

LOEWS CORP  
Form 10-Q  
October 30, 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 September 30, 2012**

**OR**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Transition Period From**

**to**

**Commission File Number 1-6541**

**LOEWS CORPORATION**

(Exact name of registrant as specified in its charter)

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

**13-2646102**  
(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)

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NOT APPLICABLE

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

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

Yes  No

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

Yes  No  Not Applicable

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

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

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

Yes  No

Class  
Common stock, \$0.01 par value

Outstanding at October 19, 2012  
393,601,749 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)**

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

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

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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

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

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

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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

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

*See accompanying Notes to Consolidated Condensed Financial Statements.*



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

## Loews Corporation Shareholders

|  | Total     | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Common<br>Stock<br>Held in<br>Treasury | Noncontrolling<br>Interests |
|--|-----------|-----------------|----------------------------------|----------------------|---|--|-----------------------------|
| (In millions)  |           |                 |                                  |                      |   |  |                             |
| Balance, January 1, 2011, as reported  | \$ 23,106 | \$ 4            | \$ 3,667                         | \$ 14,564            | \$ 230  | \$ (15)                                | \$ 4,656                    |
| Adjustment to initially apply updated guidance on accounting for costs associated with acquiring or renewing insurance contracts | (78)      |                 |                                  | (64)                 |   |  | (14)                        |
| Balance, January 1, 2011, as restated  | 23,028    | 4               | 3,667                            | 14,500               | 230   | (15)                                   | 4,642                       |
| Net income   | 1,282     |                 |                                  | 791                  |   |  | 491                         |
| Other comprehensive income   | 552       |                 |                                  |                      | 496   |  | 56                          |
| Dividends paid   | (373)     |                 |                                  | (76)                 |   |  | (297)                       |
| Acquisition of CNA Surety noncontrolling interests   | (475)     |                 | (59)                             |                      | 17  |  | (433)                       |
| Issuance of equity securities by subsidiary  | 152       |                 | 28                               |                      | 1   |  | 123                         |
| Purchase of Loews treasury stock   | (690)     |                 |                                  |                      |   | (690)                                  |                             |
| Issuance of Loews common stock   | 4         |                 | 4                                |                      |   |  |                             |
| Stock-based compensation   | 16        |                 | 14                               |                      |   |  | 2                           |
| Other  | (6)       |                 | (1)                              | (2)                  |   |  | (3)                         |
| Balance, September 30, 2011  | \$ 23,490 | \$ 4            | \$ 3,653                         | \$ 15,213            | \$ 744  | \$ (705)                               | \$ 4,581                    |
| Balance, January 1, 2012, as reported  | \$ 23,273 | \$ 4            | \$ 3,499                         | \$ 14,957            | \$ 375  | \$                                     | \$ 4,438                    |
| Adjustment to initially apply updated guidance on accounting for costs associated with acquiring or renewing insurance contracts | (70)      |                 | (5)                              | (67)                 | 9   |  | (7)                         |
| Balance, January 1, 2012, as restated  | 23,203    | 4               | 3,494                            | 14,890               | 384   |  | 4,431                       |
| Net income   | 1,027     |                 |                                  | 600                  |   |  | 427                         |
| Other comprehensive income   | 643       |                 |                                  |                      | 577   |  | 66                          |
| Dividends paid   | (404)     |                 |                                  | (74)                 |   |  | (330)                       |
| Issuance of equity securities by subsidiary  | 508       |                 | 79                               |                      | 3   |  | 426                         |
| Purchase of Loews treasury stock   | (139)     |                 |                                  |                      |   | (139)                                  |                             |
| Issuance of Loews common stock   | 9         |                 | 9                                |                      |   |  |                             |
| Stock-based compensation   | 17        |                 | 15                               |                      |   |  | 2                           |
| Other  | (2)       |                 | (2)                              | (1)                  |   |  | 1                           |

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|                                    |                  |             |                 |                  |               |                 |                 |
|------------------------------------|------------------|-------------|-----------------|------------------|---------------|-----------------|-----------------|
| <b>Balance, September 30, 2012</b> | <b>\$ 24,862</b> | <b>\$ 4</b> | <b>\$ 3,595</b> | <b>\$ 15,415</b> | <b>\$ 964</b> | <b>\$ (139)</b> | <b>\$ 5,023</b> |
|------------------------------------|------------------|-------------|-----------------|------------------|---------------|-----------------|-----------------|

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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

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

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|   |               |         |
|---|---------------|---------|
| Net cash flow financing activities      | <b>(163)</b>  | (1,662) |
| Effect of foreign exchange rate on cash | <b>3</b>      | (1)     |
| Net change in cash                      | <b>40</b>     | 8       |
| Cash, beginning of period               | <b>129</b>    | 120     |
| Cash, end of period                     | <b>\$ 169</b> | \$ 128  |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

**Table of Contents****Loews Corporation and Subsidiaries****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS****(Unaudited)****1. Basis of Presentation**

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: commercial property and casualty insurance (CNA Financial Corporation ( CNA ), a 90% owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. ( Diamond Offshore ), a 50.4% owned subsidiary); interstate transportation and storage of natural gas (Boardwalk Pipeline Partners, LP ( Boardwalk Pipeline ), a 55% owned subsidiary); exploration, production and marketing of natural gas and oil (including condensate and natural gas liquids) (HighMount Exploration & Production LLC ( HighMount ), a wholly owned subsidiary); and the operation of hotels (Loews Hotels Holding Corporation ( Loews Hotels ), a wholly owned subsidiary). In the first and third quarters of 2012 Boardwalk Pipeline sold 9.2 million and 11.6 million common units through public offerings for \$245 million and \$311 million, reducing the Company's ownership interest from 64% to 58%. In October of 2012, Boardwalk Pipeline sold an additional 11.2 million units for \$292 million, further reducing the Company's ownership to 55%. As a result, the Company will record an increase to Additional paid-in capital ( APIC ) in the fourth quarter of 2012 of approximately \$36 million. Unless the context otherwise requires, the terms Company, Loews and Registrant as used herein mean Loews Corporation excluding its subsidiaries and the term Net income (loss) Loews as used herein means Net income (loss) attributable to Loews Corporation.

In the opinion of management, the accompanying unaudited Consolidated Condensed Financial Statements reflect all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2012 and December 31, 2011 and the results of operations and comprehensive income for the three and nine months ended September 30, 2012 and 2011 and changes in shareholders equity and cash flows for the nine months ended September 30, 2012 and 2011.

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

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

The Company presents basic and diluted net income per share on the Consolidated Condensed Statements of Income. Basic net income per share excludes dilution and is computed by dividing net income attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Stock appreciation rights of 2.3 million, 3.2 million, 2.7 million and 2.1 million shares were not included in the diluted weighted average shares amount for the three and nine months ended September 30, 2012 and 2011 due to the exercise price being greater than the average stock price.

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

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

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

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

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

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

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

**Table of Contents****2. Investments**

Net investment income is as follows:

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

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

Investment gains (losses) are as follows:

|                                      |             |                |              |              |
|--------------------------------------|-------------|----------------|--------------|--------------|
| Fixed maturity securities            | \$ 26       | \$ (29)        | \$ 73        | \$ 11        |
| Equity securities                    | (15)        | (1)            | (14)         | (3)          |
| Derivative instruments               | (2)         | 1              | (4)          |              |
| Short term investments and other     | (2)         | 2              | 4            | 7            |
| <b>Investment gains (losses) (a)</b> | <b>\$ 7</b> | <b>\$ (27)</b> | <b>\$ 59</b> | <b>\$ 15</b> |

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

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

| Three Months<br>Ended | Nine Months Ended |
|-----------------------|-------------------|
|-----------------------|-------------------|

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



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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:

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

December 31, 2011

(In millions)

|  |              |            |            |              |           |
|--|--------------|------------|------------|--------------|-----------|
| <b>Fixed maturity securities:</b>                                    |              |            |            |              |           |
| Corporate and other bonds  | \$ 19,086    | \$ 1,946   | \$ 154     | \$ 20,878    |           |
| States, municipalities and political subdivisions                    | 9,018        | 900        | 136        | 9,782        |           |
| <b>Asset-backed:</b>   |              |            |            |              |           |
| Residential mortgage-backed  | 5,786        | 172        | 183        | 5,775        | \$ 99     |
| Commercial mortgage-backed   | 1,365        | 48         | 59         | 1,354        | (2)       |
| Other asset-backed   | 946          | 13         | 4          | 955          |           |
| <b>Total asset-backed</b>  | <b>8,097</b> | <b>233</b> | <b>246</b> | <b>8,084</b> | <b>97</b> |
| U.S. Treasury and obligations of<br>government-sponsored enterprises | 479          | 14         |            | 493          |           |
| Foreign government   | 608          | 28         |            | 636          |           |

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|                                      |                  |                 |               |                  |              |
|--------------------------------------|------------------|-----------------|---------------|------------------|--------------|
| 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              |              |
| <b>Total fixed maturities</b>        | <b>37,466</b>    | <b>3,128</b>    | <b>554</b>    | <b>40,040</b>    | <b>97</b>    |
| 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              |              |
| <b>Total equity securities</b>       | <b>902</b>       | <b>97</b>       | <b>72</b>     | <b>927</b>       |              |
| <b>Total</b>                         | <b>\$ 38,368</b> | <b>\$ 3,225</b> | <b>\$ 626</b> | <b>\$ 40,967</b> | <b>\$ 97</b> |

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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 September 30, 2012 and December 31, 2011, the net unrealized gains on investments included in AOCI were net of Shadow Adjustments of \$1.1 billion and \$651 million. To the extent that unrealized gains on fixed income securities supporting certain products within CNA's Life & Group Non-Core segment would result in a premium deficiency if realized, a related decrease in Deferred acquisition costs, and/or increase in Insurance reserves is recorded, net of tax and noncontrolling interests, as a reduction through Other comprehensive income (Shadow Adjustments).

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

|  | Less than 12 Months  |                         | 12 Months or Longer  |                         | Total                |                         |
|--|----------------------|-------------------------|----------------------|-------------------------|----------------------|-------------------------|
|  | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| <b>September 30, 2012</b>  |                      |                         |                      |                         |                      |                         |
| <b>(In millions)</b>   |                      |                         |                      |                         |                      |                         |
| <b>Fixed maturity securities:</b>  |                      |                         |                      |                         |                      |                         |
| Corporate and other bonds  | \$ 600               | \$ 18                   | \$ 210               | \$ 14                   | \$ 810               | \$ 32                   |
| States, municipalities and political subdivisions                        | 84                   | 1                       | 227                  | 52                      | 311                  | 53                      |
| <b>Asset-backed:</b>   |                      |                         |                      |                         |                      |                         |
| Residential mortgage-backed  | 327                  | 3                       | 580                  | 78                      | 907                  | 81                      |
| Commercial mortgage-backed   | 142                  | 2                       | 132                  | 15                      | 274                  | 17                      |
| Other asset-backed   | 66                   | 1                       |                      |                         | 66                   | 1                       |
| <b>Total asset-backed</b>  | <b>535</b>           | <b>6</b>                | <b>712</b>           | <b>93</b>               | <b>1,247</b>         | <b>99</b>               |
| <b>U.S. Treasury and obligations of government-sponsored enterprises</b> | <b>22</b>            | <b>1</b>                |                      |                         | <b>22</b>            | <b>1</b>                |
| <b>Total</b>   | <b>\$ 1,241</b>      | <b>\$ 26</b>            | <b>\$ 1,149</b>      | <b>\$ 159</b>           | <b>\$ 2,390</b>      | <b>\$ 185</b>           |

December 31, 2011

(In millions)

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

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Based on current facts and circumstances, the Company believes the unrealized losses presented in the table above are primarily attributable to broader economic conditions, changes in interest rates and credit spreads, market illiquidity and other market factors, but are not indicative of the ultimate collectibility of the current amortized costs of the securities. The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at September 30, 2012.

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

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

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

**Contractual Maturity**

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at September 30, 2012 and December 31, 2011. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

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

**Investment Commitments**

As of September 30, 2012, the Company had committed approximately \$114 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases, sales and funding. The purchase and sale of these investments are recorded on the date that the legal agreements are finalized and cash settlements are made. As of September 30, 2012, the Company had commitments to purchase \$159 million

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and sell \$154 million of such investments. The Company has an obligation to fund additional amounts under the terms of current loan participations that may not be recorded until a draw is made. As of September 30, 2012, the Company had obligations on unfunded bank loan participations in the amount of \$6 million.

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### **3. Fair Value**

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

Level 1 Quoted prices for identical instruments in active markets.

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

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

The type of financial instruments being measured and the methodologies and inputs used at September 30, 2012 were consistent with those disclosed in the Annual Report on Form 10-K for the year ended December 31, 2011.

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

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



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

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

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

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The tables below present reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2012 and 2011:

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

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

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

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

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

| Major Category of Assets and Liabilities     | Consolidated Condensed Statements of Income Line Items |
|--|--|
| Fixed maturity securities available-for-sale | Investment gains (losses)                              |

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|  |  |
|--|--|
| 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 \$106 million of transfers from Level 2 to Level 1 during the three and nine months ended September 30, 2012 and no transfers between Level 1 and Level 2 during the three or nine months ended September 30, 2011. The Company's policy is to recognize transfers between levels at the beginning of quarterly reporting periods.

**Significant Unobservable Inputs**

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

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

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

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

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

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



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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.

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

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

**Table of Contents****4. Derivative Financial Instruments**

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

|                                   | September 30, 2012                 |                               |             | December 31, 2011                  |                               |             |
|-----------------------------------|------------------------------------|-------------------------------|-------------|------------------------------------|-------------------------------|-------------|
|                                   | Contractual/<br>Notional<br>Amount | Estimated Fair Value<br>Asset | (Liability) | Contractual/<br>Notional<br>Amount | Estimated Fair Value<br>Asset | (Liability) |
| <b>(In millions)</b>              |                                    |                               |             |                                    |                               |             |
| <b>With hedge designation:</b>    |                                    |                               |             |                                    |                               |             |
| Interest rate risk:               |                                    |                               |             |                                    |                               |             |
| Interest rate swaps               | \$ 300                             |                               | \$ (6)      | \$ 300                             | \$ 3                          | \$ (3)      |
| Commodities:                      |                                    |                               |             |                                    |                               |             |
| Forwards short                    | 316                                | \$ 45                         | (8)         | 268                                | 64                            | (22)        |
| Foreign exchange:                 |                                    |                               |             |                                    |                               |             |
| Currency forwards short           | 140                                | 4                             |             | 154                                | 1                             | (8)         |
| <b>Without hedge designation:</b> |                                    |                               |             |                                    |                               |             |
| Equity markets:                   |                                    |                               |             |                                    |                               |             |
| Options purchased                 | 254                                | 19                            |             | 286                                | 33                            |             |
| written                           | 350                                |                               | (10)        | 398                                |                               | (23)        |
| Equity swaps and warrants long    | 11                                 | 8                             |             | 63                                 | 16                            |             |
| Interest rate risk:               |                                    |                               |             |                                    |                               |             |
| Interest rate swaps               |                                    |                               |             | 100                                | 1                             | (1)         |
| Credit default swaps              |                                    |                               |             |                                    |                               |             |
| purchased protection              | 78                                 |                               | (1)         | 145                                | 8                             | (1)         |
| sold protection                   | 33                                 |                               | (2)         | 28                                 |                               | (2)         |
| Foreign exchange:                 |                                    |                               |             |                                    |                               |             |
| Currency forwards long            | 32                                 |                               |             | 203                                | 4                             |             |
| short                             | 327                                | 4                             | (2)         | 330                                |                               | (2)         |

For derivative financial instruments without hedge designation, changes in the fair value of derivatives not held in a trading portfolio are reported in Investment gains (losses) and changes in the fair value of derivatives held for trading purposes are reported in Net investment income on the Consolidated Condensed Statements of Income. Losses of \$2 million and \$4 million were recorded in Investment gains (losses) for the three and nine months ended September 30, 2012. A gain of \$1 million and no impact was recorded for the three and nine months ended September 30, 2011. For the three and nine months ended September 30, 2012 and 2011, losses included in Net investment income were \$17 million, \$16 million, \$1 million and \$5 million.

The Company's derivative financial instruments with cash flow hedge designation hedge variable price risk associated with the purchase and sale of natural gas and other energy-related products, exposure to foreign currency losses on future foreign currency expenditures, as well as risks attributable to changes in interest rates on long term debt. A loss of \$16 million and gains of \$33 million and \$11 million were recognized in OCI related to these cash flow hedges for the three and nine months ended September 30, 2012 and three months ended September 30, 2011. There was no net impact recognized in OCI for the nine months ended September 30, 2011. For the three and nine months ended September 30, 2012 and the nine months ended September 30, 2011, the amount of gains reclassified from AOCI into income were \$12 million, \$39 million and \$2 million. Losses of \$3 million were reclassified from AOCI into income for the three months ended September 30, 2011. As of September 30, 2012, the estimated amount of net unrealized gains associated with these cash flow hedges that will be reclassified from AOCI into earnings during the next twelve months was \$35 million. The net amounts recognized due to ineffectiveness were less than \$1 million for the three and nine months ended September 30, 2012 and 2011.



**Table of Contents****5. Property, Plant and Equipment**

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

**HighMount Impairment of Natural Gas and Oil Properties**

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

**Diamond Offshore**

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

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

**Loews Hotels**

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

**6. Claim and Claim Adjustment Expense Reserves**

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

Establishing claim and claim adjustment expense reserves, including claim and claim adjustment expense reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the cost of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims, such as property damage claims, tend to be

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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.

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Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company's results of operations and/or equity. CNA reported catastrophe losses, net of reinsurance, of \$27 million and \$123 million for the three and nine months ended September 30, 2012. Catastrophe losses in 2012 related primarily to U.S. storms and Hurricane Isaac. CNA reported catastrophe losses, net of reinsurance, of \$50 million and \$205 million for the three and nine months ended September 30, 2011.

**Net Prior Year Development**

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

| <b>Three Months Ended September 30, 2012</b><br>(In millions)   | <b>CNA<br/>Specialty</b> | <b>CNA<br/>Commercial</b> | <b>Other</b> | <b>Total</b> |
|---|--------------------------|---------------------------|--------------|--------------|
| <b>Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development</b> | \$ (39)                  | \$ 2                      | \$ (3)       | \$ (40)      |
| <b>Pretax (favorable) unfavorable premium development</b>   | (1)                      | (5)                       | (1)          | (7)          |
| <b>Total pretax (favorable) unfavorable net prior year development</b>  | \$ (40)                  | \$ (3)                    | \$ (4)       | \$ (47)      |

## Three Months Ended September 30, 2011

|  |         |         |       |         |
|--|---------|---------|-------|---------|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$ (5)  | \$ (42) | \$ 11 | \$ (36) |
| Pretax (favorable) unfavorable premium development   | (26)    | (11)    | 1     | (36)    |
| <b>Total pretax (favorable) unfavorable net prior year development</b>   | \$ (31) | \$ (53) | \$ 12 | \$ (72) |

**Nine Months Ended September 30, 2012**

|   |         |         |        |          |
|---|---------|---------|--------|----------|
| <b>Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development</b> | \$ (80) | \$ (25) | \$ (5) | \$ (110) |
| <b>Pretax (favorable) unfavorable premium development</b>   | (15)    | (41)    | 1      | (55)     |
| <b>Total pretax (favorable) unfavorable net prior year development</b>  | \$ (95) | \$ (66) | \$ (4) | \$ (165) |

## Nine Months Ended September 30, 2011

|  |          |         |      |          |
|--|----------|---------|------|----------|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$ (72)  | \$ (99) | \$ 5 | \$ (166) |
| Pretax (favorable) unfavorable premium development   | (34)     | 21      |      | (13)     |
| <b>Total pretax (favorable) unfavorable net prior year development</b>   | \$ (106) | \$ (78) | \$ 5 | \$ (179) |

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

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



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

**CNA Specialty**

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

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

**Three Month Comparison****2012**

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

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

**2011**

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

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

**Nine Month Comparison****2012**

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

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



**2011**

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

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

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

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

**CNA Commercial**

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

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

**Three Month Comparison****2012**

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

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

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

**2011**

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

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

**Nine Month Comparison****2012**

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

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

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

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

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### **2011**

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

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

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

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

### **7. Debt**

#### **CNA Financial**

In April of 2012, CNA entered into a \$250 million revolving credit agreement with a syndicate of banks. The credit agreement which matures on April 19, 2016 bears interest at London Interbank Offered Rate plus applicable margin. At CNA's election the commitments under the unsecured credit facility may be increased from time to time up to an additional aggregate amount of \$100 million, and two one-year extensions are available prior to first and second anniversary of the closing. As of September 30, 2012, there were no borrowings under the credit facility and CNA was in compliance with all covenants.

#### **Diamond Offshore**

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

#### **Boardwalk Pipeline**

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

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

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

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

#### **Loews Hotels**

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



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

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

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

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

The components of net periodic benefit cost are as follows:

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

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

|                           |        |        |         |         |
|---------------------------|--------|--------|---------|---------|
| Net periodic benefit cost | \$ (5) | \$ (3) | \$ (17) | \$ (11) |
|---------------------------|--------|--------|---------|---------|

**9. Business Segments**

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

CNA's results are reported in four business segments: CNA Specialty, CNA Commercial, Life & Group Non-Core and Other. CNA Specialty provides a broad array of professional, financial and specialty property and casualty products and services, primarily through insurance brokers and managing general underwriters. CNA Commercial

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includes property and casualty coverages sold to small businesses and middle market entities and organizations primarily through an independent agency distribution system. CNA Commercial also includes commercial insurance and risk management products sold to large corporations primarily through insurance brokers. Life & Group Non-Core primarily includes the results of the life and group lines of business that are in run-off. Other includes the operations of Hardy since its acquisition date of July 2, 2012, corporate expenses, including interest on corporate debt, and the results of certain property and casualty business primarily in run-off, including CNA Re and asbestos and environmental pollution. Hardy is a specialized Lloyd's underwriter primarily of short-tail exposures.

Diamond Offshore's business primarily consists of operating offshore drilling rigs that are chartered on a contract basis for fixed terms by companies engaged in exploration and production of hydrocarbons. Offshore rigs are mobile units that can be relocated based on market demand. Diamond Offshore's fleet consists of 44 drilling rigs, including four new-build rigs which are under construction and two rigs being constructed utilizing the hulls of two of Diamond Offshore's existing mid-water floaters. On September 30, 2012, Diamond Offshore's drilling rigs were located offshore 14 countries in addition to the United States.

Boardwalk Pipeline is engaged in the interstate transportation and storage of natural gas. This segment consists of three interstate natural gas pipeline systems originating in the Gulf Coast region, Oklahoma and Arkansas, and extending north and east through the midwestern states of Tennessee, Kentucky, Illinois, Indiana and Ohio, with approximately 14,540 miles of pipeline.

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

Loews Hotels owns and/or operates 18 hotels, 16 of which are in the United States and two are in Canada.

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

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



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

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|                     |               |               |               |               |
|---------------------|---------------|---------------|---------------|---------------|
| Boardwalk Pipeline  | <b>20</b>     | 18            | <b>80</b>     | 56            |
| HighMount           | <b>(158)</b>  | 16            | <b>(319)</b>  | 50            |
| Loews Hotels        | <b>(1)</b>    |               | <b>9</b>      | 8             |
| Corporate and other | <b>33</b>     | (62)          | <b>(11)</b>   | (67)          |
| <b>Total</b>        | <b>\$ 177</b> | <b>\$ 162</b> | <b>\$ 600</b> | <b>\$ 791</b> |

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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<br>September 30, |         | Nine Months Ended<br>September 30, |       |
|---|-------------------------------------|---------|------------------------------------|-------|
|   | 2012                                | 2011    | 2012                               | 2011  |
| <b>Revenues and Income (loss) before income tax and noncontrolling interests:</b> |                                     |         |                                    |       |
| CNA Financial:  |                                     |         |                                    |       |
| CNA Specialty   | \$ 2                                | \$ (8)  | \$ 18                              | \$ 7  |
| CNA Commercial  | 10                                  | (15)    | 34                                 | 13    |
| Life & Group Non-Core   | (3)                                 | (4)     | 14                                 | (7)   |
| Other   | (1)                                 |         | (4)                                | 1     |
| Total CNA Financial   | 8                                   | (27)    | 62                                 | 14    |
| Corporate and other   | (1)                                 |         | (3)                                | 1     |
| Total   | \$ 7                                | \$ (27) | \$ 59                              | \$ 15 |

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

|                       |      |         |       |      |
|-----------------------|------|---------|-------|------|
| CNA Financial:        |      |         |       |      |
| CNA Specialty         | \$ 1 | \$ (5)  | \$ 11 | \$ 4 |
| CNA Commercial        | 6    | (8)     | 20    | 8    |
| Life & Group Non-Core | (2)  | (2)     | 8     | (4)  |
| Other                 |      |         | (2)   | 1    |
| Total CNA Financial   | 5    | (15)    | 37    | 9    |
| Corporate and other   | (1)  |         | (2)   |      |
| Total                 | \$ 4 | \$ (15) | \$ 35 | \$ 9 |

**10. Legal Proceedings**

The Company has been named as a defendant in the following two cases alleging substantial damages based on alleged health effects caused by smoking cigarettes or exposure to tobacco smoke, both of which also name a former subsidiary, Lorillard, Inc. or one of its subsidiaries, as a defendant. In *Carlene Cypret vs. The American Tobacco Company, Inc. et al.* (1998, Circuit Court, Jackson County, Missouri), the Company would contest jurisdiction and make use of all available defenses in the event it receives personal service of this action. In *April Young vs. The American Tobacco Company, Inc. et al.* (1997, Civil District Court, Orleans Parish, Louisiana), the Company filed an exception for lack of personal jurisdiction during 2000, which remains pending. Three other cases brought in Middlesex County Superior Court in Massachusetts have been dismissed. Those cases were *Fonda V. Cook vs. Hollingsworth & Vose, et al.*, *David Sawyer and Joan Sawyer vs. Metropolitan Life Insurance Company, et al.*, and *Norma Jean VanMeter, Individually and as Administratrix of the Estate of Willie T. VanMeter vs. Hollingsworth & Vose, et al.*

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

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

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

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In the course of selling business entities and assets to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging from nine months following the applicable closing date to the expiration of the relevant statutes of limitation. As of September 30, 2012, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was \$758 million.

In addition, the Company has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of September 30, 2012, the Company had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser's ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire, or until the agreed upon contract terms expire.

**Offshore Rig Purchase Obligations**

Diamond Offshore has entered into four turnkey contracts with Hyundai Heavy Industries, Co. Ltd., ( Hyundai ) for the construction of four dynamically positioned, ultra-deepwater drillships, with deliveries scheduled for the second and fourth quarters of 2013 and in the second and fourth quarters of 2014. The aggregate cost of the four drillships, including commissioning, spares and project management, is expected to be approximately \$2.6 billion, of which approximately \$650 million has been paid. The remaining \$2 billion will be paid upon delivery of the drillships in 2013 and 2014. These amounts are included in Construction in process within Property, plant and equipment in the Consolidated Condensed Balance Sheets.

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

**12. Consolidating Financial Information**

The following schedules present the Company's consolidating balance sheet information at September 30, 2012 and December 31, 2011, and consolidating statements of income information for the nine months ended September 30, 2012 and 2011. These schedules present the individual subsidiaries of the Company and their contribution to the consolidated condensed financial statements. Amounts presented will not necessarily be the same as those in the individual financial statements of the Company's subsidiaries due to adjustments for purchase accounting, income taxes and noncontrolling interests. In addition, many of the Company's subsidiaries use a classified balance sheet which also leads to differences in amounts reported for certain line items.

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

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Loews Corporation

Consolidating Balance Sheet Information

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

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Loews Corporation

Consolidating Balance Sheet Information

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

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Loews Corporation

Consolidating Statement of Income Information

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



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Loews Corporation

Consolidating Statement of Income Information

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

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

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

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| <b>OVERVIEW</b>                                  |                     |

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

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

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

interstate transportation and storage of natural gas (Boardwalk Pipeline Partners, LP ( Boardwalk Pipeline ), a 55% owned subsidiary);

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

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

### **Consolidated Financial Results**

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

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

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

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

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

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

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

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

**Parent Company Structure**

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

**CRITICAL ACCOUNTING ESTIMATES**

The preparation of the consolidated condensed financial statements in conformity with accounting principles generally accepted in the United States of America ( GAAP ) requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes. Actual results could differ from those estimates.

The consolidated condensed financial statements and accompanying notes have been prepared in accordance with GAAP, applied on a consistent basis. We continually evaluate the accounting policies and estimates used to prepare the consolidated condensed financial statements. In general, our estimates are based on historical experience, evaluation of current trends, information from third party professionals and various other assumptions that we believe are reasonable under the known facts and circumstances.

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

- Insurance Reserves
- Reinsurance and Other Receivables
- Litigation
- Valuation of Investments and Impairment of Securities
- Long Term Care Products
- Payout Annuity Contracts
- Pension and Postretirement Benefit Obligations

Valuation of HighMount s Proved Reserves  
Impairment of Long-Lived Assets

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Goodwill  
Income Taxes

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

**RESULTS OF OPERATIONS BY BUSINESS SEGMENT**

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

**CNA Financial**

The following table summarizes the results of operations for CNA for the three and nine months ended September 30, 2012 and 2011 as presented in Note 12 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

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

**Three Months Ended September 30, 2012 Compared to 2011**

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

*Nine Months Ended September 30, 2012 Compared to 2011*

Net income increased \$196 million for the nine months ended September 30, 2012 as compared with the 2011 period. This increase was primarily due to higher net investment income, lower catastrophe losses and increased net investment gains. Catastrophe losses were \$72 million (after tax and noncontrolling interests) for the nine months ended September 30, 2012 as compared to catastrophe losses of \$120 million (after tax and noncontrolling interests) for the same period in 2011. Favorable net prior year development of \$165 million and \$179 million was recorded for the nine months ended September 30, 2012 and 2011 related to CNA Specialty, CNA Commercial and Other segments. Net investment income increased \$188 million primarily due to favorable limited partnership results. Net

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investment gains increased \$28 million (after tax and noncontrolling interests) for the nine months ended September 30, 2012 as compared with the same period in 2011. See the Investments section of this MD&A for further discussion of net investment income and net realized investment results.

**CNA Segment Results**

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

**CNA Specialty**

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

|  | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|--------|------------------------------------|----------|
|  | 2012                                | 2011   | 2012                               | 2011     |
| <b>(In millions, except %)</b>         |                                     |        |                                    |          |
| Net written premiums                   | \$ 723                              | \$ 750 | \$ 2,206                           | \$ 2,172 |
| Net earned premiums                    | 738                                 | 741    | 2,163                              | 2,098    |
| Net investment income                  | 159                                 | 85     | 446                                | 371      |
| Net operating income                   | 121                                 | 74     | 336                                | 293      |
| Net realized investment gains (losses) | 1                                   | (5)    | 11                                 | 4        |
| Net income                             | 122                                 | 69     | 347                                | 297      |
| <b>Ratios:</b>                         |                                     |        |                                    |          |
| Loss and loss adjustment expense       | 62.5%                               | 65.5%  | 63.6%                              | 63.6%    |
| Expense                                | 31.0                                | 29.8   | 31.5                               | 30.6     |
| Dividend                               | 0.2                                 | (0.6)  |                                    | (0.2)    |
| Combined                               | 93.7%                               | 94.7%  | 95.1%                              | 94.0%    |

**Three Months Ended September 30, 2012 Compared to 2011**

Net written premiums for CNA Specialty decreased \$27 million for the three months ended September 30, 2012 as compared with the same period in 2011. This decrease was primarily due to lower new business levels in certain lines, partially offset by continued positive rate achievement. Net earned premiums decreased \$3 million as compared with the same period in 2011. This decrease was primarily due to favorable premium development recorded in 2011, partially offset by the impact of increased net written premiums over recent quarters. Further information on premium development is included in Note 6 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

CNA Specialty's average rate increased 5% for the three months ended September 30, 2012, as compared with flat average rate for the three months ended September 30, 2011 for the policies that renewed in each period. Retention of 86% and 87% was achieved in each period.

Net income increased \$53 million for the three months ended September 30, 2012 as compared with the same period in 2011 due to higher net operating income.



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Net operating income increased \$47 million for the three months ended September 30, 2012 as compared with the same period in 2011, primarily due to higher net investment income.

The combined ratio decreased 1.0 point for the three months ended September 30, 2012 as compared with the same period in 2011. The loss ratio decreased 3.0 points, due to the impact of increased favorable net prior year development and an improved current accident year loss ratio. The expense ratio increased 1.2 points for the three

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months ended September 30, 2012 as compared with the same period in 2011, primarily due to the impact of favorable premium development in 2011.

Favorable net prior year development of \$40 million and \$31 million was recorded for the three months ended September 30, 2012 and 2011. Further information on CNA Specialty's net prior year development for the three months ended September 30, 2012 and 2011 is included in Note 6 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

***Nine Months Ended September 30, 2012 Compared to 2011***

Net written premiums for CNA Specialty increased \$34 million for the nine months ended September 30, 2012 as compared with the same period in 2011, driven by increased rate, partially offset by lower new business levels in certain lines. Net earned premiums increased \$65 million as compared with the same period in 2011, consistent with increased net written premiums over recent quarters.

CNA Specialty's average rate increased 4% for the nine months ended September 30, 2012, as compared with flat average rate for the nine months ended September 30, 2011 for the policies that renewed in each period. Retention of 86% was achieved in each period.

Net income increased \$50 million for the nine months ended September 30, 2012 as compared with the same period in 2011, due to higher net operating income.

Net operating income increased \$43 million for the nine months ended September 30, 2012 as compared with the same period in 2011, primarily due to higher net investment income and the inclusion of CNA's Surety business on a wholly owned basis in 2012. These favorable impacts were partially offset by decreased favorable net prior year development and decreased current accident year underwriting results.

The combined ratio increased 1.1 points for the nine months ended September 30, 2012 as compared with the same period in 2011. The loss ratio remained unchanged as the impact of an improved current accident year loss ratio was offset by decreased favorable net prior year development. The expense ratio increased 0.9 points for the nine months ended September 30, 2012 as compared with the same period in 2011, primarily due to increased underwriting expenses and the impact of favorable premium development in 2011.

Favorable net prior year development of \$95 million and \$106 million was recorded for the nine months ended September 30, 2012 and 2011. Further information on CNA Specialty's net prior year development for the nine months ended September 30, 2012 and 2011 is included in Note 6 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

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

| <b>(In millions)</b>   | <b>September 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|--|-------------------------------|------------------------------|
| Gross Case Reserves  | \$ 2,435                      | \$ 2,441                     |
| Gross IBNR Reserves  | 4,418                         | 4,399                        |
| <b>Total Gross Carried Claim and Claim Adjustment Expense Reserves</b> | <b>\$ 6,853</b>               | <b>\$ 6,840</b>              |
| Net Case Reserves  | \$ 2,112                      | \$ 2,086                     |
| Net IBNR Reserves  | 4,010                         | 3,937                        |
| <b>Total Net Carried Claim and Claim Adjustment Expense Reserves</b>   | <b>\$ 6,122</b>               | <b>\$ 6,023</b>              |

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

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

|   | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |          |
|---|-------------------------------------|--------|------------------------------------|----------|
|   | 2012                                | 2011   | 2012                               | 2011     |
| <b>(In millions, except %)</b>              |                                     |        |                                    |          |
| Net written premiums                        | \$ 811                              | \$ 836 | \$ 2,543                           | \$ 2,544 |
| Net earned premiums                         | 840                                 | 848    | 2,452                              | 2,418    |
| Net investment income                       | 230                                 | 115    | 646                                | 569      |
| Net operating income                        | 113                                 | 42     | 289                                | 191      |
| Net realized investment gains (losses)      | 6                                   | (8)    | 20                                 | 8        |
| Net income                                  | 119                                 | 34     | 309                                | 199      |
| <b>Ratios:</b>                              |                                     |        |                                    |          |
| Loss and loss adjustment expense<br>Expense | 70.5%                               | 68.7%  | 71.3%                              | 74.7%    |
| Dividend                                    | 35.2                                | 33.8   | 35.2                               | 34.6     |
| Combined                                    | 0.3                                 | 0.4    | 0.3                                | 0.2      |
|   | 106.0%                              | 102.9% | 106.8%                             | 109.5%   |

**Three Months Ended September 30, 2012 Compared to 2011**

Net written premiums for CNA Commercial decreased \$25 million for the three months ended September 30, 2012 as compared with the same period in 2011. Net written premiums for the three months ended September 30, 2011 included \$38 million related to First Insurance Company of Hawaii ( FICOH ), which was sold in the fourth quarter of 2011. Excluding FICOH, the increase in net written premiums was primarily driven by continued positive rate achievement. Net earned premiums decreased \$8 million for the three months ended September 30, 2012 as compared with the same period in 2011. Net earned premiums for the three months ended September 30, 2011 included \$35 million related to FICOH. Excluding FICOH, the increase in net earned premiums was driven by the increase in net written premiums over recent quarters.

CNA Commercial's average rate increased 8% for the three months ended September 30, 2012, as compared with an increase of 2% for the three months ended September 30, 2011 for the policies that renewed in each period. Retention of 79% was achieved in each period.

Net income increased \$85 million for the three months ended September 30, 2012 as compared with the same period in 2011. This increase was due to increased net operating income and improved net realized investment results.

Net operating income increased \$71 million for the three months ended September 30, 2012 as compared with the same period in 2011. This increase was primarily due to higher net investment income and lower catastrophe losses. These favorable impacts were partially offset by decreased favorable net prior year development. Additionally, income tax expense of \$22 million was recorded in 2011 due to an increase in the tax rate applicable to the undistributed earnings of FICOH, which was under contract for sale.

The combined ratio increased 3.1 points for the three months ended September 30, 2012 as compared with the same period in 2011. The loss ratio increased 1.8 points, primarily due to the impacts of less favorable net prior year development, partially offset by lower catastrophe losses and an improved current accident year non-catastrophe loss ratio. Catastrophe losses were \$24 million, or 2.8 points of the loss ratio, for the three months ended September 30, 2012, as compared to \$46 million, or 5.5 points of the loss ratio, for the three months ended September 30, 2011.

The expense ratio increased 1.4 points for the three months ended September 30, 2012 as compared with the same period in 2011, primarily due to higher underwriting expenses and the favorable impact of recoveries in 2011 on insurance receivables written off in prior years.

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Favorable net prior year development of \$3 million and \$53 million was recorded for the three months ended September 30, 2012 and 2011. Further information on CNA Commercial net prior year development for the three months ended September 30, 2012 and 2011 is included in Note 6 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

**Table of Contents*****Nine Months Ended September 30, 2012 Compared to 2011***

Net written premiums and net earned premiums for CNA Commercial decreased \$1 million and increased \$34 million for the nine months ended September 30, 2012 as compared with the same period in 2011. Net written premiums and net earned premiums for the nine months ended September 30, 2011 included \$110 million and \$103 million related to FICOH. Excluding FICOH, the increase in net written premiums was due to the same reasons discussed above in the three month comparison. Excluding FICOH, the increase in net earned premiums was driven by the increase in net written premiums over recent quarters and favorable premium development recorded in 2012. Further information on premium development is included in Note 6 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

CNA Commercial's average rate increased 6% for the nine months ended September 30, 2012 as compared with an increase of 2% for the nine months ended September 30, 2011 for the policies that renewed in each period. Retention of 78% and 79% was achieved in each period.

Net income increased \$110 million for the nine months ended September 30, 2012 as compared with the same period in 2011, primarily due to higher net operating income.

Net operating income increased \$98 million for the nine months ended September 30, 2012 as compared with the same period in 2011. This increase was primarily due to lower catastrophe losses and higher net investment income, as well as the tax expense item in 2011 discussed above in the three month comparison. These favorable impacts were partially offset by decreased favorable net prior year development.

The combined ratio improved 2.7 points for the nine months ended September 30, 2012 as compared with the same period in 2011. The loss ratio improved 3.4 points, primarily due to the impacts of lower catastrophe losses and an improved current accident year non-catastrophe loss ratio, partially offset by decreased favorable net prior year development. Catastrophe losses were \$115 million, or 4.7 points of the loss ratio, for the nine months ended September 30, 2012, as compared to \$195 million, or 8.1 points of the loss ratio, for the nine months ended September 30, 2011.

The expense ratio increased 0.6 points for the nine months ended September 30, 2012 as compared with the same period in 2011, primarily due to the favorable impact of recoveries in 2011 on insurance receivables written off in prior years.

Favorable net prior year development of \$66 million and \$78 million was recorded for the nine months ended September 30, 2012 and 2011. Further information on CNA Commercial net prior year development for the nine months ended September 30, 2012 and 2011 is included in Note 6 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

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

| <b>(In millions)</b>   | <b>September 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|--|-------------------------------|------------------------------|
| Gross Case Reserves  | \$ 6,129                      | \$ 6,266                     |
| Gross IBNR Reserves  | 5,097                         | 5,243                        |
| <b>Total Gross Carried Claim and Claim Adjustment Expense Reserves</b> | <b>\$ 11,226</b>              | <b>\$ 11,509</b>             |
| Net Case Reserves  | \$ 5,604                      | \$ 5,720                     |
| Net IBNR Reserves  | 4,536                         | 4,670                        |
| <b>Total Net Carried Claim and Claim Adjustment Expense Reserves</b>   | <b>\$ 10,140</b>              | <b>\$ 10,390</b>             |

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

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

|  | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|--|-------------------------------------|--------|------------------------------------|--------|
|  | 2012                                | 2011   | 2012                               | 2011   |
| <b>(In millions)</b>                   |                                     |        |                                    |        |
| Net earned premiums                    | \$ 141                              | \$ 142 | \$ 421                             | \$ 427 |
| Net investment income                  | 201                                 | 190    | 600                                | 567    |
| Net operating loss                     | (19)                                | (13)   | (34)                               | (46)   |
| Net realized investment gains (losses) | (2)                                 | (2)    | 8                                  | (4)    |
| Net loss                               | (21)                                | (15)   | (26)                               | (50)   |

**Three Months Ended September 30, 2012 Compared to 2011**

Net earned premiums for Life & Group Non-Core decreased \$1 million for the three months ended September 30, 2012 as compared with the same period in 2011. Net earned premiums relate primarily to the individual and group long term care businesses.

Net loss increased \$6 million for the three months ended September 30, 2012 as compared with the same period in 2011. This increase was primarily due to unfavorable morbidity in CNA's long term care business.

**Nine Months Ended September 30, 2012 Compared to 2011**

Net earned premiums for Life & Group Non-Core decreased \$6 million for the nine months ended September 30, 2012 as compared with the same period in 2011.

Net loss decreased \$24 million for the nine months ended September 30, 2012 as compared with the same period in 2011. This decrease was primarily due to improved net realized investment results, a significant gain related to a benefit on a life settlement contract, as well as the impact of unfavorable performance on CNA's remaining pension deposit business in 2011.

**Other**

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

|                       | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |       |
|-----------------------|-------------------------------------|------|------------------------------------|-------|
|                       | 2012                                | 2011 | 2012                               | 2011  |
| <b>(In millions)</b>  |                                     |      |                                    |       |
| Net written premiums  | \$ 56                               |      | \$ 56                              |       |
| Net earned premiums   | 64                                  |      | 64                                 |       |
| Net investment income | 11                                  | \$ 4 | 27                                 | \$ 24 |
| Net operating loss    | (20)                                | (19) | (51)                               | (66)  |

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|  |      |      |      |      |
|--|------|------|------|------|
| Net realized investment gains (losses) |      |      | (2)  | 1    |
| Net loss                               | (20) | (19) | (53) | (65) |

As discussed in Note 1 of the Notes to Consolidated Condensed Financial Statements included under Item 1, on July 2, 2012, CNA acquired Hardy, a specialized Lloyd's of London (Lloyd's) underwriter, for \$231 million. The acquisition of Hardy aligns with CNA's specialized underwriting focus and will be a key platform for expanding its global business through the Lloyd's marketplace. The Lloyd's market provides access to international licenses, sophisticated excess and surplus insurance business and other syndicated risks.

### *Three Months Ended September 30, 2012 Compared to 2011*

Hardy had net earned premiums of \$64 million, consisting of \$26 million for marine and aviation, \$18 million for non-marine property, \$11 million for property treaty reinsurance and \$9 million for specialty lines.

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Hardy's average rate increased 1% for the three months ended September 30, 2012 for the policies that renewed in that period. Retention of 72% was achieved in the period.

Net loss increased \$1 million for the three months ended September 30, 2012 as compared with the same period in 2011. This increase was primarily due to a \$10 million release of a previously established allowance for uncollectible reinsurance receivables arising from a change in estimate in 2011. This unfavorable impact was partially offset by decreased unfavorable net prior year development, higher net investment income and Hardy net income of \$2 million.

Hardy's loss and loss adjustment expense ratio was 33.3%, and its expense ratio was 52.5%, for a combined ratio of 85.8%.

Favorable net prior year development of \$4 million, primarily due to Hardy, and unfavorable net prior year development of \$12 million were recorded for the three months ended September 30, 2012 and 2011.

**Nine Months Ended September 30, 2012 Compared to 2011**

Net loss decreased \$12 million for the nine months ended September 30, 2012 as compared with the same period in 2011, primarily due to lower interest expense and favorable net prior year development.

Favorable net prior year development of \$4 million, primarily due to Hardy, and unfavorable net prior year development of \$5 million were recorded for the nine months ended September 30, 2012 and 2011.

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

| <b>(In millions)</b>   | <b>September 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|--|-------------------------------|------------------------------|
| Gross Case Reserves  | \$ 1,575                      | \$ 1,321                     |
| Gross IBNR Reserves  | 1,721                         | 1,808                        |
| <b>Total Gross Carried Claim and Claim Adjustment Expense Reserves</b> | <b>\$ 3,296</b>               | <b>\$ 3,129</b>              |
| Net Case Reserves  | \$ 498                        | \$ 347                       |
| Net IBNR Reserves  | 308                           | 244                          |
| <b>Total Net Carried Claim and Claim Adjustment Expense Reserves</b>   | <b>\$ 806</b>                 | <b>\$ 591</b>                |

**Diamond Offshore**

Internationally, the ultra-deepwater and deepwater floater markets are generally strong and continue to show signs of further strengthening, particularly in the ultra-deepwater segment where there are reportedly no uncontracted rigs available to work in 2012, with the market expected to remain strong into 2013. Diamond Offshore believes that the decreasing availability of rigs in this market will continue to put upward pressure on dayrates during the remainder of 2012. However, due to its contracted backlog in 2013, Diamond Offshore has limited availability in this market. In addition, based on third quarter 2012 analyst data, there are over 90 floater rigs, primarily ultra-deepwater and deepwater units, on order or under construction, including 33 rigs reportedly awarded for construction by Petróleo Brasileiro S.A., (Petrobras). Not counting the 33 rigs Petrobras has announced it intends to have built, nearly 40% of the floaters scheduled for delivery in 2013 and 70% scheduled for delivery in 2014 are not yet contracted for future work including two of Diamond Offshore's drillships and one of its semisubmersible rigs under construction. The Petrobras rigs are scheduled for delivery in 2015 and beyond; however, industry analysts expect that this timing may be delayed due to current shipyard limitations.

Market strength for ultra-deepwater and deepwater rigs varies among geographic regions in which Diamond Offshore operates, but generally is strong or nearing current rig capacity. As a result of successful exploration and development programs offshore Brazil and West Africa, there



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continues to be a robust market for deepwater and ultra-deepwater rigs in those regions.

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

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Industry-wide floater utilization is reported to be approximately 90%, and as of October 15, 2012, Diamond Offshore's floating rigs were committed for approximately 89% of the days remaining in 2012 and 76% of 2013.

During the nine months ending September 30, 2012, Diamond Offshore sold six jack-up rigs, resulting in a pretax gain of approximately \$76 million.

**Contract Drilling Backlog**

The following table reflects Diamond Offshore's contract drilling backlog as of October 17, 2012 and February 1, 2012 (the date reported in our Annual Report on Form 10-K for the year ended December 31, 2011). Contract drilling backlog is calculated by multiplying the contracted operating dayrate by the firm contract period and adding one half of any potential rig performance bonuses. Diamond Offshore's calculation also assumes full utilization of its drilling equipment for the contract period (excluding scheduled shipyard and survey days); however, the amount of actual revenue earned and the actual periods during which revenues are earned will be different than the amounts and periods shown in the tables below due to various factors. Utilization rates, which generally approach 92% - 98% during contracted periods, can be adversely impacted by downtime due to various operating factors including, but not limited to, weather conditions and unscheduled repairs and maintenance. Contract drilling backlog excludes revenues for mobilization, demobilization, contract preparation and customer reimbursables. No revenue is generally earned during periods of downtime for regulatory surveys. Changes in Diamond Offshore's contract drilling backlog between periods are a function of the performance of work on term contracts, as well as the extension or modification of existing term contracts and the execution of additional contracts.

| <b>(In millions)</b>  | <b>October 17,<br/>2012</b> | <b>February 1,<br/>2012</b> |
|-----------------------|-----------------------------|-----------------------------|
| <b>Floaters:</b>      |                             |                             |
| Ultra-Deepwater (a)   | \$ 4,660                    | \$ 4,926                    |
| Deepwater (b)         | 1,373                       | 1,081                       |
| Mid-Water (c)         | 2,510                       | 2,348                       |
| <b>Total Floaters</b> | <b>8,543</b>                | <b>8,355</b>                |
| Jack-ups              | 203                         | 277                         |
| <b>Total</b>          | <b>\$ 8,746</b>             | <b>\$ 8,632</b>             |

- (a) As of October 17, 2012, for ultra-deepwater floaters includes (i) \$1.5 billion attributable to contracted operations offshore Brazil for the years 2012 to 2015 and (ii) \$1.8 billion attributable to future work for two drillships under construction for the years 2013 to 2019.
- (b) As of October 17, 2012, for deepwater floaters includes (i) \$624 million attributable to contracted operations offshore Brazil for the years 2012 to 2016 and (ii) \$179 million for the years 2013 to 2014 attributable to future work for the *Ocean Onyx*, which is under construction.
- (c) As of October 17, 2012, for mid-water floaters includes \$1.1 billion attributable to contracted operations offshore Brazil for the years 2012 to 2015.

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The following table reflects the amount of Diamond Offshore's contract drilling backlog by year as of October 17, 2012.

| Year Ended December 31<br>(In millions) | Total    | 2012 (a) | 2013     | 2014     | 2015 - 2019 |
|---|----------|----------|----------|----------|-------------|
| <b>Floater:</b>                         |          |          |          |          |             |
| <b>Ultra-Deepwater (b)</b>              | \$ 4,660 | \$ 256   | \$ 871   | \$ 1,306 | \$ 2,227    |
| <b>Deepwater (c)</b>                    | 1,373    | 152      | 572      | 442      | 207         |
| <b>Mid-Water (d)</b>                    | 2,510    | 303      | 1,090    | 864      | 253         |
| <b>Total Floaters</b>                   | 8,543    | 711      | 2,533    | 2,612    | 2,687       |
| <b>Jack-ups</b>                         | 203      | 40       | 110      | 40       | 13          |
| <b>Total</b>                            | \$ 8,746 | \$ 751   | \$ 2,643 | \$ 2,652 | \$ 2,700    |

(a) Represents a three-month period beginning October 1, 2012.

(b) As of October 17, 2012, for ultra-deepwater floaters includes (i) \$131 million, \$524 million, \$524 million and \$324 million for the years 2012 to 2015, attributable to contracted operations offshore Brazil and (ii) \$29 million and \$299 million for the years 2013 and 2014, and \$1.5 billion in the aggregate for the years 2015 to 2019, attributable to future work for two drillships under construction.

(c) As of October 17, 2012, for deepwater floaters includes (i) \$61 million, \$222 million and \$149 million for the years 2012 to 2014, and \$196 million in the aggregate for the years 2015 to 2016, attributable to contracted operations offshore Brazil and (ii) \$59 million and \$120 million for the years 2013 and 2014, attributable to future work for the *Ocean Onyx*, which is under construction.

(d) As of October 17, 2012, for mid-water floaters includes \$120 million, \$477 million, \$368 million and \$86 million for the years 2012 to 2015, attributable to contracted operations offshore Brazil.

The following table reflects the percentage of rig days committed by year as of October 17, 2012. The percentage of rig days committed is calculated as the ratio of total days committed under contracts, as well as scheduled shipyard, survey and mobilization days for all rigs in Diamond Offshore's fleet, to total available days (number of rigs multiplied by the number of days in a particular year). Total available days have been calculated based on the expected final commissioning dates for the *Ocean BlackHawk*, *Ocean Onyx*, *Ocean BlackHornet*, *Ocean BlackRhino*, *Ocean BlackLion* and *Ocean Apex* which are all under construction.

| Year Ended December 31 | 2012 (a) (b) | 2013 (b) | 2014 | 2015 - 2019 |
|------------------------|--------------|----------|------|-------------|
| <b>Floater:</b>        |              |          |      |             |
| <b>Ultra-Deepwater</b> | 100%         | 97%      | 88%  | 22%         |
| <b>Deepwater</b>       | 100%         | 89%      | 43%  | 4%          |
| <b>Mid-Water</b>       | 83%          | 66%      | 44%  | 2%          |
| <b>All Floaters</b>    | 90%          | 78%      | 57%  | 9%          |
| <b>Jack-ups</b>        | 71%          | 55%      | 26%  | 1%          |

(a) Represents a three-month period beginning October 1, 2012.

(b) As of October 17, 2012, includes approximately 250, 1,250 and 180 currently known, scheduled shipyard, survey and mobilization days for 2012, 2013 and 2014.

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

|                                  | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|----------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                  | 2012                                | 2011       | 2012                               | 2011       |
| <b>Revenue earning days (a)</b>  |                                     |            |                                    |            |
| Floaters:                        |                                     |            |                                    |            |
| Ultra-Deepwater                  | 549                                 | 647        | 1,818                              | 1,869      |
| Deepwater                        | 437                                 | 457        | 1,214                              | 1,272      |
| Mid-Water                        | 1,215                               | 1,281      | 3,481                              | 4,148      |
| Jack-ups                         | 358                                 | 524        | 1,298                              | 1,793      |
| <b>Utilization (b)</b>           |                                     |            |                                    |            |
| Floaters:                        |                                     |            |                                    |            |
| Ultra-Deepwater                  | 75%                                 | 88%        | 83%                                | 86%        |
| Deepwater                        | 95%                                 | 99%        | 89%                                | 93%        |
| Mid-Water                        | 71%                                 | 70%        | 67%                                | 76%        |
| Jack-ups                         | 56%                                 | 44%        | 49%                                | 51%        |
| <b>Average daily revenue (c)</b> |                                     |            |                                    |            |
| Floaters:                        |                                     |            |                                    |            |
| Ultra-Deepwater                  | \$ 354,100                          | \$ 335,700 | \$ 357,400                         | \$ 339,200 |
| Deepwater                        | 372,800                             | 465,100    | 367,800                            | 414,400    |
| Mid-Water                        | 258,100                             | 268,100    | 262,100                            | 269,400    |
| Jack-ups                         | 97,800                              | 84,300     | 92,100                             | 82,600     |

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

**Results of Operations**

The following table summarizes the results of operations for Diamond Offshore for the three and nine months ended September 30, 2012 and 2011, as presented in Note 12 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

|                            | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |          |
|----------------------------|-------------------------------------|--------|------------------------------------|----------|
|                            | 2012                                | 2011   | 2012                               | 2011     |
| <b>(In millions)</b>       |                                     |        |                                    |          |
| Revenues:                  |                                     |        |                                    |          |
| Contract drilling revenues | \$ 714                              | \$ 861 | \$ 2,195                           | \$ 2,520 |
| Net investment income      | 1                                   | 2      | 4                                  | 4        |
| Investment gains           |                                     |        |                                    | 1        |
| Other revenue              | 15                                  | 18     | 120                                | 58       |

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|   |              |        |               |        |
|---|--------------|--------|---------------|--------|
| Total   | <b>730</b>   | 881    | <b>2,319</b>  | 2,583  |
| <b>Expenses:</b>                                    |              |        |               |        |
| Contract drilling expenses                          | <b>358</b>   | 392    | <b>1,160</b>  | 1,142  |
| Other operating expenses                            | <b>129</b>   | 138    | <b>390</b>    | 406    |
| Interest  | <b>9</b>     | 16     | <b>37</b>     | 60     |
| <b>Total</b>  | <b>496</b>   | 546    | <b>1,587</b>  | 1,608  |
| Income before income tax                            | <b>234</b>   | 335    | <b>732</b>    | 975    |
| Income tax expense                                  | <b>(63)</b>  | (87)   | <b>(188)</b>  | (229)  |
| Amounts attributable to noncontrolling interests    | <b>(88)</b>  | (127)  | <b>(280)</b>  | (383)  |
| <b>Net income attributable to Loews Corporation</b> | <b>\$ 83</b> | \$ 121 | <b>\$ 264</b> | \$ 363 |

**Table of Contents*****Three Months Ended September 30, 2012 Compared to 2011***

Net income decreased \$38 million for the three months ended September 30, 2012 as compared with the 2011 period, reflecting a decline in revenue, partially offset by a decrease in contract drilling expense. Aggregate revenue for Diamond Offshore's floater and jack-up fleets decreased \$147 million, or 17%, as compared with the 2011 period, while contract drilling expense decreased \$34 million, or 9%, during the same period. Contract drilling revenue for the three months ended September 30, 2012 was negatively impacted by a decrease in revenue earning days as well as a decrease in average daily revenue earned by Diamond Offshore's deepwater and mid-water floaters, as compared to the 2011 period. The decrease in contract drilling expense of \$34 million for the three months ended September 30, 2012 is primarily due to the movement of certain rigs to other operating regions with lower cost structures, combined with lower mobilization, repair and inspection costs, as well as the absence of operating costs during the three months ended September 30, 2012 for the recently sold jack-up rigs.

Revenue generated by ultra-deepwater floaters decreased \$25 million during the three months ended September 30, 2012 as compared with 2011 primarily due to decreased utilization of \$33 million, partially offset by a \$10 million increase in average daily revenue in 2012.

Revenue generated by deepwater floaters decreased \$54 million in the three months ended September 30, 2012 as compared with 2011, primarily due to a \$40 million decrease in average daily revenue, a \$9 million decrease in utilization, and a \$4 million decrease in amortized mobilization fees. The decrease in utilization was primarily due to downtime associated with the *Ocean Victory's* five year survey. The decrease in average daily revenue earned during the three months ended September 30, 2012 was primarily due to each of the deepwater floaters currently working at significantly lower dayrates than in the prior year period.

Revenue generated by mid-water floaters decreased \$58 million during the three months ended September 30, 2012 as compared with 2011, primarily due to a \$18 million decrease in revenue earning days, a \$12 million decrease in average daily revenue and the absence of a \$24 million demobilization fee received in the 2011 period. The decrease in utilization was primarily attributable to planned downtime for mobilization and shipyard projects partially offset by less unplanned downtime for repairs and the warm stacking of rigs between contracts.

Revenue generated by jack-up rigs decreased \$11 million in the three months ended September 30, 2012 as compared with 2011, primarily due to the sale of six jack-up rigs in the first half of 2012 including two rigs that were fully utilized during the 2011 period. The impact of the sale of these rigs was an incremental reduction in revenue of \$12 million during the three months ended September 30, 2012 compared to the prior year period.

***Nine Months Ended September 30, 2012 Compared to 2011***

Net income decreased \$99 million for the nine months ended September 30, 2012 as compared with the 2011 period, reflecting both a decline in revenue and an increase in contract drilling expense. Net income for the nine months ended September 30, 2012 included a \$32 million gain (after tax and noncontrolling interests) on the sale of six jack-up rigs. Aggregate revenue for Diamond Offshore's floater and jack-up fleets decreased \$325 million, or 13%, as compared to the 2011 period, while contract drilling expense increased \$18 million, or 2%, during the same period. Contract drilling revenue for the nine months ended September 30, 2012 was negatively impacted by a decrease in both revenue earning days and average daily revenue earned by Diamond Offshore's deepwater and mid-water floaters, as compared to the 2011 period, partially offset by favorable revenue variances for its ultra-deepwater floaters. The increase in contract drilling expense for the nine months ended September 30, 2012 primarily reflects higher repair, inspection and mobilization costs as well as an increase in costs associated with operating rigs internationally rather than domestically, including travel, personnel related costs, and other costs associated with establishing and maintaining shorebase support functions in international locations.

Revenue generated by ultra-deepwater floaters increased \$21 million during the nine months ended September 30, 2012 as compared with 2011, primarily due to increased average daily revenue of \$33 million and increased amortized mobilization fees of \$5 million, partially offset by a decrease in utilization of \$17 million.

Revenue generated by deepwater floaters decreased \$90 million in the nine months ended September 30, 2012 as compared with 2011, primarily due to a \$57 million decrease in average daily revenue, a \$24 million decrease in utilization as a result of fewer revenue earning days, and a \$9 million decrease in amortized mobilization fees.

Revenue generated by mid-water floaters decreased \$221 million during the nine months ended September 30, 2012 as compared with 2011, primarily due to a \$180 million decrease in utilization, a \$25 million decrease in average daily revenue and a \$16 million decrease in amortized mobilization fees. Revenue earning days decreased



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by 667 in the nine months ended September 30, 2012 as compared with 2011, primarily attributable to planned downtime for mobilization and shipyard projects, unplanned downtime for repairs and the warm stacking of rigs between contracts.

Revenue generated by jack-up rigs decreased \$34 million in the nine months ended September 30, 2012 as compared with 2011, primarily due to the sale of six jack-up rigs in 2012 which resulted in an incremental reduction in revenue of \$32 million compared to the 2011 period.

**Boardwalk Pipeline**

The majority of Boardwalk Pipeline's transportation revenues are derived from capacity reservation charges under firm agreements, which typically have multi-year terms. Boardwalk Pipeline's customers' obligations to pay contractual reservation charges are not impacted by the volume of natural gas they actually transport. The majority of Boardwalk Pipeline's storage revenues are derived from capacity reservation charges under firm storage agreements. Unlike Boardwalk Pipeline's transportation contracts, firm storage agreements tend to be of a shorter term, primarily due to market alternatives and the needs of its customers.

The amount of natural gas being produced from unconventional natural gas production areas has greatly increased in recent years. This dynamic drove the pipeline industry, including Boardwalk Pipeline, to construct substantial new pipeline infrastructure to support this development. However, the oversupply of gas from these and other production areas has resulted in gas prices that are substantially lower than in recent years, which has caused producers to scale back production to levels below those that were expected when the new infrastructure was built. In addition, certain of these new supply basins, such as the Marcellus and Utica Shale plays, are closer to the traditional high value markets served by interstate pipelines, a development that has further affected how natural gas moves across the interstate pipeline grid. These factors have led to increased competition in certain pipeline markets, as well as more narrow price differentials than previous years between producing/supply areas and market areas (basis spreads), which has put significant downward pressure on pricing for both firm and interruptible transportation capacity that Boardwalk Pipeline is currently marketing.

As of September 30, 2012, a substantial portion of Boardwalk Pipeline's transportation capacity was contracted for under firm transportation agreements having a weighted-average remaining life of approximately six years. Each year a portion of Boardwalk Pipeline's firm transportation agreements expire and must be renewed or replaced. Boardwalk Pipeline has renewed or replaced contracts for most of the firm transportation capacity that expired or will expire in 2012, though in some cases at lower rates. Boardwalk Pipeline is in discussions to renew many of its firm contracts that expire in 2013, with the outcome uncertain until those discussions are concluded. However, the amount of contracted transportation capacity coming up for renewal in 2013 is greater than in recent years, and includes a portion of the capacity from the major expansion projects which were placed in service in the last several years on the Gulf South pipeline. In addition, basis spreads on Boardwalk Pipeline's pipelines have compressed significantly in recent years and Boardwalk Pipeline does not expect them to widen significantly in the near future. As a result, Boardwalk Pipeline may not be able to renew all of its expiring transportation contracts, and Boardwalk Pipeline expects that renewals will be at lower rates which will unfavorably affect transportation revenues.

The market for storage and parking and lending (PAL) services is also impacted by the factors discussed above, as well as by natural gas price differentials between time periods, such as winter to summer (time period price spreads). Time period price spreads declined from 2010 to 2011 and improved in the first half of 2012; however, Boardwalk Pipeline believes that current forward pricing curves indicate that the time period price spreads for 2013 may not be as favorable. Forward pricing curves change frequently as a result of a variety of market factors (including weather, levels of storage gas and available capacity, among others) and as such may not be a reliable predictor of actual future events. Accordingly, Boardwalk Pipeline cannot predict its future revenues from interruptible storage and PAL services due to the uncertainty and volatility in market conditions discussed above.

Boardwalk HP Storage Company, LLC (HP Storage), acquired in December of 2011, owns seven salt dome natural gas storage caverns and associated assets in Mississippi. HP Storage contributed \$12 million and \$37 million in revenues and \$2 million and \$4 million in net income (after tax and noncontrolling interests) for the three and nine months ended September 30, 2012.



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

The following table summarizes the results of operations for Boardwalk Pipeline for the three and nine months ended September 30, 2012 and 2011, as presented in Note 12 of the Notes to Consolidated Condensed Financial Statements included under Item 1 of this Report:

|  | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |        |
|--|-------------------------------------|--------|------------------------------------|--------|
|  | 2012                                | 2011   | 2012                               | 2011   |
| <b>(In millions)</b>                             |                                     |        |                                    |        |
| <b>Revenues:</b>                                 |                                     |        |                                    |        |
| Other revenue, primarily operating               | \$ 271                              | \$ 269 | \$ 862                             | \$ 843 |
| Investment losses                                | (1)                                 |        | (3)                                |        |
| Total  | 270                                 | 269    | 859                                | 843    |
| <b>Expenses:</b>                                 |                                     |        |                                    |        |
| Operating  | 171                                 | 177    | 521                                | 569    |
| Interest   | 42                                  | 46     | 125                                | 133    |
| Total  | 213                                 | 223    | 646                                | 702    |
| Income before income tax                         | 57                                  | 46     | 213                                | 141    |
| Income tax expense                               | (15)                                | (11)   | (52)                               | (35)   |
| Amounts attributable to noncontrolling interests | (23)                                | (17)   | (83)                               | (50)   |
| Net income attributable to Loews Corporation     | \$ 19                               | \$ 18  | \$ 78                              | \$ 56  |

**Three Months Ended September 30, 2012 Compared to 2011**

Total revenues increased \$1 million for the three months ended September 30, 2012, compared to the same period in 2011, primarily due to \$12 million of revenues earned by HP Storage and higher PAL and storage revenues of \$5 million due to improved market conditions. The increase in revenues was partially offset by lower natural gas prices, which resulted in a decrease in retained fuel of \$10 million and a decrease in transportation revenues of \$5 million from lower interruptible services due to a decrease in basis spreads between locations on the pipelines.

Operating expenses decreased \$6 million for the three months ended September 30, 2012, compared to the same period in 2011, primarily due to lower fuel costs of \$9 million from lower natural gas prices, lower operations and maintenance expenses of \$8 million and lower general and administrative costs of \$7 million from reduced outside services and employee benefit costs. These decreases were partially offset by \$6 million of expenses incurred by HP Storage and a \$6 million gain from the sale of storage gas recorded in the 2011 period. Interest expense decreased \$4 million for the three months ended September 30, 2012, primarily from a charge recorded in the 2011 period on the early extinguishment of debt, partially offset by increased debt levels and higher average interest rates.

**Nine Months Ended September 30, 2012 Compared to 2011**

Total revenues increased \$16 million for the nine months ended September 30, 2012, compared to the same period in 2011, primarily due to \$37 million of revenues earned by HP Storage, higher PAL and storage revenues of \$10 million due to improved market conditions and higher firm transportation revenues of \$3 million due to contractual capacity increases. The increase in revenues was partially offset by a decrease in retained fuel of \$33 million primarily due to lower natural gas prices, and lower interruptible transportation service revenues due to a decrease in basis spreads between locations on the pipelines.

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Operating expenses decreased \$48 million for the nine months ended September 30, 2012, compared to the same period in 2011. The primary drivers of the decrease were charges incurred in 2011 including a \$29 million impairment charge associated with Boardwalk Pipeline's materials and supplies, an expense of \$5 million representing an insurance deductible associated with replacing compressor assets and \$4 million of gas losses associated with the Bistineau storage facility. In addition, in the 2012 period there were lower fuel costs of \$26 million due to lower natural gas prices, lower general and administrative costs of \$20 million primarily from decreased outside services and \$5 million of gains on the sale of pipe inventory and an insurance recovery. These decreases were partially offset by \$21 million of expenses incurred by HP Storage and \$8 million of asset impairment charges. The 2011 period included a gain of \$9 million from the sale of storage gas. Interest expense decreased \$8 million for the nine months ended September 30, 2012, primarily from a charge recorded in the 2011 period on the early extinguishment of debt, partially offset by increased debt levels and higher average interest rates.

**Table of Contents****HighMount**

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

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

HighMount's revenues and profitability depend substantially on natural gas and oil prices and HighMount's ability to increase its natural gas and oil production. For the period July 2008 through September 2012, NYMEX natural gas contract settlement prices have ranged from a high of \$13.11 in July 2008 to a low of \$2.04 in May 2012. This price decline is reflective of an increase in the supply of natural gas resulting from new sources of supply recoverable from shale formations, primarily the result of technological advancements in horizontal drilling and hydraulic fracturing. As a result of the decline in natural gas prices, HighMount changed its drilling program in 2011 to develop properties that produce primarily oil and natural gas liquids to benefit from the higher prices for these commodities. Revenues from the sale of NGL and oil, including the impact of hedges, amounted to 45% of HighMount's total revenues for the nine months ended September 30, 2012 as compared to 34% of its total revenue for the nine months ended September 30, 2011. The price HighMount realizes for its production is also affected by HighMount's hedging activities, as well as locational differences in market prices. As a result of significant declines in natural gas and NGL prices at September 30, 2012, HighMount performed a goodwill impairment test and no impairment charges were required.

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

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

Presented below are production and sales statistics related to HighMount's operations for the three and nine months ended September 30, 2012 and 2011:

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|--|-------------------------------------|---------|------------------------------------|---------|
|  | 2012                                | 2011    | 2012                               | 2011    |
| Gas production (Bcf)                             | 9.5                                 | 11.3    | 29.9                               | 34.7    |
| Gas sales (Bcf)                                  | 8.8                                 | 10.7    | 28.0                               | 32.7    |
| Oil production/sales (Mbbls)                     | 131.6                               | 68.2    | 313.7                              | 210.4   |
| NGL production/sales (Mbbls)                     | 589.6                               | 663.9   | 1,804.7                            | 2,038.0 |
| Equivalent production (Bcfe)                     | 13.8                                | 15.7    | 42.6                               | 48.2    |
| Equivalent sales (Bcfe)                          | 13.2                                | 15.0    | 40.7                               | 46.1    |
| Average realized prices without hedging results: |                                     |         |                                    |         |
| Gas (per Mcf)                                    | \$ 2.76                             | \$ 4.17 | \$ 2.47                            | \$ 4.11 |
| NGL (per Bbl)                                    | 33.47                               | 55.00   | 38.59                              | 52.32   |
| Oil (per Bbl)                                    | 88.05                               | 82.67   | 88.66                              | 89.67   |
| Equivalent (per Mcfe)                            | 4.22                                | 5.76    | 4.09                               | 5.63    |
| Average realized prices with hedging results:    |                                     |         |                                    |         |
| Gas (per Mcf)                                    | \$ 4.28                             | \$ 5.73 | \$ 4.13                            | \$ 5.89 |
| NGL (per Bbl)                                    | 37.48                               | 40.57   | 38.58                              | 39.68   |
| Oil (per Bbl)                                    | 94.71                               | 82.67   | 92.94                              | 89.67   |
| Equivalent (per Mcfe)                            | 5.49                                | 6.22    | 5.26                               | 6.33    |
| Average cost per Mcfe:                           |                                     |         |                                    |         |
| Production expenses                              | \$ 1.30                             | \$ 1.16 | \$ 1.30                            | \$ 1.19 |
| Production and ad valorem taxes                  | 0.21                                | 0.32    | 0.25                               | 0.41    |
| General and administrative expenses              | 0.70                                | 0.63    | 0.75                               | 0.63    |
| Depletion expense                                | 1.43                                | 1.18    | 1.48                               | 1.15    |

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

The following table summarizes the results of operations for HighMount for the three and nine months ended September 30, 2012 and 2011, as presented in Note 12 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

|   | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|-----------|------------------------------------|------------|
|   | 2012                                | 2011      | 2012                               | 2011       |
| <b>(In millions)</b>                                |                                     |           |                                    |            |
| <b>Revenues:</b>                                    |                                     |           |                                    |            |
| Other revenue, primarily operating                  | \$ 74                               | \$ 95     | \$ 219                             | \$ 297     |
| <b>Total</b>  | <b>74</b>                           | <b>95</b> | <b>219</b>                         | <b>297</b> |
| <b>Expenses:</b>                                    |                                     |           |                                    |            |
| Other operating expenses                            |                                     |           |                                    |            |
| Impairment of natural gas and oil properties        | 261                                 |           | 527                                |            |
| Operating   | 58                                  | 58        | 182                                | 183        |
| Interest  | 3                                   | 12        | 9                                  | 36         |
| <b>Total</b>  | <b>322</b>                          | <b>70</b> | <b>718</b>                         | <b>219</b> |
| Income (loss) before income tax                     | (248)                               | 25        | (499)                              | 78         |
| Income tax (expense) benefit                        | 90                                  | (9)       | 180                                | (28)       |
| Net income (loss) attributable to Loews Corporation | \$ (158)                            | \$ 16     | \$ (319)                           | \$ 50      |

For the three and nine months ended September 30, 2012, HighMount recorded non-cash ceiling test impairment charges of \$261 million and \$527 million (\$166 million and \$336 million after tax) related to the carrying value of its natural gas and oil properties. The write-downs were the result of declines in natural gas and NGL prices. The September 30, 2012, ceiling test calculation was based on average 12-month prices of \$2.83 per MMBtu for natural gas, \$46.02 per Bbl for NGLs and \$94.97 per Bbl for oil. If prices remain unchanged through 2012, it is likely that HighMount will incur non-cash after tax ceiling test impairments ranging from approximately \$50 million to \$100 million in the fourth quarter of 2012. The extent of any future impairment is dependent on factors existing on the measurement date, such as sale prices, operating costs, drilling costs, and the associated impact on proved undeveloped well locations included in HighMount's total proved reserves.

**Three Months Ended September 30, 2011 Compared to 2010**

HighMount's operating revenues decreased \$21 million for the three months ended September 30, 2012 as compared with 2011 due to decreased natural gas and NGL prices and sales volumes. Average prices realized per Mcfe were \$5.49 for the three months ended September 30, 2012 compared to \$6.22 in the 2011 period. HighMount sold 13.2 Bcfe for the three months ended September 30, 2012 compared to 15.0 Bcfe in the 2011 period. The decrease in sales volume was primarily due to the continued reduction in capital spending on natural gas drilling since 2008.

HighMount had hedges in place as of September 30, 2012 that cover approximately 75.1% and 47.8% of total estimated 2012 and 2013 natural gas equivalent production at a weighted average price of \$5.70 and \$6.07 per Mcfe.

Operating expenses were \$58 million for the three months ended September 30, 2012 and 2011. Production expenses and production and ad valorem taxes were \$25 million for the three months ended September 30, 2012 and 2011. DD&A expenses were \$25 million for the three months ended September 30, 2012, compared to \$23 million for the 2011 period. The increase in DD&A expenses was primarily due to negative reserve revisions in 2011 and projected future development activity focused on developing oil reserves.

*Nine Months Ended September 30, 2011 Compared to 2010*

HighMount's operating revenues decreased \$78 million for the nine months ended September 30, 2012, as compared with the 2011 period due to decreased natural gas and NGL prices and sales volumes. Average prices realized per Mcfe were \$5.26 in 2012 compared to \$6.33 in the 2011 period. HighMount sold 40.7 Bcfe in 2012 compared to 46.1 Bcfe in the 2011 period. The decrease in sales volume was primarily due to the continued reduction in capital spending on natural gas drilling since 2008.

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Operating expenses decreased by \$1 million for the nine months ended September 30, 2012, as compared with the 2011 period. Production expenses and production and ad valorem taxes were \$74 million for the nine months ended September 30, 2012, compared to \$84 million for the 2011 period. This decrease is due primarily to lower production taxes, which are driven by lower commodity prices. DD&A expenses were \$78 million in 2012, compared to \$70 million in 2011. The increase in DD&A expenses was primarily due to negative reserve revisions in 2011 and projected future development activity focused on developing oil reserves.

**Loews Hotels**

The following table summarizes the results of operations for Loews Hotels for the three and nine months ended September 30, 2012 and 2011, as presented in Note 12 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

|   | Three Months Ended<br>September 30, |       | Nine Months Ended<br>September 30, |        |
|---|-------------------------------------|-------|------------------------------------|--------|
|   | 2012                                | 2011  | 2012                               | 2011   |
| <b>(In millions)</b>                                |                                     |       |                                    |        |
| <b>Revenues:</b>                                    |                                     |       |                                    |        |
| Other revenue, primarily operating                  | \$ 97                               | \$ 81 | \$ 271                             | \$ 250 |
| Net investment income                               | 1                                   | 1     | 1                                  | 1      |
| Total   | 98                                  | 82    | 272                                | 251    |
| <b>Expenses:</b>                                    |                                     |       |                                    |        |
| Operating   | 95                                  | 81    | 247                                | 231    |
| Interest  | 4                                   | 2     | 8                                  | 7      |
| Total   | 99                                  | 83    | 255                                | 238    |
| Income (loss) before income tax                     | (1)                                 | (1)   | 17                                 | 13     |
| Income tax (expense) benefit                        |                                     | 1     | (8)                                | (5)    |
| Net income (loss) attributable to Loews Corporation | \$ (1)                              | \$    | \$ 9                               | \$ 8   |

Revenues increased by \$16 million and \$21 million, or 19.5% and 8.4%, for the three and nine months ended September 30, 2012 as compared to the 2011 periods. Net income decreased by \$1 million and increased by \$1 million for the three and nine months ended September 30, 2012 as compared to the 2011 periods. The decrease for the three month period is primarily driven by lower earnings from the Orlando joint venture.

Revenues increased for the three and nine months ended September 30, 2012 as compared to the 2011 periods, primarily due to revenues earned from the Loews Hollywood Hotel, which was acquired in June of 2012. In addition, revenue per available room increased \$7.53 and \$5.86 to \$169.31 and \$169.05 for the three and nine months ended September 30, 2012 as compared to the 2011 periods. The increase in revenue per available room reflects improving occupancy and average room rates. Occupancy rates increased to 82.0% and 77.2% in the three and nine months ended September 30, 2012, from 79.8% and 75.4% in the 2011 periods. Average room rates increased by \$3.70 and \$2.74, or 1.8% and 1.3%, in the three and nine months ended September 30, 2012 as compared to the 2011 periods.

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

Operating expenses increased for the three and nine months ended September 30, 2012 as compared to the 2011 periods, primarily due to expenses, including acquisition and transition related costs, from the Loews Hollywood Hotel.

**Corporate and Other**

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



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The following table summarizes the results of operations for Corporate and Other for the three and nine months ended September 30, 2012 and 2011, as presented in Note 12 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

|   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|---|-------------------------------------|---------|------------------------------------|---------|
|   | 2012                                | 2011    | 2012                               | 2011    |
| <b>(In millions)</b>                                |                                     |         |                                    |         |
| <b>Revenues:</b>                                    |                                     |         |                                    |         |
| Net investment income (loss)                        | \$ 79                               | \$ (64) | \$ 70                              | \$ (23) |
| Other   | 2                                   | (1)     | 2                                  | (1)     |
| Total   | 81                                  | (65)    | 72                                 | (24)    |
| <b>Expenses:</b>                                    |                                     |         |                                    |         |
| Operating   | 20                                  | 21      | 60                                 | 49      |
| Interest  | 10                                  | 9       | 30                                 | 34      |
| Total   | 30                                  | 30      | 90                                 | 83      |
| Income (loss) before income tax                     | 51                                  | (95)    | (18)                               | (107)   |
| Income tax (expense) benefit                        | (19)                                | 31      | 3                                  | 34      |
| Net income (loss) attributable to Loews Corporation | \$ 32                               | \$ (64) | \$ (15)                            | \$ (73) |

Revenues increased by \$146 million and \$96 million for the three and nine months ended September 30, 2012 as compared to the 2011 periods. Investment income increased primarily due to improved performance of equity investments in the trading portfolio for the three and nine months ended September 30, 2012. Improved performance of limited partnership investments also contributed favorably to the results for the three months ended September 30, 2012.

Net results improved \$96 million and \$58 million for the three and nine months ended September 30, 2012 as compared to the 2011 periods. These changes were due primarily to the change in revenues discussed above.

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

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

For the nine months ended September 30, 2012, net cash provided by operating activities was \$993 million as compared with \$813 million for the same period in 2011. Cash provided by operating activities was favorably affected by increased investment income receipts in 2012 as compared with the same period in 2011. In addition, CNA received a \$75 million federal income tax refund in 2012.

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

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For the nine months ended September 30, 2012, net cash used by investing activities was \$747 million as compared with \$217 million for the same period in 2011. The cash flow from investing activities is affected by various factors such as the anticipated payment of claims, financing activities, asset/liability management and individual security buy and sell decisions made in the normal course of portfolio management. Additionally, during 2012, CNA acquired Hardy.

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

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For the nine months ended September 30, 2012, net cash used by financing activities was \$195 million as compared with \$588 million for the same period in 2011. During 2011, CNA purchased the noncontrolling interest of Surety.

### ***Liquidity***

CNA believes that its present cash flows from operations, investing activities and financing activities are sufficient to fund its current and expected working capital and debt obligation needs and CNA does not expect this to change in the near term.

During 2012, CNA entered into a new revolving credit agreement with a syndicate of banks. The new credit agreement established a four-year \$250 million senior unsecured revolving credit facility. At CNA's election, the commitments under the new credit agreement may be increased from time to time up to an additional aggregate amount of \$100 million, and two one-year extensions are available prior to the first and second anniversary of the closing date subject to applicable consents. Under the new credit agreement CNA is required to pay a facility fee which would adjust automatically in the event of a change in CNA's financial ratings. The new credit agreement includes several covenants, including maintenance of a minimum consolidated net worth and a specified ratio of consolidated indebtedness to consolidated total capitalization. In addition, CNA's previous credit agreement was canceled as of the effective date of the new credit agreement. As of September 30, 2012, CNA had no outstanding borrowings under the new credit agreement.

### **Diamond Offshore**

Cash and investments totaled \$1.5 billion at September 30, 2012, compared to \$1.2 billion at December 31, 2011. During the nine months ended September 30, 2012, Diamond Offshore paid cash dividends totaling \$368 million, consisting of aggregate regular cash dividends of \$52 million and aggregate special cash dividends of \$316 million. On October 17, 2012, Diamond Offshore declared a regular quarterly dividend of \$0.125 per share and a special dividend of \$0.75 per share.

Cash provided by operating activities for the nine months ended September 30, 2012 decreased \$70 million compared to the 2011 period, primarily due to lower earnings. Cash used in investing activities for the nine months ended September 30, 2012 decreased \$172 million compared to the 2011 period. This decrease was due to the sale of six jack-up rigs for cash proceeds of \$132 million in 2012 and higher capital expenditures in 2011 related to the first installments for the construction of three new, ultra-deepwater drillships.

Diamond Offshore is currently obligated under two vessel modification agreements and four turnkey contracts for the construction of two semisubmersible rigs and four new ultra-deepwater drillships. Diamond Offshore estimates that the aggregate cost for the construction of the two semisubmersible rigs and the four new drillships, including commissioning, spares and project management, to be approximately \$670 million and \$2.6 billion.

For 2012, Diamond Offshore has budgeted approximately \$480 million for capital expenditures associated with the construction of its new drillships and semisubmersible rigs, and an additional \$320 million for capital expenditures associated with its ongoing rig equipment replacement and enhancement programs and other corporate requirements. Diamond Offshore expects to finance its 2012 capital expenditures through the use of existing cash balances or internally generated funds. During the nine months ended September 30, 2012, Diamond Offshore spent \$320 million towards the construction of its four new drillships and the two semisubmersible rigs. In addition, Diamond Offshore spent approximately \$195 million during the period related to its ongoing capital maintenance programs.

On September 28, 2012, Diamond Offshore entered into a \$750 million syndicated, senior unsecured five-year revolving credit agreement for general corporate purposes, that provides for revolving loans, up to \$250 million in performance or other standby letters of credit and up to \$75 million in swingline loans. As of September 30, 2012, there were no loans or letters of credit outstanding under the credit agreement.

Diamond Offshore's liquidity and capital requirements are primarily a function of its working capital needs, capital expenditures and debt service requirements. Diamond Offshore determines the amount of cash required to meet its capital commitments by evaluating the need to upgrade rigs to meet specific customer requirements, its ongoing rig equipment replacement and enhancement programs and its obligations relating to the construction of its four new drillships and two semisubmersible rigs. As a result of Diamond Offshore's intention to indefinitely reinvest the earnings of its wholly owned subsidiary, Diamond Offshore International Limited ( DOIL ), to finance its foreign activities, Diamond Offshore does not expect such earnings to be available for distribution to its stockholders or to finance its domestic activities. However, Diamond Offshore believes that the operating cash flows

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generated by and cash reserves of DOIL, and the operating cash flows available to and cash reserves of Diamond Offshore Drilling, Inc., will be sufficient to meet both its working capital requirements and its capital commitments over the next twelve months. Diamond Offshore will, however, continue to make periodic assessments based on industry conditions and will adjust capital spending programs if required.

**Boardwalk Pipeline**

At September 30, 2012 and December 31, 2011, cash and investments amounted to \$11 million and \$23 million. Funds from operations for the nine months ended September 30, 2012 amounted to \$414 million, compared to \$346 million for the 2011 period. For the nine months ended September 30, 2012 and 2011, Boardwalk Pipeline's capital expenditures were \$136 million and \$117 million, which included \$84 million and \$56 million of growth capital expenditures. Boardwalk Pipeline expects 2012 growth capital expenditures to be approximately \$200 million.

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

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

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

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

In February and August of 2012, Boardwalk Pipeline sold 9.2 million and 11.6 million common units in public offerings and received net proceeds of \$250 million and \$318 million, including \$5 million and \$7 million contributions from us to maintain our 2% general partner interest. The net proceeds were used to repay borrowings under Boardwalk Pipeline's revolving credit facility and to purchase the remaining equity ownership of HP Storage.

In October of 2012, Boardwalk Pipeline sold 11.2 million common units in a public offering and received net proceeds of \$298 million, including a \$6 million contribution from us to maintain our 2% general partner interest.

On October 1, 2012, a joint venture between Boardwalk Pipeline and Boardwalk Pipelines Holding Corp. ( BPHC ), a wholly owned subsidiary of the Company, acquired PL Midstream LLC, a company that provides salt dome storage, pipeline transportation, fractionation and brine supply services, for \$625 million. These assets represent approximately 53.5 million barrels of salt dome storage capacity, including 11.2 Bcf of working natural gas storage capacity; significant brine supply infrastructure; and more than 240 miles of pipeline transportation assets, including an extensive ethylene distribution system in Louisiana. The acquisition was funded with proceeds from a \$225 million five-year variable rate term loan and equity contributions by BPHC of \$269 million for a 65% equity interest and of \$148 million by Boardwalk Pipeline for a 35% equity interest. On October 15, 2012, Boardwalk Pipeline acquired BPHC's 65% equity interest in the joint venture for \$269 million, which was funded through the sale of common units as discussed above. Boardwalk Pipeline also changed the name of PL Midstream to Boardwalk Louisiana Midstream, LLC. Growth capital expenditures associated with Boardwalk Louisiana Midstream are expected to be approximately \$20 million for 2012.

Boardwalk Pipeline has announced its Southeast Market Expansion project, an interconnection between its Gulf South pipeline and HP Storage facilities, additional compression facilities and approximately 70 miles of additional pipeline, adding 0.5 Bcf per day of peak-day transmission capacity, subject to Federal Energy Regulatory Commission approval. The project is expected to be placed in service in 2014 and will cost approximately \$300 million. The Southeast Market Expansion project is fully contracted with a weighted-average contract life of approximately 10 years.

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### **HighMount**

At September 30, 2012 and December 31, 2011, cash and investments amounted to \$7 million and \$85 million. Net cash flows provided by operating activities were \$112 million and \$144 million for the nine months ended September 30, 2012 and 2011. Key drivers of net operating cash flows are commodity prices, production volumes and operating costs.

Cash used in investing activities for the nine months ended September 30, 2012, was \$249 million, compared to \$125 million for the 2011 period. The primary driver of cash used in investing activities was capital spent developing HighMount's natural gas and oil reserves. HighMount spent \$169 million and \$57 million on capital expenditures for its drilling program in the nine months ended September 30, 2012 and 2011. HighMount expects to spend approximately \$46 million on capital expenditures during the fourth quarter of 2012 developing its natural gas and oil reserves, with a focus on oil drilling opportunities. Funds for capital expenditures and working capital requirements are expected to be provided primarily from operating activities, the available capacity under the revolving credit facility and capital contributions from us.

At September 30, 2012, HighMount had \$600 million of term loans outstanding. In addition, \$160 million was outstanding under HighMount's \$250 million revolving credit facility. In October of 2012, HighMount borrowed an additional \$23 million under its revolving credit facility, reducing its available capacity to approximately \$67 million as of the borrowing date.

HighMount's credit agreement governing its term loans and revolving credit facility contains financial covenants typical for these types of agreements, including a maximum debt to capitalization ratio and a minimum ratio of the net present value of its projected future cash flows from its proved natural gas and oil reserves to total debt. The calculation of net present value, performed at least annually, is based on commodity prices determined by the lenders. As a result, a decline in commodity prices could reduce HighMount's borrowing capacity requiring repayment of a portion of its line of credit funded by a capital contribution from us. The credit agreement also contains customary restrictions or limitations on HighMount's ability to engage in certain transactions, including transactions with affiliates. At September 30, 2012, HighMount was in compliance with all of its covenants under the credit agreement.

### **Loews Hotels**

Funds from operations continue to exceed operating requirements. Cash and investments totaled \$45 million at September 30, 2012, as compared to \$81 million at December 31, 2011.

On June 15, 2012, Loews Hotels acquired a hotel in Hollywood, California, which is now operating as the Loews Hollywood Hotel. The acquisition was funded with a combination of existing cash balances, newly incurred debt and a capital contribution from us.

Beginning in January 2013, the Loews Regency Hotel will close while undergoing an extensive renovation, with an anticipated completion by the end of the year. Capital expenditures for the renovation are estimated to be approximately \$85 million. Loews Hotels expects to record costs of up to \$10 million related to the closure in the fourth quarter of 2012.

In October of 2012, Loews Hotels entered into an agreement to become a 50% partner in a joint venture which will build a new hotel at Universal Orlando. Cash contributions related to the joint venture are expected to be approximately \$70 million.

Funds for capital expenditures and working capital requirements are expected to be provided from operations, refinancing, newly incurred debt, existing cash balances and advances or capital contributions from us.

### **Corporate and Other**

Parent Company cash and investments, net of receivables and payables, at September 30, 2012 totaled \$3.8 billion, as compared to \$3.3 billion at December 31, 2011. During the nine months ended September 30, 2012, we received \$285 million from the sale of our 80% ownership interest in HP Storage to Boardwalk Pipeline and \$512 million in interest and dividends from our subsidiaries. These inflows were partially offset by the payment of \$139 million to fund treasury stock purchases, \$74 million of cash dividends to our shareholders and a capital contribution of \$43 million to our subsidiaries.

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As of September 30, 2012, there were 393,578,497 shares of Loews common stock outstanding. Depending on market and other conditions, we may purchase shares of our and our subsidiaries' outstanding common stock in the open market or otherwise. During the nine months ended September 30, 2012, we purchased 3.5 million shares of Loews common stock at an aggregate cost of \$139 million.

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

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

**INVESTMENTS**

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

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

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

**Insurance**

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

**Net Investment Income**

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

|                                 | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |          |
|---------------------------------|-------------------------------------|--------|------------------------------------|----------|
|                                 | 2012                                | 2011   | 2012                               | 2011     |
| <b>(In millions)</b>            |                                     |        |                                    |          |
| Fixed maturity securities       | \$ 507                              | \$ 494 | \$ 1,528                           | \$ 1,505 |
| Short term investments          | 2                                   | 2      | 5                                  | 6        |
| Limited partnership investments | 89                                  | (93)   | 184                                | 32       |
| Equity securities               | 4                                   | 4      | 10                                 | 16       |
| Trading portfolio               | 7                                   | (1)    | 18                                 | 5        |
| Other                           | 5                                   | 3      | 16                                 | 12       |
| Gross investment income         | 614                                 | 409    | 1,761                              | 1,576    |
| Investment expense              | (13)                                | (15)   | (42)                               | (45)     |

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|                       |               |        |                 |          |
|-----------------------|---------------|--------|-----------------|----------|
| Net investment income | <b>\$ 601</b> | \$ 394 | <b>\$ 1,719</b> | \$ 1,531 |
|-----------------------|---------------|--------|-----------------|----------|

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Net investment income increased \$207 million for the three months ended September 30, 2012 as compared with the same period in 2011. The increase was primarily driven by a significant increase in limited partnership investment results.

Net investment income increased \$188 million for the nine months ended September 30, 2012 as compared with the same period in 2011. The increase was primarily driven by a significant increase in limited partnership investment income and an increase in fixed maturity securities income. The increase in fixed maturity securities income was driven by a higher invested asset base and a favorable net impact of changes in estimates of prepayments for asset-backed securities. These favorable impacts were partially offset by the effect of purchasing new investments at lower market interest rates.

The fixed maturity investment portfolio provided a pretax effective income yield of 5.4% and 5.5% for the nine months ended September 30, 2012 and 2011. Tax-exempt municipal bonds generated \$70 million and \$205 million of net investment income for the three and nine months ended September 30, 2012, as compared with \$60 million and \$174 million of net investment income for the same periods in 2011.

**Net Realized Investment Gains (Losses)**

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

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |       |
|--|-------------------------------------|---------|------------------------------------|-------|
|  | 2012                                | 2011    | 2012                               | 2011  |
| <b>(In millions)</b>   |                                     |         |                                    |       |
| Realized investment gains (losses):                                      |                                     |         |                                    |       |
| Fixed maturity securities:   |                                     |         |                                    |       |
| Corporate and other bonds  | \$ 48                               | \$ (28) | \$ 91                              | \$ 63 |
| States, municipalities and political subdivisions                        | (16)                                | 13      | 11                                 | 3     |
| Asset-backed   | (7)                                 | (15)    | (36)                               | (62)  |
| U.S. Treasury and obligations of government-sponsored enterprises        | 1                                   |         | 3                                  | 1     |
| Foreign government   |                                     | 1       | 4                                  | 3     |
| Redeemable preferred stock   |                                     |         |                                    | 3     |
| Total fixed maturity securities  | 26                                  | (29)    | 73                                 | 11    |
| Equity securities  | (15)                                | (1)     | (14)                               | (3)   |
| Derivative securities  | (1)                                 | 1       | (1)                                |       |
| Short term investments and other   | (2)                                 | 2       | 4                                  | 6     |
| Total realized investment gains (losses)                                 | 8                                   | (27)    | 62                                 | 14    |
| Income tax (expense) benefit   | (3)                                 | 10      | (22)                               | (4)   |
| Amounts attributable to noncontrolling interests                         |                                     | 2       | (3)                                | (1)   |
| Net realized investment gains (losses) attributable to Loews Corporation | \$ 5                                | \$ (15) | \$ 37                              | \$ 9  |

Net realized investment results increased \$20 million and \$28 million for the three and nine months ended September 30, 2012 as compared with the same periods in 2011. Further information on CNA's realized gains and losses, including CNA's OTTI losses and impairment decision process, is set forth in Note 2 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

**Portfolio Quality**

CNA's fixed maturity portfolio consists primarily of high quality bonds, 92.6% and 92.1% of which were rated as investment grade (rated BBB- or higher) at September 30, 2012 and December 31, 2011. The classification between investment grade and non-investment grade is based on a ratings methodology that takes into account ratings from two major providers, Standard & Poor's (S&P) and Moody's Investors Service, Inc. (Moody's) in that order of preference. If a security is not rated by these providers, CNA formulates an internal rating. At September 30, 2012 and December 31, 2011, approximately 98% of the fixed maturity portfolio was rated by S&P or Moody's, or was issued or guaranteed by the U.S.



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Government, Government agencies or Government-sponsored enterprises.

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

| (In millions of dollars)  | September 30, 2012 |        | December 31, 2011 |        |
|---|--------------------|--------|-------------------|--------|
| U.S. Government, Government agencies and Government-sponsored enterprises | \$ 4,743           | 11.2%  | \$ 4,760          | 11.9%  |
| AAA   | 3,362              | 7.9    | 3,421             | 8.6    |
| AA and A  | 19,274             | 45.6   | 17,807            | 44.6   |
| BBB   | 11,788             | 27.9   | 10,790            | 27.0   |
| Non-investment grade  | 3,138              | 7.4    | 3,159             | 7.9    |
| Total   | \$ 42,305          | 100.0% | \$ 39,937         | 100.0% |

Non-investment grade fixed maturity securities, as presented in the table below, include high-yield securities rated below BBB- by bond rating agencies and other unrated securities that, according to CNA's analysis, are below investment grade. Non-investment grade securities generally involve a greater degree of risk than investment grade securities. The amortized cost of CNA's non-investment grade fixed maturity bond portfolio was \$3.0 billion and \$3.2 billion at September 30, 2012 and December 31, 2011. The following table summarizes the ratings of this portfolio at fair value.

| (In millions of dollars) | September 30, 2012 |        | December 31, 2011 |        |
|--------------------------|--------------------|--------|-------------------|--------|
| BB                       | \$ 1,448           | 46.1%  | \$ 1,484          | 47.0%  |
| B                        | 762                | 24.3   | 867               | 27.4   |
| CCC-C                    | 707                | 22.5   | 689               | 21.8   |
| D                        | 221                | 7.1    | 119               | 3.8    |
| Total                    | \$ 3,138           | 100.0% | \$ 3,159          | 100.0% |

The following table summarizes available-for-sale fixed maturity securities in a gross unrealized loss position by rating distribution.

| September 30, 2012<br>(In millions of dollars)                            | Estimated<br>Fair value | %      | Gross<br>Unrealized<br>Losses | %      |
|---|-------------------------|--------|-------------------------------|--------|
| U.S. Government, Government agencies and Government-sponsored enterprises | \$ 453                  | 19.0%  | \$ 46                         | 24.9%  |
| AAA   | 200                     | 8.4    | 5                             | 2.7    |
| AA  | 350                     | 14.6   | 54                            | 29.2   |
| A   | 305                     | 12.8   | 11                            | 5.9    |
| BBB   | 519                     | 21.7   | 29                            | 15.7   |
| Non-investment grade  | 563                     | 23.5   | 40                            | 21.6   |
| Total   | \$ 2,390                | 100.0% | \$ 185                        | 100.0% |

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

| September 30, 2012<br>(In millions of dollars) | Estimated<br>Fair value | %             | Gross<br>Unrealized<br>Losses | %             |
|--|-------------------------|---------------|-------------------------------|---------------|
| Due in one year or less                        | \$ 218                  | 9.1%          | \$ 14                         | 7.6%          |
| Due after one year through five years          | 802                     | 33.6          | 24                            | 13.0          |
| Due after five years through ten years         | 763                     | 31.9          | 76                            | 41.1          |
| Due after ten years                            | 607                     | 25.4          | 71                            | 38.3          |
| <b>Total</b>                                   | <b>\$ 2,390</b>         | <b>100.0%</b> | <b>\$ 185</b>                 | <b>100.0%</b> |

**Table of Contents****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 liabilities in the Life & Group Non-Core segment including annuities, structured settlements and long term care products.

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

|  | September 30, 2012 |                            | December 31, 2011 |                            |
|--|--------------------|----------------------------|-------------------|----------------------------|
|  | Fair Value         | Effective Duration (Years) | Fair Value        | Effective Duration (Years) |
| <b>(In millions of dollars)</b>              |                    |                            |                   |                            |
| Investments supporting Life & Group Non-Core | \$ 15,261          | 11.4                       | \$ 13,820         | 11.5                       |
| Other interest sensitive investments         | 29,070             | 3.8                        | 28,071            | 3.9                        |
| Total  | \$ 44,331          | 6.5                        | \$ 41,891         | 6.4                        |

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

**Short Term Investments**

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

|                              | September 30, 2012 | December 31, 2011 |
|------------------------------|--------------------|-------------------|
| <b>(In millions)</b>         |                    |                   |
| Short term investments:      |                    |                   |
| Commercial paper             | \$ 1,167           | \$ 411            |
| U.S. Treasury securities     | 593                | 903               |
| Money market funds           | 433                | 45                |
| Other                        | 291                | 282               |
| Total short term investments | \$ 2,484           | \$ 1,641          |



**Table of Contents****European Exposure**

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

| September 30, 2012<br>(In millions) | Corporate        |               | Sovereign | Total    |
|-------------------------------------|------------------|---------------|-----------|----------|
|                                     | Financial Sector | Other Sectors |           |          |
| <b>AAA</b>                          | \$ 212           | \$ 70         | \$ 120    | \$ 402   |
| <b>AA</b>                           | 217              | 115           | 31        | 363      |
| <b>A</b>                            | 909              | 712           | 5         | 1,626    |
| <b>BBB</b>                          | 312              | 1,079         | 7         | 1,398    |
| <b>Non-investment grade</b>         | 33               | 217           |           | 250      |
| <b>Total fair value</b>             | \$ 1,683         | \$ 2,193      | \$ 163    | \$ 4,039 |
| <b>Total amortized cost</b>         | \$ 1,598         | \$ 1,941      | \$ 159    | \$ 3,698 |

European exposure is based on application of a country of risk methodology. Country of risk is derived from the issuing entity's management location, country of primary listing, revenue and reporting currency. The acquisition of Hardy increased the fair value and amortized cost of European exposure by \$89 million as of September 30, 2012. As of September 30, 2012, securities with a fair value and amortized cost of \$2.0 billion and \$1.8 billion relate to Eurozone countries, which consist of member states of the European Union that use the Euro as their national currency. Of this amount, securities with a fair value and amortized cost of \$311 million and \$300 million pertain to Greece, Italy, Ireland, Portugal and Spain.

**FORWARD-LOOKING STATEMENTS**

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

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

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

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

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the risk that the other parties to the transaction in which, subject to certain limitations, CNA ceded its legacy A&EP liabilities will not fully perform their obligations to CNA, the uncertainty in estimating loss reserves for A&EP liabilities and the possible continued exposure of CNA to liabilities for A&EP claims that are not covered under the terms of the transaction;

the performance of reinsurance companies under reinsurance contracts with CNA;

the impact of competitive products, policies and pricing and the competitive environment in which CNA operates, including changes in CNA's book of business;

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product and policy availability and demand and market responses, including the level of ability to obtain rate increases and decline or non-renew underpriced accounts, to achieve premium targets and profitability and to realize growth and retention estimates;

general economic and business conditions, including recessionary conditions that may decrease the size and number of CNA's insurance customers and create additional losses to CNA's lines of business, especially those that provide management and professional liability insurance, as well as surety bonds, to businesses engaged in real estate, financial services and professional services, and inflationary pressures on medical care costs, construction costs and other economic sectors that increase the severity of claims;

conditions in the capital and credit markets, including continuing uncertainty and instability in these markets, as well as the overall economy, and their impact on the returns, types, liquidity and valuation of CNA's investments;

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

the possibility of changes in CNA's ratings by ratings agencies, including the inability to access certain markets or distribution channels, and the required collateralization of future payment obligations as a result of such changes, and changes in rating agency policies and practices;

regulatory limitations, impositions and restrictions upon CNA, including the effects of assessments and other surcharges for guaranty funds and second-injury funds, other mandatory pooling arrangements and future assessments levied on insurance companies as well as the new federal financial regulatory reform of the insurance industry established by the Dodd-Frank Wall Street Reform and Consumer Protection Act;

increased operating costs and underwriting losses arising from the Patient Protection and Affordable Care Act and the related amendments in the Health Care and Education Reconciliation Act, as well as health care reform proposals at the state level;

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

weather and other natural physical events, including the severity and frequency of storms, hail, snowfall and other winter conditions, natural disasters such as hurricanes and earthquakes, as well as climate change, including effects on weather patterns, greenhouse gases, sea, land and air temperatures, sea levels, rain and snow;

regulatory requirements imposed by coastal state regulators in the wake of hurricanes or other natural disasters, including limitations on the ability to exit markets or to non-renew, cancel or change terms and conditions in policies, as well as mandatory assessments to fund any shortfalls arising from the inability of quasi-governmental insurers to pay claims;

man-made disasters, including the possible occurrence of terrorist attacks and the effect of the absence or insufficiency of applicable terrorism legislation on coverages;

the unpredictability of the nature, targets, severity or frequency of potential terrorist events, as well as the uncertainty as to CNA's ability to contain its terrorism exposure effectively; and



the occurrence of epidemics.

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

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

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

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

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

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

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

the availability and cost of insurance;

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

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

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

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

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

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

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

general economic and business conditions;

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

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

potential changes in accounting policies by the Financial Accounting Standards Board, the Securities and Exchange Commission or regulatory agencies for any of our subsidiaries' industries which may cause us or our subsidiaries to revise their financial accounting

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and/or disclosures in the future, and which may change the way analysts measure our and our subsidiaries' business or financial performance;

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

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

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

the consummation of contemplated transactions and agreements;

the successful integration, transition and management of acquired businesses;

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

possible casualty losses;

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

potential future asset impairments.

Developments in any of these or other areas of risk and uncertainty, which are more fully described elsewhere in this Report and our other filings with the SEC, could cause our results to differ materially from results that have been or may be anticipated or projected. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date of this Report and we expressly disclaim any obligation or undertaking to update these statements to reflect any change in our expectations or beliefs or any change in events, conditions or circumstances on which any forward-looking statement is based.

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

There were no material changes in our market risk components for the nine months ended September 30, 2012. See the Quantitative and Qualitative Disclosures About Market Risk included in Item 7A of our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2011 for further information. Additional information related to portfolio duration and market conditions is discussed in the Investments section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part I, Item 2.

### **Item 4. Controls and Procedures.**

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

The Company's principal executive officer (CEO) and principal financial officer (CFO) undertook an evaluation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. The CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of September 30, 2012.

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the foregoing evaluation that occurred during the quarter ended September 30, 2012 that have materially affected or that are reasonably likely to materially affect the Company's internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

Information with respect to legal proceedings is incorporated by reference to Note 10 of the Notes to Consolidated Condensed Financial Statements included in Part I of this Report.

**Item 1A. Risk Factors.**

Our Annual Report on Form 10-K for the year ended December 31, 2011 includes a detailed discussion of certain material risk factors facing our company. No updates or additions have been made to such risk factors as of September 30, 2012.

**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) |
|---|--|--|--|--|
| July 1, 2012 - July 31, 2012              | 194,000                                    | \$39.57                                | N/A  | N/A  |
| August 1, 2012 - August 31,<br>2012       | 1,989,130                                  | \$40.16                                | N/A  | N/A  |
| September 1, 2012 -<br>September 30, 2012 | 4,500                                      | \$40.49                                | N/A  | N/A  |

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

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

\*Filed herewith.

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SIGNATURES

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

LOEWS CORPORATION  
(Registrant)

Dated: October 30, 2012

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

(Duly authorized officer and principal financial officer)