LOEWS CORP
Form 10-Q
May 01, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

OR

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

For the Transition Period From to

Commission File Number 1-6541

LOEWS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

(212) 521-2000

(Registrant s telephone number, including area code)

NOT APPLICABLE

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

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

Yes x No ¨

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

Yes x No ¨ Not Applicable ¨

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

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

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

Yes ¨ No x

Class	Outstanding at April 20, 2012
Common stock, $0.01 par value	396,836,271 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

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

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

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

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

Weighted-average shares outstanding:		
Shares of common stock	**396.77**	412.90
Dilutive potential shares of common stock	**0.67**	0.93
Total weighted-average shares outstanding assuming dilution	**397.44**	413.83

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

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

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

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

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

Effect of foreign exchange rate on cash		**1**		2
Net change in cash		**(30)**		3
Cash, beginning of period		**129**		120
Cash, end of period	**$**	**99**	$	123

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 50.4% owned subsidiary); interstate transportation and storage of natural gas (Boardwalk Pipeline Partners, LP (Boardwalk Pipeline), a 61% owned subsidiary); exploration, production and marketing of natural gas and oil (including condensate and natural gas liquids), (HighMount Exploration & Production LLC (HighMount), a wholly owned subsidiary); and the operation of hotels (Loews Hotels Holding Corporation (Loews Hotels), a wholly owned subsidiary). In the first quarter of 2012, Boardwalk Pipeline sold 9.2 million common units through a public offering for $245 million, reducing the Company s ownership interest from 64% to 61%. Unless the context otherwise requires, the terms Company, Loews and Registrant as used herein mean Loews Corporation excluding its subsidiaries and the term Net income (loss) Loews as used herein means Net income (loss) attributable to Loews Corporation.

In the opinion of management, the accompanying unaudited Consolidated Condensed Financial Statements reflect all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of March 31, 2012 and December 31, 2011 and the results of operations, comprehensive income and changes in shareholders equity and cash flows for the three months ended March 31, 2012 and 2011.

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

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

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

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

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

Accounting Changes In October of 2010, the Financial Accounting Standards Board issued updated accounting guidance which limits the capitalization of costs incurred to acquire or renew insurance contracts to those that are incremental direct costs of successful contract acquisitions. The previous guidance allowed the capitalization of acquisition costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts, whether the costs related to successful or unsuccessful efforts.

As of January 1, 2012, the Company adopted the updated accounting guidance prospectively as of January 1, 2004, the earliest date practicable. Due to the lack of available historical data related to certain accident and health contracts issued prior to January 1, 2004, a full retrospective application of the change in accounting guidance was impracticable. Acquisition costs capitalized prior to January 1, 2004 will continue to be accounted for under the previous accounting guidance and will be amortized over the premium-paying period of the related policies using assumptions consistent with those used for computing future policy benefit reserves for such contracts.

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

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

2. Investments

Net investment income is as follows:

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

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

Investment gains (losses) are as follows:

Three Months Ended March 31	**2012**	2011
(In millions)		
Fixed maturity securities	**$ 30**	$ 20
Equity securities	**1**	
Derivative instruments	**(1)**	(1)
Short term investments		2
Other	**2**	2
Investment gains (a)	**$ 32**	$ 23

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

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

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

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

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

The Impairment Committee s assessment of whether an OTTI loss has occurred incorporates both quantitative and qualitative information. Fixed maturity securities that CNA intends to sell, or it more likely than not will be required to sell before recovery of amortized cost, are considered to be other-than-temporarily impaired and the entire difference between the amortized cost basis and fair value of the security is recognized as an OTTI loss in earnings. The remaining fixed maturity securities in an unrealized loss position are evaluated to determine if a credit loss exists. The factors considered by the Impairment Committee include: (i) the financial condition and near term prospects of the issuer, (ii) whether the debtor is current on interest and principal payments, (iii) credit ratings of the securities and (iv) general market conditions and industry or sector specific outlook. CNA also considers results and analysis of cash flow modeling for asset-backed securities, and when appropriate, other fixed maturity securities.

The focus of the analysis for asset-backed securities is on assessing the sufficiency and quality of underlying collateral and timing of cash flows based on scenario tests. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss is judged to exist and the asset-backed security is deemed to be temporarily impaired. If the present value of the expected cash flows is less than amortized cost, the security is judged to be other-than-temporarily impaired for credit reasons and that shortfall, referred to as the credit component, is recognized as an OTTI loss in earnings. The difference between the adjusted amortized cost basis and fair value, referred to as the non-credit component, is recognized as OTTI in Other comprehensive income. In subsequent reporting periods, a change in intent to sell or further credit impairment on a security whose fair value has not deteriorated will cause the non-credit component originally recorded as OTTI in Other comprehensive income to be recognized as an OTTI loss in earnings.

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

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

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

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

December 31, 2011					
Fixed maturity securities:					
Corporate and other bonds	$ 19,086	$ 1,946	$ 154	$ 20,878	
States, municipalities and political subdivisions	9,018	900	136	9,782	
Asset-backed:					
Residential mortgage-backed	5,786	172	183	5,775	$ 99
Commercial mortgage-backed	1,365	48	59	1,354	(2)
Other asset-backed	946	13	4	955	
Total asset-backed	8,097	233	246	8,084	97
U.S. Treasury and obligations of government-sponsored enterprises	479	14		493	

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

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

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

	Less than 12 Months		12 Months or Longer		Total	
March 31, 2012	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**
(In millions)						
Fixed maturity securities:						
Corporate and other bonds	**$ 1,635**	**$ 43**	**$ 124**	**$ 18**	**$ 1,759**	**$ 61**
States, municipalities and political subdivisions	**385**	**8**	**460**	**85**	**845**	**93**
Asset-backed:						
Residential mortgage-backed	**882**	**39**	**1,026**	**100**	**1,908**	**139**
Commercial mortgage-backed	**219**	**18**	**122**	**18**	**341**	**36**
Other asset-backed	**297**	**1**			**297**	**1**
Total asset-backed	**1,398**	**58**	**1,148**	**118**	**2,546**	**176**
Total fixed maturities available-for-sale	**3,418**	**109**	**1,732**	**221**	**5,150**	**330**
Equity securities available-for-sale:						
Common stock	**4**	**1**			**4**	**1**
Total	**$ 3,422**	**$ 110**	**$ 1,732**	**$ 221**	**$ 5,154**	**$ 331**
December 31, 2011						
Fixed maturity securities:						
Corporate and other bonds	$ 2,552	$ 126	$ 159	$ 28	$ 2,711	$ 154
States, municipalities and political subdivisions	67	1	721	135	788	136
Asset-backed:						
Residential mortgage-backed	719	36	874	147	1,593	183
Commercial mortgage-backed	431	39	169	20	600	59
Other asset-backed	389	4			389	4
Total asset-backed	1,539	79	1,043	167	2,582	246
Total fixed maturities available-for-sale	4,158	206	1,923	330	6,081	536
Equity securities available-for-sale:						
Preferred stock	117	5			117	5
Total	$ 4,275	$ 211	$ 1,923	$ 330	$ 6,198	$ 541

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

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

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

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

The classification between investment grade and non-investment grade presented in the discussion below is based on a ratings methodology that takes into account ratings from two major providers, Standard & Poor s and Moody s Investors Service, Inc. in that order of preference. If a security is not rated by these providers, the Company formulates an internal rating.

States, Municipalities and Political Subdivisions

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

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

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

Asset-Backed Securities

The fair value of total asset-backed holdings at March 31, 2012 was $8.4 billion which was comprised of 2,028 different securities. The fair value of these securities tends to be influenced by the characteristics and projected cash flows of the underlying collateral rather than the credit of the issuer. Each security has deal-specific tranche structures, credit support that results from the unique deal structure, particular collateral characteristics and other distinct security terms. As a result, seemingly common factors such as delinquency rates and collateral performance affect each security differently. Of these securities, 104 had underlying collateral that was either considered sub-prime or Alt-A in nature. The exposure to sub-prime residential mortgage collateral and Alternative A residential mortgages that have lower than normal standards of loan documentation collateral is measured by the original deal structure.

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

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

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

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

Non-investment grade	**895**	**803**	**92**
Total	**$ 2,722**	**$ 2,546**	**$ 176**

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The Company believes the unrealized losses are primarily attributable to broader economic conditions, changes in interest rates, wider than historical bid/ask spreads, and uncertainty with regard to the timing and amount of ultimate collateral realization, but are not indicative of the ultimate collectability of the current carrying values of the securities. The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at March 31, 2012.

Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at March 31, 2012 and December 31, 2011. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

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

Investment Commitments

As of March 31, 2012, the Company had committed approximately $122 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases, sales and funding. The purchase and sale of these investments are recorded on the date that the legal agreements are finalized and cash settlements are made. As of March 31, 2012, the Company had commitments to purchase $151 million and sell $127 million of such investments. The Company has an obligation to fund additional amounts under the terms of current loan participations that may not be recorded until a draw is made. As of March 31, 2012, the Company had obligations on unfunded bank loan participations in the amount of $5 million.

3. Fair Value

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

Level 1 Quoted prices for identical instruments in active markets.

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

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

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

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

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

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

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

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

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The tables below present reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2012 and 2011:

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

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

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

Major Category of Assets and Liabilities	Consolidated Condensed Statements of Income Line Items
Fixed maturity securities available-for-sale	Investment gains (losses)
Fixed maturity securities, trading	Net investment income
Equity securities available-for-sale	Investment gains (losses)
Equity securities, trading	Net investment income
Other invested assets	Investment gains (losses)

Derivative financial instruments held in a trading portfolio	Net investment income
Derivative financial instruments, other	Investment gains (losses) and Other revenues
Life settlement contracts	Other revenues

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Securities shown in the Level 3 tables may be transferred in or out of Level 3 based on the availability of observable market information used to determine the fair value of the security. The availability of observable market information varies based on market conditions and trading volume and may cause securities to move in and out of Level 3 from reporting period to reporting period. There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2012 and 2011. The Company s policy is to recognize transfers between levels at the beginning of quarterly reporting periods.

Significant Unobservable Inputs

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

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

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

Financial Assets and Liabilities Not Measured at Fair Value

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

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

March 31, 2012 **(In millions)**	**Carrying Amount**	**Estimated Fair Value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets:					
Other invested assets, primarily mortgage loans	**$ 281**			**$ 295**	**$ 295**

Financial Liabilities:				
Premium deposits and annuity contracts	**108**		**112**	**112**
Short term debt	**88**	**$ 84**	**5**	**89**
Long term debt	**8,954**	**9,457**	**208**	**9,665**

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

4. Derivative Financial Instruments

A summary of the aggregate contractual or notional amounts and gross estimated fair values related to derivative financial instruments follows. The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and may not be representative of the potential for gain or loss on these instruments.

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

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

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

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

5. Claim and Claim Adjustment Expense Reserves

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

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

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company s results of operations and/or equity. CNA reported catastrophe losses, net of reinsurance, of $28 million and $55 million for the three months ended March 31, 2012 and 2011. Catastrophe losses in the first quarter of 2012 related primarily to U.S. storms.

Net Prior Year Development

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

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

Three Months Ended March 31, 2011				
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$ (15)	$ (7)	$ 3	$ (19)
Pretax (favorable) unfavorable premium development	(7)	(8)	(1)	(16)
Total pretax (favorable) unfavorable net prior year development	$ (22)	$ (15)	$ 2	$ (35)

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

CNA Specialty

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

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

2012

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

2011

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

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

CNA Commercial

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

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

2012

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

2011

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

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

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6. Benefit Plans

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

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

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

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

The components of net periodic benefit cost are as follows:

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

7. Business Segments

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

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

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

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

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

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

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

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

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

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

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

Three Months Ended March 31	2012	2011
(In millions)		
Revenues (a):		
CNA Financial:		
CNA Specialty	$ 945	$ 891
CNA Commercial	1,088	1,094
Life and Group Non-Core	350	326
Other	18	13
Total CNA Financial	2,401	2,324
Diamond Offshore	796	809
Boardwalk Pipeline	314	311
HighMount	76	104
Loews Hotels	80	80
Corporate and other	77	40
Total	$ 3,744	$ 3,668
Income (loss) before income tax and noncontrolling interests (a):		
CNA Financial:		
CNA Specialty	$ 209	$ 214
CNA Commercial	227	212
Life and Group Non-Core	(37)	(48)
Other	(33)	(46)
Total CNA Financial	366	332
Diamond Offshore	252	296
Boardwalk Pipeline	92	82
HighMount	(34)	29
Loews Hotels	7	3
Corporate and other	58	15
Total	$ 741	$ 757
Net income (loss) - Loews (a):		
CNA Financial:		
CNA Specialty	$ 125	$ 121
CNA Commercial	131	125
Life and Group Non-Core	(10)	(19)
Other	(20)	(28)
Total CNA Financial	226	199
Diamond Offshore	87	117
Boardwalk Pipeline	35	33
HighMount	(22)	19
Loews Hotels	4	2

Corporate and other	**37**	9
Total	**$ 367**	$ 379

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

Three Months Ended March 31	2012	2011
Revenues and Income (loss) before income tax and noncontrolling interests:		
CNA Financial:		
CNA Specialty	**$ 8**	$ 8
CNA Commercial	**11**	17
Life and Group Non-Core	**13**	(4)
Other		1
Total CNA Financial	**32**	22
Corporate and other		1
Total	**$ 32**	$ 23
Net income (loss) - Loews:		
CNA Financial:		
CNA Specialty	**$ 5**	$ 5
CNA Commercial	**6**	9
Life and Group Non-Core	**7**	(2)
Other	**1**	
Total	**$ 19**	$ 12

8. Legal Proceedings

In August 2005, CNA and certain insurance subsidiaries were joined as defendants, along with other insurers and brokers, in multidistrict litigation pending in the United States District Court for the District of New Jersey, *In re Insurance Brokerage Antitrust Litigation*, Civil No. 04-5184 (GEB). The plaintiffs consolidated class action complaint alleged bid rigging and improprieties in the payment of contingent commissions in connection with the sale of insurance. After various motions and preliminary court rulings providing for further proceedings, plaintiffs and various defendants, including CNA and its named insurance subsidiaries, executed final settlement documents and the plaintiffs filed a motion for preliminary approval of the settlement in May 2011, which was ultimately approved by the Court in March of 2012. In April of 2012, objectors to the settlement filed notices of appeal. As currently structured, the settlement will not have a material impact on the Company s results of operations. In addition, the Company does not believe it has any material ongoing exposure relating to this matter.

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

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

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

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

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9. Commitments and Contingencies

Guarantees

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

In addition, the Company has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of March 31,2012, the Company had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser s ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire, or until the agreed upon contract terms expire.

Offshore Rig Purchase Obligations

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

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

10. Consolidating Financial Information

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

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

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Loews Corporation

Consolidating Balance Sheet Information

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

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Loews Corporation

Consolidating Balance Sheet Information

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

Loews Corporation

Consolidating Statement of Income Information

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

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Loews Corporation

Consolidating Statement of Income Information

Three Months Ended March 31, 2011 (In millions)	CNA Financial	Diamond Offshore	Boardwalk Pipeline	HighMount	Loews Hotels	Corporate and Other	Eliminations	Total
Revenues:								
Insurance premiums	$ 1,615							$ 1,615
Net investment income	620					$ 41		661
Intercompany interest and dividends						155	$ (155)	
Investment gains	22	$ 1						23
Contract drilling revenues		789						789
Other	67	20	$ 311	$ 104	$ 80	1	(3)	580
Total	2,324	810						