes in CNA's international operating platform may be required to continue to write business in the E.U. after the completion of Brexit. As a result of these changes, the complexity and cost of regulatory compliance of CNA's European business is likely to increase.

**Other Non-Core Operations**

Other Non-Core primarily includes the results of CNA's long term care business that is in run-off, which is part of Life & Group Non-Core, and also includes certain corporate expenses, including interest on corporate debt, and the results of property and casualty business in run-off, including CNA Re and A&EP, which is part of Other.

The following tables summarize the results of CNA's Other Non-Core operations for the three and six months ended June 30, 2016 and 2015:

| <b>Three Months Ended June 30, 2016</b> | <b>Life &amp; Group<br/>Non-Core</b> | <b>Other</b> | <b>Other<br/>Non-Core</b> |
|---|--------------------------------------|--------------|---------------------------|
|---|--------------------------------------|--------------|---------------------------|

**(In millions)**

|                                       |               |             |               |
|---------------------------------------|---------------|-------------|---------------|
| <b>Net earned premiums</b>            | <b>\$ 136</b> |             | <b>\$ 136</b> |
| <b>Net investment income</b>          | <b>188</b>    | <b>\$ 4</b> | <b>192</b>    |
| <b>Net operating loss</b>             | <b>(4)</b>    | <b>(19)</b> | <b>(23)</b>   |
| <b>Net realized investment losses</b> | <b>(3)</b>    |             | <b>(3)</b>    |
| <b>Net loss</b>                       | <b>(7)</b>    | <b>(19)</b> | <b>(26)</b>   |

Three Months Ended June 30, 2015

|                               |        |      |        |
|-------------------------------|--------|------|--------|
| Net earned premiums           | \$ 137 |      | \$ 137 |
| Net investment income         | 179    | \$ 5 | 184    |
| Net operating loss            | (22)   | (71) | (93)   |
| Net realized investment gains | 2      |      | 2      |
| Net loss                      | (20)   | (71) | (91)   |

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| Six Months Ended June 30, 2016 | Life & Group<br>Non-Core | Other | Other<br>Non-Core |
|--------------------------------|--------------------------|-------|-------------------|
| <b>(In millions)</b>           |                          |       |                   |
| Net earned premiums            | \$ 267                   |       | \$ 267            |
| Net investment income          | 375                      | \$ 7  | 382               |
| Net operating loss             | (6)                      | (125) | (131)             |
| Net realized investment losses | (6)                      |       | (6)               |
| Net loss                       | (12)                     | (125) | (137)             |

Six Months Ended June 30, 2015

|                               |        |       |        |
|-------------------------------|--------|-------|--------|
| Net earned premiums           | \$ 275 |       | \$ 275 |
| Net investment income         | 358    | \$ 11 | 369    |
| Net operating loss            | (37)   | (90)  | (127)  |
| Net realized investment gains | 4      |       | 4      |
| Net loss                      | (33)   | (90)  | (123)  |

**Three Months Ended June 30, 2016 Compared to 2015**

The net loss decreased \$65 million for the three months ended June 30, 2016 as compared with the same period in 2015. Results in 2015 were negatively affected by a \$49 million (after tax and noncontrolling interests) charge related to the application of retroactive reinsurance accounting to adverse reserve development ceded under the 2010 A&EP loss portfolio transfer, as CNA completed the reserve review in the second quarter of 2015 and in the first quarter of 2016, as further discussed in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1. In addition, the loss was generally in line with expectations, as the impact of unfavorable persistency in the long term care business was partially offset by favorable mortality experience in the structured settlements and life settlement contracts business.

Due to the recognition of the premium deficiency and resetting of actuarial assumptions in the fourth quarter of 2015, the operating results for CNA's long term care business in 2016 now reflect the variance between actual experience and the expected results contemplated in CNA's best estimate reserves.

**Six Months Ended June 30, 2016 Compared to 2015**

The net loss increased \$14 million for the six months ended June 30, 2016 as compared with the same period in 2015. Results in 2016 and 2015 were negatively affected by a \$74 million (after tax and noncontrolling interests) charge and a \$49 million (after tax and noncontrolling interests) charge related to the loss portfolio transfer. In addition, the 2016 net loss was negatively affected by the elimination of lease revenue and increased lease expense due to the sale of the principal executive office of CNA in the first quarter of 2016.

The results for the long term care business and the structured settlements and life settlement contracts business were generally consistent with the three month comparison above.

**Diamond Offshore****Market Overview**

Diamond Offshore provides contract drilling services worldwide with a fleet of 28 offshore drilling rigs. Diamond Offshore's current fleet consists of 19 semisubmersibles, five jack-up rigs, including four jack-up rigs that Diamond Offshore is marketing for sale, and four dynamically positioned drillships. The *Ocean GreatWhite*, was delivered in mid-July 2016 and has mobilized to Singapore for a rig enhancement project. Diamond Offshore expects the *Ocean GreatWhite* to commence its contract offshore Australia in the fourth quarter of this year. Additionally, in July of 2016, Diamond Offshore reached a decision to sell the *Ocean Quest* and *Ocean Star* for scrap value.

Overall fundamentals in the offshore oil and gas industry have continued to deteriorate. Oil prices, which had fallen to a 12-year low below \$30 per barrel in January 2016, had rebounded to the upper \$40 per barrel range as of June 30, 2016, but continue to exhibit day-to-day volatility due to multiple factors, including fluctuations in the current and expected level of global oil inventories. Despite the increase in oil prices during the second quarter of 2016, industry reports indicate that utilization for floaters continues to fall at a rate of approximately 5% per quarter and cancellation of contracts for deepwater rigs has persisted. Significant operating losses incurred during 2015 and 2016 by many independent and national oil companies and exploration and production companies, as well as an uncertain

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outlook with respect to future demand for oil and gas and the resulting price instability, have resulted in significantly reduced capital spending plans for 2016 and possibly beyond, as operators struggle to stay cash neutral in the current oil price environment. Customer inquiries for rig availability and new tenders have continued to decline in 2016, as compared to prior years. The majority of Diamond Offshore's recent customer discussions related to new projects are for work that materializes in 2018 and later.

Based on industry reports, since 2014, approximately 55 floater rigs have been retired and others have been cold stacked, slightly abating the current oversupply of drilling rigs. However, the number of available rigs continues to grow as contracted rigs come off contract and newly-built rigs are delivered. Competition for the limited number of drilling jobs continues to be intense. In some cases, dayrates have been negotiated at near break-even levels to provide for the recovery of operating costs for rigs that would otherwise be uncontracted or cold stacked. Market studies indicate that dayrates for sixth-generation rigs have declined on average by double digits during the second quarter of 2016, as compared with fourth quarter of 2015. Industry analysts have predicted that the offshore contract drilling market may remain depressed with further declines in dayrates and utilization likely in 2016 and 2017.

As a result of the continuing and worsening market conditions for the offshore drilling industry and continued pessimistic outlook for the near term, certain of Diamond Offshore's customers, as well as those of its competitors, have attempted to renegotiate or terminate existing drilling contracts. Such renegotiations could include requests to lower the contract dayrate, lowering of a dayrate in exchange for additional contract term, shortening the term on one contracted rig in exchange for additional term on another rig, early termination of a contract in exchange for a lump sum margin payout and many other possibilities. In addition to the potential for renegotiations, some of Diamond Offshore's drilling contracts permit the customer to terminate the contract early after specified notice periods, usually resulting in a contractually specified termination amount, which may not fully compensate Diamond Offshore for the loss of the contract. As a result of these depressed market conditions, certain customers have also utilized such contract clauses to seek to renegotiate or terminate a drilling contract or claim that Diamond Offshore has breached provisions of its drilling contracts in order to avoid their obligations to Diamond Offshore under circumstances where Diamond Offshore believes it is in compliance with the contracts.

On April 28, 2016, Diamond Offshore's agent in Mexico received a letter from PEMEX (Exploración y Producción (PEMEX)), exercising its contractual right to terminate its drilling contract on the *Ocean Scepter* with 30 days' advance notice, resulting in the early termination of the contract on May 28, 2016. Industrywide, during the first half of 2016, industry reports indicate that customers canceled 21 contracts for floater rigs, compared to 31 contract cancelations for deepwater drilling rigs during the full year 2015. Particularly during depressed market conditions, the early termination of a contract may result in a rig being idle for an extended period of time, which could adversely affect Diamond Offshore's business. When a customer terminates a contract prior to the contract's scheduled expiration, Diamond Offshore's contract backlog is also adversely impacted.

The continuation of these conditions for an extended period could result in more of Diamond Offshore's rigs being without contracts and/or cold stacked or scrapped and could further materially and adversely affect its business. When Diamond Offshore cold stacks or expects to scrap a rig, Diamond Offshore evaluates the rig for impairment. Diamond Offshore currently expects that these adverse market conditions will continue for the foreseeable future. As of August 1, 2016, 17 rigs in Diamond Offshore's fleet were cold stacked, including four jack-up rigs that are currently being marketed for sale.

Globally, the ultra-deepwater and deepwater floater markets continue to worsen. Diminished or nonexistent demand, combined with an oversupply of rigs has caused floater dayrates to decline significantly and industry analysts expect offshore drillers to continue to scrap older, lower specification rigs; however, newer and higher specification rigs have also been impacted by the recycling trend.

In an effort to manage the oversupply of rigs and potentially avoid the cost of cold stacking newly-built rigs, which, in the case of dynamically-positioned rigs, can be significant, several drilling contractors have exercised options to delay the delivery of rigs by the shipyard or have exercised their right to cancel orders due to the late delivery of rigs. As of the date of this report, industry data indicates that there are approximately 37 competitive, or non-owner-operated, newbuild floaters on order, of which only three rigs are reported to be contracted for future work. Of the 37 rigs on order, 13 and 15 rigs are scheduled for delivery in the remainder of 2016 and in 2017. The remaining nine rigs are scheduled for delivery between 2018 and 2020. Industry analysts predict that delivery dates may shift further as newbuild owners negotiate with their respective shipyards.

While conditions in the mid-water market vary slightly by region, mid-water rigs have been adversely impacted by (i) lower demand, (ii) declining dayrates, (iii) increased regulatory requirements, including more stringent design requirements for well control equipment, which could significantly increase the capital needed to comply with design requirements that would permit such rigs to work in the U.S. Gulf of Mexico ( GOM ), (iv) the challenges



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experienced by lower specification units in this segment as a result of more complex customer specifications and (v) the intensified competition resulting from the migration of some deepwater and ultra-deepwater units to compete against mid-water units. To date, the mid-water market has seen the highest number of cold-stacked and scrapped rigs. Since 2012, Diamond Offshore has sold 12 of its mid-water rigs for scrap. As market conditions remain challenging, Diamond Offshore expects higher-specification rigs to take the place of lower-specification units, where possible, leading to additional lower-specification rigs being cold stacked or ultimately scrapped. Diamond Offshore's current mid-water fleet consists of six drilling rigs, of which only two units are currently operating under contract.

On April 14, 2016, the Bureau of Safety and Environmental Enforcement ( BSEE ), issued its final well control regulations, which have now become effective, although several of the new requirements have extended timeframes for compliance. The final rule addresses the full range of systems and equipment associated with well control operations, focusing on requirements for blowout preventers ( BOPs ), well design, well control casing, cementing, real-time monitoring and subsea containment. The regulations combine prescriptive and performance-based measures to cultivate a greater culture of safety for both oil and gas companies and offshore rig operators that minimizes risk. Key features of the well control regulations include requirements for BOPs, double shear rams, third-party reviews of equipment, real-time monitoring data, safe drilling margins, centralizers, inspections and other reforms related to well design and control, casing, cementing and subsea containment.

The issuance of these rules could result in the future retirement of older, less capable rigs, for which compliance with the new requirements is not physically or economically feasible. Additionally, some analysts predict that the new rules will drive the continued preference for modern floaters when drilling opportunities occur.

Diamond Offshore's results of operations and cash flows for the three and six months ended June 30, 2016 have been negatively impacted by the continuing and worsening market conditions in the offshore drilling industry, as discussed above. For further discussion see Note 4 of the Notes to Consolidated Condensed Financial Statements in Item 1 of this report.

**Contract Drilling Backlog**

The following table reflects Diamond Offshore's contract drilling backlog as of August 1, 2016 and February 16, 2016 (the date reported in our Annual Report on Form 10-K for the year ended December 31, 2015). Contract drilling backlog as presented below includes only firm commitments (typically represented by signed contracts) and is calculated by multiplying the contracted operating dayrate by the firm contract period. Diamond Offshore's calculation also assumes full utilization of its drilling equipment for the contract period (excluding scheduled shipyard and survey days); however, the amount of actual revenue earned and the actual periods during which revenues are earned will be different than the amounts and periods shown in the tables below due to various factors. Utilization rates, which generally approach 92% - 98% during contracted periods, can be adversely impacted by downtime due to various operating factors including, but not limited to, weather conditions and unscheduled repairs and maintenance. Contract drilling backlog excludes revenues for mobilization, demobilization, contract preparation and customer reimbursables. No revenue is generally earned during periods of downtime for regulatory surveys. Changes in Diamond Offshore's contract drilling backlog between periods are generally a function of the performance of work on term contracts, as well as the extension or modification of existing term contracts and the execution of additional contracts. In addition, under certain circumstances, Diamond Offshore's customers may seek to terminate or renegotiate its contracts.

**August 1,  
2016**

February 16,  
2016

**(In millions)**

|                       |    |              |          |
|-----------------------|----|--------------|----------|
| Floaters:             |    |              |          |
| Ultra-Deepwater (a)   | \$ | <b>3,875</b> | \$ 4,415 |
| Deepwater             |    | <b>291</b>   | 375      |
| Mid-Water             |    | <b>250</b>   | 356      |
| <b>Total Floaters</b> |    | <b>4,416</b> | 5,146    |
| Jack-ups              |    |              | 49       |
| <b>Total</b>          | \$ | <b>4,416</b> | \$ 5,195 |

(a) Ultra-deepwater floaters includes \$641 million attributable to future work for the semisubmersible *Ocean GreatWhite*, which is expected to begin working under contract in the fourth quarter of 2016.

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The following table reflects the amount of Diamond Offshore's contract drilling backlog by year as of August 1, 2016:

| Year Ended December 31 | Total           | 2016 (a)      | 2017            | 2018            | 2019 - 2020     |
|------------------------|-----------------|---------------|-----------------|-----------------|-----------------|
| <b>(In millions)</b>   |                 |               |                 |                 |                 |
| <b>Floaters:</b>       |                 |               |                 |                 |                 |
| Ultra-Deepwater (b)    | \$ 3,875        | \$ 510        | \$ 1,199        | \$ 1,142        | \$ 1,024        |
| Deepwater              | 291             | 130           | 152             | 9               |                 |
| Mid-Water              | 250             | 114           | 136             |                 |                 |
| <b>Total Floaters</b>  | <b>4,416</b>    | <b>754</b>    | <b>1,487</b>    | <b>1,151</b>    | <b>1,024</b>    |
| Jack-ups               | -               |               |                 |                 |                 |
| <b>Total</b>           | <b>\$ 4,416</b> | <b>\$ 754</b> | <b>\$ 1,487</b> | <b>\$ 1,151</b> | <b>\$ 1,024</b> |

(a) Represents a six-month period beginning July 1, 2016.

(b) Ultra-deepwater floaters includes \$35 million for the year 2016, \$214 million for each of the years 2017 and 2018 and \$178 million for the year 2019 attributable to future work for the *Ocean GreatWhite*, which is expected to begin working under contract in the fourth quarter of 2016.

The following table reflects the percentage of rig days committed by year as of August 1, 2016. The percentage of rig days committed is calculated as the ratio of total days committed under contracts, as well as scheduled shipyard, survey and mobilization days for all rigs in Diamond Offshore's fleet, to total available days (number of rigs, including cold-stacked rigs, multiplied by the number of days in a particular year). Total available days have been calculated based on the expected contract start date for the *Ocean GreatWhite*, which is under construction.

| Year Ended December 31        | 2016 (a)   | 2017       | 2018       | 2019 2020  |
|-------------------------------|------------|------------|------------|------------|
| <b>Rig Days Committed (b)</b> |            |            |            |            |
| <b>Floaters:</b>              |            |            |            |            |
| Ultra-Deepwater               | 56%        | 58%        | 57%        | 26%        |
| Deepwater                     | 31%        | 19%        | 2%         |            |
| Mid-Water                     | 33%        | 17%        |            |            |
| <b>Total Floaters</b>         | <b>43%</b> | <b>38%</b> | <b>28%</b> | <b>13%</b> |
| Jack-ups                      | -          |            |            |            |

(a) Represents a six-month period beginning July 1, 2016.

(b) Includes approximately 31 currently known, scheduled shipyard days for contract preparation, surveys and extended maintenance projects, as well as rig mobilization days for the remainder of 2016.



**Table of Contents****Results of Operations**

The following table summarizes the results of operations for Diamond Offshore for the three and six months ended June 30, 2016 and 2015 as presented in Note 13 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

|  | <b>Three Months Ended<br/>June 30,</b> |        | <b>Six Months Ended<br/>June 30,</b> |          |
|--|--|--------|--------------------------------------|----------|
|  | <b>2016</b>                            | 2015   | <b>2016</b>                          | 2015     |
| <b>(In millions)</b>                                       |  |        |                                      |          |
| <b>Revenues:</b>   |  |        |                                      |          |
| Contract drilling revenues                                 | \$ 357                                 | \$ 617 | \$ 801                               | \$ 1,217 |
| Net investment income                                      |  |        |                                      | 1        |
| Investment losses  | (12)                                   |        | (12)                                 |          |
| Other revenues   | 33                                     | 15     | 60                                   | 41       |
| <b>Total</b>   | <b>378</b>                             | 632    | <b>849</b>                           | 1,259    |
| <b>Expenses:</b>   |  |        |                                      |          |
| Contract drilling expenses                                 | 198                                    | 344    | 411                                  | 695      |
| Other operating expenses                                   |  |        |                                      |          |
| Impairment of assets                                       | 680                                    |        | 680                                  | 359      |
| Other expenses   | 145                                    | 157    | 294                                  | 337      |
| Interest   | 24                                     | 25     | 50                                   | 49       |
| <b>Total</b>   | <b>1,047</b>                           | 526    | <b>1,435</b>                         | 1,440    |
| Income (loss) before income tax                            | (669)                                  | 106    | (586)                                | (181)    |
| Income tax (expense) benefit                               | 99                                     | (19)   | 100                                  | 22       |
| Amounts attributable to noncontrolling interests           | 276                                    | (42)   | 235                                  | 78       |
| <b>Net income (loss) attributable to Loews Corporation</b> | <b>\$ (294)</b>                        | \$ 45  | <b>\$ (251)</b>                      | \$ (81)  |

**Three Months Ended June 30, 2016 Compared to 2015**

Contract drilling revenue decreased \$260 million for the three months ended June 30, 2016 as compared with the 2015 period, primarily due to additional rigs being idled, cold stacked or retired since the second quarter of 2015. Revenue earning days for Diamond Offshore's fleet decreased during the second quarter of 2016, as compared with the 2015 period, reflective of continued low demand for contract drilling services.

Revenue generated by ultra-deepwater floaters decreased \$102 million for the three months ended June 30, 2016 as compared with the 2015 period, primarily as a result of decreased utilization of \$87 million and lower average daily

revenue of \$15 million. Revenue earning days in the second quarter of 2016 decreased as compared with the second quarter of 2015, primarily due to fewer revenue earning days for cold-stacked rigs, which were under contract during the 2015 period, the *Ocean Clipper*, which was sold in November 2015, and the *Ocean BlackRhino*, which is currently between contracts and downtime associated with four unplanned retrievals of blow out preventers. The decrease in revenue earning days was partially offset by increased revenue earning days for the *Ocean BlackLion*, which was placed in service in the third quarter of 2015 and the *Ocean Monarch*, which was warm stacked during the second quarter of 2015. Average daily revenue decreased during the second quarter of 2016 as compared with the prior year period, primarily due to a lower dayrate earned by the *Ocean Courage*.

Revenue generated by deepwater floaters decreased \$114 million for the three months ended June 30, 2016 as compared with the 2015 period, primarily due to decreased utilization of \$80 million combined with lower average daily revenue of \$34 million. The decrease in revenue earning days resulted primarily from additional downtime associated with cold-stacked rigs that had operated during the second quarter of 2015, partially offset by incremental revenue earning days for the *Ocean Victory* and *Ocean Valiant*, both of which continued operating under contracts that commenced in the middle of the second quarter of 2015 and the *Ocean Apex*, which began operating under contract in May 2016. Average daily revenue decreased during the second quarter of 2016 primarily due to the absence of a \$10 million demobilization fee for the *Ocean Apex* recognized in the second quarter of 2015, combined with the effect of a lower dayrate earned by the *Ocean Valiant* during the second quarter of 2016 as compared with the prior year period.

Revenue generated by mid-water floaters decreased \$40 million for the three months ended June 30, 2016 as compared with the 2015 period, primarily due to decreased utilization of \$47 million, partially offset by higher average daily revenue of \$7 million. Revenue earnings days decreased in the second quarter of 2016 as a result of downtime associated with cold-stacked rigs, partially offset by the absence of planned downtime associated with the

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*Ocean Guardian*'s survey during the prior year quarter. Diamond Offshore retired ten mid-waters rigs subsequent to the second quarter of 2015.

Revenue generated by jack-up rigs decreased \$4 million for the three months ended June 30, 2016 as compared with the 2015 period primarily due to the cold stacking of the jack-up fleet, several of which had operated under contract during the prior year quarter. The *Ocean Scepter* is in the process of being cold stacked after termination of its contract by PEMEX in the second quarter of 2016. Diamond Offshore's four remaining jack-up rigs are currently being marketed for sale.

Contract drilling expense for ultra-deepwater floaters decreased \$34 million during the three months ended June 30, 2016 as compared with the 2015 period. Reduced costs attributable to cold-stacked ultra-deepwater rigs and the retired *Ocean Clipper*, as well as the favorable effects of cost reduction initiatives implemented in 2015, were partially offset by incremental contract drilling expense of \$24 million for drillships operating in the GOM, including \$20 million for the *Ocean BlackLion*, which began operating in 2016. Reductions in contract drilling expense in the second quarter of 2016 included costs associated with labor and personnel of \$28 million, repairs and maintenance of \$9 million and mobilization of rigs of \$10 million and other of \$12 million.

Contract drilling expense incurred by deepwater floaters decreased \$52 million during the three months ended June 30, 2016 as compared with the 2015 period, primarily due to reduced operating costs for cold stacked rigs of \$48 million.

Contract drilling expense for mid-water floaters decreased \$41 million during the three months ended June 30, 2016 as compared with the 2015 period, primarily due to reduced operating costs for cold stacked or retired rigs of \$31 million, combined with lower repair and inspection costs of \$9 million for the *Ocean Guardian* during the three months ended June 30, 2016.

Contract drilling expense for the jack-up fleet decreased \$14 million during the three months ended June 30, 2016 as compared with the 2015 period, primarily due to the cold stacking of the jack-up fleet, several of which had operated under contract during 2015. The *Ocean Scepter* is in the process of being cold stacked after termination of its contract by PEMEX in the second quarter of 2016. Diamond Offshore's four remaining jack-up rigs are currently being marketed for sale.

Net results decreased \$339 million for the three months ended June 30, 2016 as compared with the 2015 period, primarily due to the impact of a \$267 million impairment charge (after tax and noncontrolling interests) related to the carrying value of Diamond Offshore's drilling rigs, as discussed in Note 4 of the Notes to Consolidated Condensed Financial Statements in Item 1 of this report. The results were also impacted by the decreases in revenues and expenses as discussed above, including the negative effect of lower utilization of the fleet. In addition, during the second quarter of 2016, Diamond Offshore sold its investment in privately-held corporate bonds for a total recognized loss of \$12 million (\$4 million after tax and noncontrolling interests). These decreases were partially offset by lower depreciation expense and net reimbursable revenue of \$15 million in the second quarter of 2016 as a result of the completion of the *Ocean Endeavor*'s demobilization from the Black Sea.

***Six Months Ended June 30, 2016 Compared to 2015***

Contract drilling revenue decreased \$416 million for the six months ended June 30, 2016 as compared with the 2015 period, primarily as a result of fewer revenue earning days across the entire fleet, reflecting continued low demand for offshore drilling services, combined with the negative effect of lower average daily revenue earned by deepwater floaters.

Revenue generated by ultra-deepwater floaters decreased \$27 million for the six months ended June 30, 2016 as compared with the 2015 period, primarily as a result of decreased utilization of \$37 million, partially offset by higher average daily revenue of \$10 million. Revenue earning days decreased primarily due to fewer revenue earning days for rigs cold stacked after the first half of 2015 and the previously-owned *Ocean Clipper*. The aggregate decrease in revenue earning days was partially offset by incremental revenue earning days for newbuild drillships, including the *Ocean BlackLion*, which began operating under contract in the second half of 2015, and the *Ocean Monarch*, which was warm stacked during the first half of 2015. Average daily revenue increased, primarily due to the inclusion of \$40 million in demobilization revenue for the *Ocean Endeavor*, which completed its contract in the Black Sea in January of 2016, partially offset by a lower dayrate earned by the *Ocean Courage*.

Revenue generated by deepwater floaters decreased \$194 million for the six months ended June 30, 2016 as compared with the 2015 period, primarily due to decreased utilization of \$134 million and lower average daily revenue of \$60 million. The decrease in revenue earning days resulted primarily from additional downtime



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associated with the cold stacking of rigs that had operated during the first half of 2015, partially offset by incremental revenue earning days for the *Ocean Victory* and *Ocean Valiant*, both of which operated under contracts that commenced in the middle of the second quarter of 2015. Average daily revenue decreased as a result of lower amortized mobilization and contract preparation fees combined with a lower dayrate earned by the *Ocean Valiant*.

Revenue generated by mid-water floaters decreased \$169 million for the six months ended June 30, 2016 as compared with the 2015 period, primarily due to decreased utilization of \$176 million, reflecting a significant reduction in demand in the mid-water drilling market. Comparing the periods, only two of the mid-water floaters operated during both periods. Since the first quarter of 2015, Diamond Offshore has sold ten mid-water floaters, reducing the mid-water fleet to six drilling rigs, four of which are currently cold stacked.

Revenue generated by jack-up rigs decreased \$26 million for the six months ended June 30, 2016 as compared with the 2015 period, primarily due to the cold stacking of four rigs, which had operated under contract during the first half of 2015.

Contract drilling expense for ultra-deepwater floaters, excluding the newbuild drillships, decreased \$123 million, during the six months ended June 30, 2016 as compared with the 2015 period, reflecting lower expenses for labor and personnel of \$57 million, maintenance and inspections of \$29 million, mobilization of \$13 million, freight of \$6 million and other rig operating and overhead costs of \$19 million. These reductions in contract drilling expense were primarily due to lower costs for cold-stacked rigs and the retired *Ocean Clipper*, as well as cost reduction initiatives implemented in 2015. Incremental contract drilling expense for four drillships operating in the GOM was \$58 million.

Contract drilling expense incurred by deepwater floaters decreased \$68 million during the six months ended June 30, 2016 as compared with the 2015 period, primarily due to a net reduction in costs associated with labor and personnel of \$25 million, mobilization of rigs of \$15 million, repairs and maintenance of \$11 million, shorebase support and overhead of \$8 million and other operating costs of \$10 million, primarily as a result of the cold stacking of rigs, partially offset by incremental operating costs for the *Ocean Victory* and *Ocean Valiant*.

Contract drilling expense for mid-water floaters decreased \$116 million in the six months ended June 30, 2016 as compared with the 2015 period, reflecting lower costs for labor and personnel of \$52 million, maintenance and repairs of \$14 million, shorebase support and overhead of \$13 million, mobilization of \$8 million, inspections of \$6 million and other of \$24 million.

Contract drilling expense for the jack-up fleet decreased \$30 million for the six months ended June 30, 2016 as compared with the 2015 period, primarily due to the cold stacking of four rigs that operated under contract during the first half of 2015.

Net results decreased \$170 million for the six months ended June 30, 2016 as compared with the 2015 period, primarily reflecting the impact of a \$267 million asset impairment charge (after tax and noncontrolling interests) for the six months ended June 30, 2016, as compared with the 2015 period when Diamond Offshore recorded a \$158 million asset impairment charge (after tax and noncontrolling interests). Results were also impacted by the decrease in revenues and expenses as discussed above. In addition, during 2016 Diamond Offshore sold its investment in privately-held corporate bonds for a total recognized loss of \$12 million (\$4 million after tax and noncontrolling interests). Results were partially offset by a decrease in depreciation expense and the recognition of \$40 million in demobilization revenue and \$15 million in net reimbursable revenue related to the *Ocean Endeavor*'s demobilization from the Black Sea.

**Boardwalk Pipeline**

## **Market Overview**

The transportation rates that Boardwalk Pipeline is able to charge customers are heavily influenced by longer-term market trends, affecting the amount and geographical location of natural gas production and demand for gas by end users such as power plants, petrochemical facilities and liquefied natural gas ( LNG ) export facilities. Changes in certain longer term trends such as the development of gas production from the Marcellus and Utica production areas located in the northeastern U.S. and changes to related pipeline infrastructure have resulted in a sustained narrowing of basis differentials corresponding to traditional flow patterns on Boardwalk Pipeline's natural gas pipeline systems (generally south to north and west to east), reducing the transportation rates and adversely impacting other contract terms that Boardwalk Pipeline can negotiate with its customers for available transportation capacity and for contracts due for renewal for Boardwalk Pipeline's transportation services.

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Each year, a portion of Boardwalk Pipeline's firm natural gas transportation and storage contracts expire and need to be renewed or replaced. Over the past several years, Boardwalk Pipeline has renewed many expiring contracts at lower rates and for shorter terms than in the past, or not at all. Boardwalk Pipeline expects this trend to continue, and therefore, Boardwalk Pipeline may not be able to sell all of its available capacity, extend expiring contracts with existing customers or obtain replacement contracts at attractive rates or for a similar term as the expiring contracts. These sustained conditions have had, and Boardwalk Pipeline expects will continue to have, a materially adverse effect on Boardwalk Pipeline's revenues, earnings and distributable cash flows.

Natural gas producers account for a significant portion of Boardwalk Pipeline's revenues, with approximately 50% of its 2015 revenues generated from contracts with natural gas producers. During 2015, the price of oil and natural gas continued to decline as a result of increasing gas supplies, mainly from shale production areas in the U.S., which has adversely impacted the businesses of certain of Boardwalk Pipeline's producer customers, including those that have contracted with Boardwalk Pipeline for capacity on some of its growth projects. Although oil and natural gas prices have recovered slightly from the lows seen earlier in 2016, they remain significantly lower than before the decline began. If natural gas prices remain low, or decline further, for a sustained period of time, the businesses of Boardwalk Pipeline's producer customers will be further adversely affected, which could reduce the demand for Boardwalk Pipeline's services, result in the non-renewal of contracted capacity, or renewal at lower rates or on less attractive terms, or lead some customers, particularly customers that are experiencing financial difficulties, to default on their obligations to Boardwalk Pipeline or seek to terminate or renegotiate existing contracts. Should any such customers file for bankruptcy protection, they may also seek to have their contracts with Boardwalk Pipeline rejected in the bankruptcy proceeding.

A majority of Boardwalk Pipeline's customers are rated investment-grade by at least one of the major credit rating agencies, however, the ratings of several of Boardwalk Pipeline's oil and gas producer customers, including some of those supporting its growth projects, have recently been downgraded. The downgrades further restrict liquidity for those customers and may result in nonperformance of their contractual obligations, including failure to make future payments or, for customers supporting Boardwalk Pipeline's growth projects, failure to post required letters of credit or other collateral as construction progresses.

Boardwalk Pipeline is currently engaged in a number of growth projects having an aggregate estimated cost of approximately \$1.6 billion. The growth projects have received all regulatory approvals and are subject to the risk that they may not be completed, may be impacted by significant cost overruns or may be materially changed prior to completion as a result of future developments or circumstances that Boardwalk Pipeline cannot predict at this time.

In early 2016, a customer on Boardwalk Pipeline's Northern Supply Access project, which had contracted for 100,000 million British thermal units per day (MMBtu/d) of capacity, filed for bankruptcy protection and rejected Boardwalk Pipeline's transportation contract. Boardwalk Pipeline has an unsecured claim in the bankruptcy proceedings for an amount that was determined by agreement between Boardwalk Pipeline and that customer. As a result of the 100,000 MMBtu/d reduction in customer volume commitments resulting from the bankruptcy, Boardwalk Pipeline has reduced the scope of this project by 100,000 MMBtu/d, reducing capacity to 284,000 MMBtu/d and reducing the estimated capital cost from \$310 million to \$230 million. In April 2016, another customer that contracted for 30,000 MMBtu/d of capacity on this project failed to increase its letter of credit in default of its obligations under a credit support agreement. The transportation agreement with this customer remains in place.

In October of 2014, Boardwalk Pipeline's Gulf South subsidiary filed a rate case with the Federal Energy Regulatory Commission (FERC) pursuant to Section 4 of the Natural Gas Act (Docket No. RP15-65), requesting, among other things, a reconfiguration of the transportation rate zones on the Gulf South system and, in general, an increase in its tariff rates for those customers whose agreements are at maximum tariff rates. An uncontested settlement was reached

with Gulf South's customers and the FERC, which became final effective March 1, 2016. In April 2016, Gulf South settled a \$17 million rate refund liability through a combination of cash payments and invoice credits. Also, as a result of the rate case, Gulf South implemented a fuel tracker which went into effect April 1, 2016.

**Table of Contents****Results of Operations**

The following table summarizes the results of operations for Boardwalk Pipeline for the three and six months ended June 30, 2016 and 2015 as presented in Note 13 of the Notes to Consolidated Condensed Financial Statements included under Item 1 of this Report:

|   | Three Months Ended<br>June 30, |              | Six Months Ended<br>June 30, |              |
|---|--------------------------------|--------------|------------------------------|--------------|
|   | 2016                           | 2015         | 2016                         | 2015         |
| <b>(In millions)</b>                                |                                |              |                              |              |
| <b>Revenues:</b>                                    |                                |              |                              |              |
| Other revenue, primarily operating                  | \$ 308                         | \$ 299       | \$ 655                       | \$ 629       |
| <b>Total</b>  | <b>308</b>                     | <b>299</b>   | <b>655</b>                   | <b>629</b>   |
| <b>Expenses:</b>                                    |                                |              |                              |              |
| Operating   | 198                            | 215          | 403                          | 423          |
| Interest  | 45                             | 46           | 88                           | 91           |
| <b>Total</b>  | <b>243</b>                     | <b>261</b>   | <b>491</b>                   | <b>514</b>   |
| Income before income tax                            | 65                             | 38           | 164                          | 115          |
| Income tax expense                                  | (16)                           | (5)          | (35)                         | (21)         |
| Amounts attributable to noncontrolling interests    | (32)                           | (21)         | (81)                         | (57)         |
| <b>Net income attributable to Loews Corporation</b> | <b>\$ 17</b>                   | <b>\$ 12</b> | <b>\$ 48</b>                 | <b>\$ 37</b> |

**Three Months Ended June 30, 2016 Compared to 2015**

Total revenues increased \$9 million for the three months ended June 30, 2016 as compared with the 2015 period, primarily due to \$13 million of proceeds received from the settlement of a legal claim in 2016, partially offset by the receipt of \$6 million of business interruption proceeds in 2015. Excluding the net effect of these proceeds and items offset in fuel and transportation expense, primarily retained fuel, operating revenues increased \$15 million. The increase was primarily due to higher transportation revenues from the return to service of Boardwalk Pipeline's Evangeline pipeline in mid-2015 and growth projects recently placed into service, partially offset by a reduction of revenues from the effects of market conditions discussed above. In addition, storage and parking and lending (PAL) revenues were higher by \$4 million primarily from the effects of favorable market conditions on time period price spreads.

Operating expenses decreased \$17 million for the three months ended June 30, 2016 as compared with the 2015 period. Excluding items offset in operating revenues, operating costs and expenses decreased \$3 million primarily due to lower maintenance activities, partially offset by an increase in employee-related costs.

Net income for the three months ended June 30, 2016 increased \$5 million as compared with the 2015 period, primarily reflecting the impact of higher revenues and lower expenses as discussed above.

***Six Months Ended June 30, 2016 Compared to 2015***

Total revenues increased \$26 million for the six months ended June 30, 2016 as compared with the 2015 period primarily due to the proceeds from the 2016 legal settlement, partially offset by the 2015 business interruption proceeds. Excluding the net effect of these proceeds and items offset in fuel and transportation expense, primarily retained fuel, operating revenues increased \$38 million. The increase was driven by an increase in transportation revenues of \$36 million, which resulted from incremental revenues from the Gulf South rate case, the return to service of the Evangeline pipeline in mid-2015 and growth projects recently placed into service, partially offset by the effects of market conditions discussed above. Storage and PAL revenues were higher by \$7 million primarily from the effects of favorable market conditions on time period price spreads.

Operating expenses decreased \$20 million for the six months ended June 30, 2016 as compared with the 2015 period. Excluding items offset in operating revenues, operating expenses increased \$2 million primarily due to higher employee-related costs and increased maintenance activities. Interest expense decreased \$3 million primarily due to higher allowance for funds used during construction and capitalized interest related to capital projects.

Net income for the six months ended June 30, 2016 increased \$11 million as compared with the 2015 period, primarily reflecting the higher revenues and lower depreciation and interest expense as discussed above.

**Table of Contents****Loews Hotels**

The following table summarizes the results of operations for Loews Hotels for the three and six months ended June 30, 2016 and 2015 as presented in Note 13 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

|  | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |        |
|--|--------------------------------|--------|------------------------------|--------|
|  | 2016                           | 2015   | 2016                         | 2015   |
| <b>(In millions)</b>                         |                                |        |                              |        |
| Revenues:                                    |                                |        |                              |        |
| Operating revenue                            | \$ 156                         | \$ 147 | \$ 294                       | \$ 267 |
| Revenues related to reimbursable expenses    | 33                             | 20     | 58                           | 39     |
| Total  | 189                            | 167    | 352                          | 306    |
| Expenses:                                    |                                |        |                              |        |
| Operating                                    | 129                            | 123    | 252                          | 235    |
| Reimbursable expenses                        | 33                             | 20     | 58                           | 39     |
| Depreciation                                 | 15                             | 14     | 30                           | 25     |
| Equity (income) loss from joint ventures     | 3                              | (9)    | (12)                         | (27)   |
| Interest                                     | 5                              | 5      | 11                           | 10     |
| Total  | 185                            | 153    | 339                          | 282    |
| Income before income tax                     | 4                              | 14     | 13                           | 24     |
| Income tax expense                           | (3)                            | (6)    | (9)                          | (11)   |
| Net income attributable to Loews Corporation | \$ 1                           | \$ 8   | \$ 4                         | \$ 13  |

Income before income tax decreased \$10 million and \$11 million for the three and six months ended June 30, 2016 as compared with the 2015 periods, due primarily to a \$13 million impairment of an equity interest in a joint venture hotel property. Operating revenues and expenses were impacted by the acquisition of one hotel during the first six months of 2016 and two hotels during 2015.

Net income decreased \$7 million and \$9 million for the three and six months ended June 30, 2016 as compared with the 2015 periods, due to the changes discussed above and an increase in the effective tax rate due to a higher state tax provision for the increased ratio of Florida based income.

**Table of Contents****Corporate and Other**

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

The following table summarizes the results of operations for Corporate and Other for the three and six months ended June 30, 2016 and 2015 as presented in Note 13 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

|   | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |
|---|--------------------------------|---------|------------------------------|---------|
|   | 2016                           | 2015    | 2016                         | 2015    |
| <b>(In millions)</b>                                |                                |         |                              |         |
| <b>Revenues:</b>                                    |                                |         |                              |         |
| Net investment income                               | \$ 85                          | \$ 10   | \$ 72                        | \$ 39   |
| Other revenues                                      | (1)                            |         | 1                            | 1       |
| Total   | 84                             | 10      | 73                           | 40      |
| <b>Expenses:</b>                                    |                                |         |                              |         |
| Operating   | 32                             | 19      | 57                           | 40      |
| Interest  | 18                             | 19      | 36                           | 37      |
| Total   | 50                             | 38      | 93                           | 77      |
| Income (loss) before income tax                     | 34                             | (28)    | (20)                         | (37)    |
| Income tax (expense) benefit                        | (12)                           | 9       | 7                            | 13      |
| Net income (loss) attributable to Loews Corporation | \$ 22                          | \$ (19) | \$ (13)                      | \$ (24) |

Net investment income increased by \$75 million for the three months ended June 30, 2016 as compared with the 2015 period, primarily due to improved performance of equity based investments in the trading portfolio. Net investment income increased by \$33 million for the six months ended June 30, 2016 as compared with the 2015 period, primarily due to improved performance of equity based investments and fixed income investments in the trading portfolio, partially offset by lower results from limited partnership investments.

Operating expenses increased \$13 million and \$17 million for the three and six months ended June 30, 2016 as compared with the 2015 periods primarily due to expenses related to the 2016 Incentive Compensation Plan, which was approved by shareholders on May 10, 2016 and increased corporate overhead expenses.



Net results improved \$41 million and \$11 million for the three and six months ended June 30, 2016 as compared with the 2015 periods primarily due to the changes discussed above.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Parent Company**

Parent Company cash and investments, net of receivables and payables, at June 30, 2016 totaled \$4.9 billion, as compared to \$4.3 billion at December 31, 2015. During the six months ended June 30, 2016, we received \$632 million in dividends from our subsidiaries, including a special dividend from CNA of \$485 million. Cash outflows included the payment of \$86 million to fund treasury stock purchases, \$8 million to purchase shares of CNA, \$42 million of cash dividends to our shareholders and net cash contributions of approximately \$40 million to Loews Hotels. As a holding company we depend on dividends from our subsidiaries and returns on our investment portfolio to fund our obligations. We are not responsible for the liabilities and obligations of our subsidiaries and there are no Parent Company guarantees.

In March of 2016, we completed a public offering of \$500 million aggregate principal amount of 3.8% senior notes due April 1, 2026 and repaid in full the entire \$400 million aggregate principal amount of our 5.3% senior notes at maturity. The net remaining proceeds are being used for general corporate purposes.

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As of June 30, 2016, there were 337,388,941 shares of Loews common stock outstanding. Depending on market and other conditions, we may purchase our shares and shares of our subsidiaries outstanding common stock in the open market or otherwise. During the six months ended June 30, 2016, we purchased 2.6 million shares of Loews common stock and 0.3 million shares of CNA common stock.

In March of 2016, Moody's Investment Services, Inc. ( Moody's ) downgraded our unsecured debt rating from A2 to A3 and the outlook remains stable. Our current unsecured debt ratings are A+ for S&P Global Ratings ( S&P ) and A for Fitch Ratings, Inc., with a stable outlook for both. We have an effective Registration Statement on Form S-3 registering the future sale of an unlimited amount of our debt and equity securities.

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

**Subsidiaries**

CNA's cash provided by operating activities was \$613 million for the six months ended June 30, 2016 as compared with \$540 million for the same period in 2015. Cash provided by operating activities reflected increased receipts relating to the returns on invested capital for limited partnerships.

CNA declared and paid dividends of \$2.50 per share of its common stock, including a special dividend of \$2.00 per share during the six months ended June 30, 2016. On July 29, 2016, CNA's Board of Directors declared a quarterly dividend of \$0.25 per share, payable August 31, 2016 to shareholders of record on August 15, 2016. CNA's declaration and payment of future dividends is at the discretion of its Board of Directors and will depend on many factors, including CNA's earnings, financial condition, business needs and regulatory constraints. The payment of dividends by CNA's insurance subsidiaries without prior approval of the insurance department of each subsidiary's domiciliary jurisdiction is generally limited by formula. Dividends in excess of these amounts are subject to prior approval by the respective insurance regulator.

Dividends from the Continental Casualty Company ( CCC ), a subsidiary of CNA, are subject to the insurance holding company laws of the State of Illinois, the domiciliary state of CCC. Under these laws, ordinary dividends, or dividends that do not require prior approval by the Illinois Department of Insurance ( Department ), are determined based on the greater of the prior year's statutory net income or 10% of statutory surplus as of the end of the prior year, as well as the timing and amount of dividends paid in the preceding twelve months. Additionally, ordinary dividends may only be paid from earned surplus, which is calculated by removing unrealized gains from unassigned surplus. As of June 30, 2016, CCC was in a positive earned surplus position. The maximum allowable dividend CCC could pay during 2016 that would not be subject to the Department's prior approval is \$1.1 billion, less dividends paid during the preceding twelve months measured at that point in time. CCC paid dividends of \$200 million during the six months ended December 31, 2015 and \$565 million during the six months ended June 30, 2016. As of June 30, 2016, CCC is able to pay approximately \$314 million of dividends that would not be subject to prior approval of the Department. The actual level of dividends paid in any year is determined after an assessment of available dividend capacity, holding company liquidity and cash needs as well as the impact the dividends will have on the statutory surplus of the applicable insurance company.

Diamond Offshore's cash provided by operating activities for the six months ended June 30, 2016 increased \$105 million compared to the 2015 period, primarily due to a net decrease in cash payments for contract drilling and general and administrative expenses, including personnel-related, repairs and maintenance, and other rig operating costs of \$361 million, partially offset by lower cash receipts from contract drilling services of \$266 million. The

decline in both cash receipts and cash payments related to the performance of contract drilling services reflects a reduction in contract drilling activity during the six months ended June 30, 2016 as well as Diamond Offshore's continuing efforts to control costs.

For 2016, Diamond Offshore has budgeted approximately \$650 million for capital expenditures, including construction costs for the *Ocean GreatWhite* and ongoing capital maintenance and replacement programs. Shipyard construction of the *Ocean GreatWhite*, a 10,000 foot dynamically positioned, harsh environment semisubmersible drilling rig has been completed and in June of 2016 Diamond Offshore made the final payment of \$403 million. The *Ocean GreatWhite* was delivered in mid-July of 2016 and will be mobilized to Singapore for a rig enhancement project before placing the rig in service, which is expected to be completed in the third quarter of 2016.

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During the six months ended June 30, 2016, Diamond Offshore executed three sale and leaseback transactions and received \$158 million in proceeds, which was less than the carrying value of the equipment. The resulting difference was recorded as prepaid rent with no gain or loss recognized on the transactions. For further information about these transactions, see Note 4 of the Notes to Consolidated Condensed Financial Statements in Item 1 of this report.

As of June 30, 2016, Diamond Offshore had \$327 million in short term borrowings outstanding under its credit agreement and is in compliance with all covenant requirements thereunder. As of July 27, 2016, Diamond Offshore had \$270 million in short term borrowings outstanding and an additional \$1.2 billion available under its credit agreement to provide short term liquidity for payment obligations.

In February of 2016, Moody's downgraded Diamond Offshore's senior unsecured credit rating to Ba2 from Baa2, with a stable outlook, and also downgraded its short-term credit rating to sub-prime. In July of 2016, the S&P downgraded Diamond Offshore's senior unsecured credit rating to BBB from BBB+; the outlook remains negative. Market conditions and other factors, many of which are outside of Diamond Offshore's control, could cause its credit ratings to be further lowered. A downgrade in Diamond Offshore's credit ratings could adversely impact its cost of issuing additional debt and the amount of additional debt that it could issue, and could further restrict access to capital markets and Diamond Offshore's ability to raise additional debt. As a consequence, Diamond Offshore may not be able to issue additional debt in amounts and/or with terms that it considers to be reasonable. One or more of these occurrences could limit Diamond Offshore's ability to pursue other business opportunities.

Diamond Offshore will make periodic assessments of its capital spending programs based on industry conditions and will make adjustments if it determines they are required. Diamond Offshore, may, from time to time, issue debt or equity securities, or a combination thereof, to finance capital expenditures, the acquisition of assets and businesses or for general corporate purposes. Diamond Offshore's ability to access the capital markets by issuing debt or equity securities will be dependent on its results of operations, current financial condition, current credit ratings, current market conditions and other factors beyond its control.

Boardwalk Pipeline's cash provided by operating activities increased \$19 million for the six months ended June 30, 2016 compared to the 2015 period, primarily due to increased net income, excluding the effects of non-cash items such as depreciation and amortization, partially offset by timing of accruals and the Gulf South rate refund.

For the six months ended June 30, 2016 and 2015, Boardwalk Pipeline declared and paid distributions to its common unitholders of record of \$0.20 per common unit and an amount to the general partner on behalf of its 2% general partner interest. In July of 2016, the Partnership declared a quarterly cash distribution to unitholders of record of \$0.10 per common unit.

For the six months ended June 30, 2016 and 2015, Boardwalk Pipeline's capital expenditures were \$259 million and \$136 million, consisting of a combination of growth and maintenance capital. Boardwalk Pipeline expects total capital expenditures to be approximately \$760 million in 2016, primarily related to growth projects and pipeline system maintenance expenditures. Boardwalk Pipeline expects to finance 2016 growth capital expenditures through existing capital resources, including Boardwalk Pipeline's cash on hand, revolving credit facility, the Subordinated Loan facility and cash flows from operating activities.

As of July 29, 2016, Boardwalk Pipeline had no outstanding borrowings under its revolving credit facility and had available the full borrowing capacity of \$1.5 billion. Since June 30, 2016, Boardwalk Pipeline extended the maturity date of the revolving credit facility by one year to May 26, 2021. Boardwalk Pipeline has in place a subordinated loan agreement with a subsidiary of the Company under which it could borrow up to \$300 million. The borrowing period of the subordinated loan agreement was recently extended by two years to December 31, 2018. As of June 30, 2016

and July 29, 2016 Boardwalk Pipeline had no outstanding borrowings under the subordinated loan agreement. In addition, Boardwalk Pipeline has entered a new equity distribution agreement under its shelf registration statement filed in December 2015, which will allow it to issue equity from time to time under an at-the-market program. Based on the current forecast and planned projects, Boardwalk Pipeline does not anticipate the need to issue equity for the remainder of 2016.

## **INVESTMENTS**

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

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We enter into short sales and invest in certain derivative instruments that are used for asset and liability management activities, income enhancements to our portfolio management strategy and to benefit from anticipated future movements in the underlying markets. If such movements do not occur as anticipated, then significant losses may occur. Monitoring procedures include senior management review of daily detailed reports of existing positions and valuation fluctuations to ensure that open positions are consistent with our portfolio strategy.

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

**Insurance**

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

**Net Investment Income**

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

|  | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |          |
|--|--------------------------------|--------|------------------------------|----------|
|  | 2016                           | 2015   | 2016                         | 2015     |
| <b>(In millions)</b>   |                                |        |                              |          |
| Fixed maturity securities:                                   |                                |        |                              |          |
| Taxable  | \$ 349                         | \$ 352 | \$ 694                       | \$ 694   |
| Tax-exempt   | 100                            | 100    | 201                          | 201      |
| Total fixed maturity securities                              | 449                            | 452    | 895                          | 895      |
| Limited partnership investments                              | 46                             | 48     | 32                           | 162      |
| Other, net of investment expense                             | 7                              |        | 10                           | 1        |
| Net investment income before tax                             | \$ 502                         | \$ 500 | \$ 937                       | \$ 1,058 |
| Net investment income after tax and noncontrolling interests | \$ 325                         | \$ 319 | \$ 608                       | \$ 673   |
|  | 4.8%                           | 4.9%   | 4.8%                         | 4.8%     |

Effective income yield for the fixed maturity securities portfolio, before tax

Effective income yield for the fixed maturity securities portfolio, after tax

|  |             |      |             |      |
|--|-------------|------|-------------|------|
|  | <b>3.5%</b> | 3.5% | <b>3.4%</b> | 3.5% |
|--|-------------|------|-------------|------|

Net investment income after tax and noncontrolling interests for the three months ended June 30, 2016 was in line with the same period in 2015. Income from fixed maturity securities reflects an increase in the invested asset base. Limited partnerships returned 1.8% for the three months ended June 30, 2016 as compared with 1.6% for the same period in 2015.

Net investment income after tax and noncontrolling interests for the six months ended June 30, 2016 decreased \$65 million as compared with the same period in 2015. The decrease was driven by limited partnership investments, which returned 1.2% as compared with 5.5% in the prior year period.

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

The components of CNA's Net realized investment gains (losses) are presented in the following table:

|  | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |       |
|--|--------------------------------|------|------------------------------|-------|
|  | 2016                           | 2015 | 2016                         | 2015  |
| <b>(In millions)</b>   |                                |      |                              |       |
| Realized investment gains (losses):                                      |                                |      |                              |       |
| Fixed maturity securities:   |                                |      |                              |       |
| Corporate and other bonds  | \$ 7                           | \$ 3 | \$ (8)                       | \$ 16 |
| States, municipalities and political subdivisions                        |                                | (16) | 3                            | (20)  |
| Asset-backed   | 6                              |      |                              | 3     |
| U.S. Treasury and obligations of government-sponsored enterprises        | 1                              |      | 2                            |       |
| Foreign government   | 2                              | 1    | 2                            | 1     |
| Total fixed maturity securities  | 16                             | (12) | (1)                          | -     |
| Equity securities  | 3                              | (1)  | (2)                          | (1)   |
| Derivative securities  | (6)                            | 11   | (13)                         | 10    |
| Short term investments and other   |                                |      | 1                            | (1)   |
| Total realized investment gains (losses)                                 | 13                             | (2)  | (15)                         | 8     |
| Income tax (expense) benefit   | (6)                            | 5    | 3                            | 4     |
| Amounts attributable to noncontrolling interests                         | (1)                            |      | 1                            | (1)   |
| Net realized investment gains (losses) attributable to Loews Corporation | \$ 6                           | \$ 3 | \$ (11)                      | \$ 11 |

Net realized investment gains increased \$3 million for the three months ended June 30, 2016 as compared with the same period in 2015, driven by higher net realized investment gains on sales of securities and lower OTTI losses recognized in earnings, partially offset by derivative results.

Net realized investment results decreased \$22 million for the six months ended June 30, 2016 as compared with the same period in 2015, driven by derivative results.

Further information on CNA's realized gains and losses, including OTTI losses, is set forth in Note 2 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

**Portfolio Quality**

The following table presents the estimated fair value and net unrealized gains (losses) of CNA's fixed maturity securities by rating distribution:



June 30, 2016

December 31, 2015

|  | Estimated<br>Fair Value | Net<br>Unrealized<br>Gains<br>(Losses) | Estimated<br>Fair Value | Net<br>Unrealized<br>Gains<br>(Losses) |
|--|-------------------------|--|-------------------------|--|
|--|-------------------------|--|-------------------------|--|

**(In millions)**

|  |                  |                 |                  |                 |
|--|------------------|-----------------|------------------|-----------------|
| U.S. Government, Government agencies and<br>Government-sponsored enterprises | \$ 4,208         | \$ 180          | \$ 3,910         | \$ 101          |
| AAA  | 1,936            | 169             | 1,938            | 123             |
| AA   | 9,153            | 1,295           | 8,919            | 900             |
| A  | 10,567           | 1,343           | 10,044           | 904             |
| BBB  | 12,790           | 953             | 11,595           | 307             |
| Non-investment grade   | 3,203            | 79              | 3,166            | (16)            |
| <b>Total</b>   | <b>\$ 41,857</b> | <b>\$ 4,019</b> | <b>\$ 39,572</b> | <b>\$ 2,319</b> |

As of June 30, 2016 and December 31, 2015, only 1% of CNA's fixed maturity portfolio was rated internally.

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The following table presents available-for-sale fixed maturity securities in a gross unrealized loss position by ratings distribution:

| <b>June 30, 2016</b>                            | <b>Estimated<br/>Fair Value</b> | <b>Gross<br/>Unrealized<br/>Losses</b> |
|---|---------------------------------|--|
| <b>(In millions)</b>                            |                                 |  |
| <b>U.S. Government, Government agencies and</b> |                                 |  |
| <b>Government-sponsored enterprises</b>         | <b>\$ 27</b>                    | <b>\$ 1</b>                            |
| <b>AAA</b>                                      | <b>139</b>                      | <b>2</b>                               |
| <b>AA</b>                                       | <b>89</b>                       | <b>2</b>                               |
| <b>A</b>  | <b>432</b>                      | <b>11</b>                              |
| <b>BBB</b>                                      | <b>1,204</b>                    | <b>40</b>                              |
| <b>Non-investment grade</b>                     | <b>1,136</b>                    | <b>72</b>                              |
| <b>Total</b>                                    | <b>\$ 3,027</b>                 | <b>\$ 128</b>                          |

The following table presents the maturity profile for these available-for-sale fixed maturity securities. Securities not due to mature on a single date are allocated based on weighted average life:

| <b>June 30, 2016</b>                          | <b>Estimated<br/>Fair Value</b> | <b>Gross<br/>Unrealized<br/>Losses</b> |
|---|---------------------------------|--|
| <b>(In millions)</b>                          |                                 |  |
| <b>Due in one year or less</b>                | <b>\$ 239</b>                   | <b>\$ 2</b>                            |
| <b>Due after one year through five years</b>  | <b>724</b>                      | <b>25</b>                              |
| <b>Due after five years through ten years</b> | <b>1,520</b>                    | <b>56</b>                              |
| <b>Due after ten years</b>                    | <b>544</b>                      | <b>45</b>                              |
| <b>Total</b>                                  | <b>\$ 3,027</b>                 | <b>\$ 128</b>                          |

**Duration**

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

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

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

|   | June 30, 2016           |                                  | December 31, 2015       |                                  |
|---|-------------------------|----------------------------------|-------------------------|----------------------------------|
|   | Estimated<br>Fair Value | Effective<br>Duration<br>(Years) | Estimated<br>Fair Value | Effective<br>Duration<br>(Years) |
| <b>(In millions of dollars)</b>                 |                         |                                  |                         |                                  |
| Investments supporting Life & Group<br>Non-Core | \$ 16,288               | 8.7                              | \$ 14,879               | 9.6                              |
| Other interest sensitive investments            | 26,839                  | 4.1                              | 26,435                  | 4.3                              |
| <b>Total</b>                                    | <b>\$ 43,127</b>        | <b>5.9</b>                       | <b>\$ 41,314</b>        | <b>6.2</b>                       |

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The investment portfolio is periodically analyzed for changes in duration and related price change risk. Additionally, CNA periodically reviews the sensitivity of the portfolio to the level of foreign exchange rates and other factors that contribute to market price changes. A summary of these risks and specific analysis on changes is included in the Quantitative and Qualitative Disclosures about Market Risk in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2015.

**Short Term Investments**

The carrying values of the components of CNA's Short term investments are presented in the following table:

|                                     | <b>June 30,<br/>2016</b> | December 31,<br>2015 |
|-------------------------------------|--------------------------|----------------------|
| <b>(In millions)</b>                |                          |                      |
| <b>Short term investments:</b>      |                          |                      |
| Commercial paper                    | \$ 862                   | \$ 998               |
| U.S. Treasury securities            | 277                      | 411                  |
| Money market funds                  | 79                       | 60                   |
| Other                               | 166                      | 191                  |
| <b>Total short term investments</b> | <b>\$ 1,384</b>          | <b>\$ 1,660</b>      |

**ACCOUNTING STANDARDS UPDATE**

For a discussion of accounting standards updates that have been adopted or will be adopted in the future, please read Note 1 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

**FORWARD-LOOKING STATEMENTS**

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

Forward-looking statements are based on current expectations and projections about future events and are inherently subject to a variety of risks and uncertainties, many of which are beyond our control, that could cause actual results to differ materially from those anticipated or projected. See Forward-Looking Statements and Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2015 for further discussion of factors that may affect the forward-looking statements. The following information describes an addition to the Forward-Looking Statements and should be read in conjunction with the Forward-Looking Statements disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

On June 23, 2016, the U.K. held a referendum in which voters approved an exit from the E.U., commonly referred to as Brexit. As a result of the referendum, it is expected that the British government will formally commence the process to leave the E.U. and begin negotiating the terms of treaties that will govern the U.K.'s future relationship with the E.U. Although it is unknown what those terms will be, it is possible that a U.K. insurance entity's ability to transact insurance business in E.U. countries will be subject to increased regulatory complexities or may not be possible at all. Brexit related changes may adversely affect CNA's operations and financial results.

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

There were no material changes in our market risk components for the six months ended June 30, 2016. See the Quantitative and Qualitative Disclosures about Market Risk included in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2015 for further information. Additional information related to portfolio duration and market conditions is discussed in the Investments section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part I, Item 2.

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**Item 4. Controls and Procedures.**

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

The Company's principal executive officer (CEO) and principal financial officer (CFO) undertook an evaluation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. The CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of June 30, 2016.

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the foregoing evaluation that occurred during the quarter ended June 30, 2016 that have materially affected or that are reasonably likely to materially affect the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

None.

**Item 1A. Risk Factors.**

Our Annual Report on Form 10-K for the year ended December 31, 2015 includes a detailed discussion of certain risk factors facing our company. No updates or additions have been made to such risk factors as of June 30, 2016.

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

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

**(c) STOCK REPURCHASES**

| Period | (a) Total number<br>of shares<br>purchased | (b) Average<br>price paid per<br>share | (c) Total number of<br>shares purchased as<br>part of publicly<br>announced plans or<br>programs | (d) Maximum number of shares<br>(or approximate dollar value)<br>of shares that may yet be<br>purchased under the plans or<br>programs (in millions) |
|--------|--|--|--|--|
|--------|--|--|--|--|

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|                                   |           |         |     |     |
|-----------------------------------|-----------|---------|-----|-----|
| April 1, 2016 -<br>April 30, 2016 | N/A       | N/A     | N/A | N/A |
| May 1, 2016 -<br>May 31, 2016     | 300,700   | \$39.84 | N/A | N/A |
| June 1, 2016 -<br>June 30, 2016   | 1,333,126 | \$39.43 | N/A | N/A |

**Table of Contents****Item 6. Exhibits.**

| <b>Description of Exhibit</b>  | <b>Exhibit<br/>Number</b> |
|--|---------------------------|
| Loews Corporation 2016 Incentive Compensation Plan effective as of February 9, 2016  | 10.1*+                    |
| Form of Performance-Based Restricted Stock Unit Award Notice under the Loews Corporation 2016 Incentive Compensation Plan                                    | 10.2*+                    |
| Form of Time-Vesting Restricted Stock Unit Award Notice under the Loews Corporation 2016 Incentive Compensation Plan   | 10.3*+                    |
| Form of Directors Restricted Stock Unit Award Notice under the Loews Corporation 2016 Incentive Compensation Plan  | 10.4*+                    |
| Form of Election Form for Restricted Stock Units under the Loews Corporation 2016 Incentive Compensation Plan  | 10.5*+                    |
| Certification by the Chief Executive Officer of the Company pursuant to Rule 13a-14(a) and Rule 15d-14(a)  | 31.1*                     |
| Certification by the Chief Financial Officer of the Company pursuant to Rule 13a-14(a) and Rule 15d-14(a)  | 31.2*                     |
| Certification by the Chief Executive Officer of the Company pursuant to 18 U.S.C. Section 1350 (as adopted by Section 906 of the Sarbanes-Oxley Act of 2002) | 32.1*                     |
| Certification by the Chief Financial Officer of the Company pursuant to 18 U.S.C. Section 1350 (as adopted by Section 906 of the Sarbanes-Oxley Act of 2002) | 32.2*                     |
| XBRL Instance Document   | 101.INS *                 |
| XBRL Taxonomy Extension Schema   | 101.SCH *                 |
| XBRL Taxonomy Extension Calculation Linkbase   | 101.CAL *                 |
| XBRL Taxonomy Extension Definition Linkbase  | 101.DEF *                 |
| XBRL Taxonomy Label Linkbase   | 101.LAB *                 |
| XBRL Taxonomy Extension Presentation Linkbase  | 101.PRE *                 |

\*Filed herewith.

+Management contract or compensatory plan or arrangement.



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SIGNATURES

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

LOEWS CORPORATION  
(Registrant)

Dated: August 1, 2016

By: /s/ David B. Edelson  
DAVID B. EDELSON  
Senior Vice President and  
Chief Financial Officer  
(Duly authorized officer  
and principal financial  
officer)