

LOEWS CORP  
Form 10-Q  
August 03, 2011  
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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 June 30, 2011**

**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 July 22, 2011  
404,098,555 shares

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

|                                                            | <b>June 30,<br/>2011</b> | December 31,<br>2010 |
|------------------------------------------------------------|--------------------------|----------------------|
| <b>(Dollar amounts in millions, except per share data)</b> |                          |                      |
| <b>Assets:</b>                                             |                          |                      |
| Investments:                                               |                          |                      |
| Fixed maturities, amortized cost of \$37,096 and \$36,677  | <b>\$ 38,853</b>         | \$ 37,814            |
| Equity securities, cost of \$908 and \$979                 | <b>996</b>               | 1,086                |
| Limited partnership investments                            | <b>3,130</b>             | 2,814                |
| Other invested assets                                      | <b>213</b>               | 113                  |
| Short term investments                                     | <b>5,692</b>             | 7,080                |
| Total investments                                          | <b>48,884</b>            | 48,907               |
| Cash                                                       | <b>148</b>               | 120                  |
| Receivables                                                | <b>10,133</b>            | 10,142               |
| Property, plant and equipment                              | <b>12,456</b>            | 12,636               |
| Deferred income taxes                                      |                          | 289                  |
| Goodwill                                                   | <b>856</b>               | 856                  |
| Other assets                                               | <b>2,036</b>             | 1,798                |
| Deferred acquisition costs of insurance subsidiaries       | <b>1,106</b>             | 1,079                |
| Separate account business                                  | <b>450</b>               | 450                  |
| Total assets                                               | <b>\$ 76,069</b>         | \$ 76,277            |
| <b>Liabilities and Equity:</b>                             |                          |                      |
| Insurance reserves:                                        |                          |                      |
| Claim and claim adjustment expense                         | <b>\$ 25,196</b>         | \$ 25,496            |
| Future policy benefits                                     | <b>9,021</b>             | 8,718                |
| Unearned premiums                                          | <b>3,409</b>             | 3,203                |
| Policyholders funds                                        | <b>166</b>               | 173                  |
| Total insurance reserves                                   | <b>37,792</b>            | 37,590               |
| Payable to brokers                                         | <b>558</b>               | 685                  |
| Short term debt                                            | <b>6</b>                 | 647                  |
| Long term debt                                             | <b>9,163</b>             | 8,830                |
| Deferred income taxes                                      | <b>638</b>               | 562                  |
| Other liabilities                                          | <b>3,979</b>             | 4,407                |
| Separate account business                                  | <b>450</b>               | 450                  |
| Total liabilities                                          | <b>52,586</b>            | 53,171               |

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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 415,152,938 and 414,930,507 shares                    | 4         | 4         |
| Additional paid-in capital                                   | 3,653     | 3,667     |
| Retained earnings                                            | 15,145    | 14,564    |
| Accumulated other comprehensive income                       | 581       | 230       |
|                                                              | 19,383    | 18,465    |
| Less treasury stock, at cost (10,266,938 and 384,400 shares) | (430)     | (15)      |
| Total shareholders' equity                                   | 18,953    | 18,450    |
| Noncontrolling interests                                     | 4,530     | 4,656     |
| Total equity                                                 | 23,483    | 23,106    |
| Total liabilities and equity                                 | \$ 76,069 | \$ 76,277 |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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

|                                                                                                   | <b>Three Months Ended<br/>June 30,</b> |                | <b>Six Months Ended<br/>June 30,</b> |                |
|---------------------------------------------------------------------------------------------------|----------------------------------------|----------------|--------------------------------------|----------------|
|                                                                                                   | <b>2011</b>                            | <b>2010</b>    | <b>2011</b>                          | <b>2010</b>    |
| <b>(In millions, except per share data)</b>                                                       |                                        |                |                                      |                |
| <b>Revenues:</b>                                                                                  |                                        |                |                                      |                |
| Insurance premiums                                                                                | \$ 1,595                               | \$ 1,608       | \$ 3,210                             | \$ 3,223       |
| Net investment income                                                                             | 519                                    | 526            | 1,180                                | 1,143          |
| <b>Investment gains (losses):</b>                                                                 |                                        |                |                                      |                |
| Other-than-temporary impairment losses                                                            | (41)                                   | (58)           | (61)                                 | (148)          |
| Portion of other-than-temporary impairment losses recognized in Other comprehensive income (loss) | (21)                                   | 1              | (42)                                 | 31             |
| Net impairment losses recognized in earnings                                                      | (62)                                   | (57)           | (103)                                | (117)          |
| Other net investment gains                                                                        | 81                                     | 68             | 145                                  | 149            |
| <b>Total investment gains</b>                                                                     | <b>19</b>                              | <b>11</b>      | <b>42</b>                            | <b>32</b>      |
| Contract drilling revenues                                                                        | 870                                    | 812            | 1,659                                | 1,656          |
| Other                                                                                             | 539                                    | 529            | 1,119                                | 1,145          |
| <b>Total</b>                                                                                      | <b>3,542</b>                           | <b>3,486</b>   | <b>7,210</b>                         | <b>7,199</b>   |
| <b>Expenses:</b>                                                                                  |                                        |                |                                      |                |
| Insurance claims and policyholders' benefits                                                      | 1,367                                  | 1,147          | 2,731                                | 2,455          |
| Amortization of deferred acquisition costs                                                        | 350                                    | 345            | 695                                  | 687            |
| Contract drilling expenses                                                                        | 388                                    | 352            | 750                                  | 658            |
| Other operating expenses                                                                          | 757                                    | 712            | 1,442                                | 1,443          |
| Interest                                                                                          | 129                                    | 127            | 280                                  | 257            |
| <b>Total</b>                                                                                      | <b>2,991</b>                           | <b>2,683</b>   | <b>5,898</b>                         | <b>5,500</b>   |
| Income before income tax                                                                          | 551                                    | 803            | 1,312                                | 1,699          |
| Income tax expense                                                                                | (144)                                  | (262)          | (340)                                | (535)          |
| Net income                                                                                        | 407                                    | 541            | 972                                  | 1,164          |
| Amounts attributable to noncontrolling interests                                                  | (155)                                  | (175)          | (338)                                | (378)          |
| Net income attributable to Loews Corporation                                                      | \$ 252                                 | \$ 366         | \$ 634                               | \$ 786         |
| <b>Basic net income per share</b>                                                                 | <b>\$ 0.62</b>                         | <b>\$ 0.88</b> | <b>\$ 1.54</b>                       | <b>\$ 1.87</b> |
| <b>Diluted net income per share</b>                                                               | <b>\$ 0.62</b>                         | <b>\$ 0.87</b> | <b>\$ 1.54</b>                       | <b>\$ 1.87</b> |

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|                                                             |                  |           |                 |          |
|-------------------------------------------------------------|------------------|-----------|-----------------|----------|
| <b>Dividends per share</b>                                  | <b>\$ 0.0625</b> | \$ 0.0625 | <b>\$ 0.125</b> | \$ 0.125 |
| <b>Weighted-average shares outstanding:</b>                 |                  |           |                 |          |
| Shares of common stock                                      | <b>407.82</b>    | 418.64    | <b>410.34</b>   | 420.69   |
| Dilutive potential shares of common stock                   | <b>0.92</b>      | 0.74      | <b>0.93</b>     | 0.79     |
| Total weighted-average shares outstanding assuming dilution | <b>408.74</b>    | 419.38    | <b>411.27</b>   | 421.48   |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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

| <b>(In millions)</b>                                                      | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|---------------------------------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                                                           | <b>2011</b>                            | <b>2010</b> | <b>2011</b>                          | <b>2010</b> |
| Net income                                                                | \$ 407                                 | \$ 541      | \$ 972                               | \$ 1,164    |
| Other comprehensive income (loss)                                         |                                        |             |                                      |             |
| Changes in:                                                               |                                        |             |                                      |             |
| Net unrealized gains on investments with other-than-temporary impairments | 1                                      | 17          | 39                                   | 42          |
| Net other unrealized gains on investments                                 | 300                                    | 373         | 323                                  | 680         |
| Total unrealized gains on available-for-sale investments                  | 301                                    | 390         | 362                                  | 722         |
| Unrealized gains (losses) on cash flow hedges                             | 6                                      | 6           | (11)                                 | 67          |
| Foreign currency                                                          | 5                                      | 16          | 31                                   | 6           |
| Pension liability                                                         | 2                                      | 2           | 2                                    | 4           |
| Other comprehensive income                                                | 314                                    | 414         | 384                                  | 799         |
| Comprehensive income                                                      | 721                                    | 955         | 1,356                                | 1,963       |
| Amounts attributable to noncontrolling interests                          | (200)                                  | (219)       | (389)                                | (464)       |
| Total comprehensive income attributable to Loews Corporation              | \$ 521                                 | \$ 736      | \$ 967                               | \$ 1,499    |

*See accompanying Notes to Consolidated Condensed Financial Statements.*



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

(Unaudited)

|                                                    | <b>Loews Corporation Shareholders</b> |                         |                                           |                              |                                                                      |                                                  |                                     |
|----------------------------------------------------|---------------------------------------|-------------------------|-------------------------------------------|------------------------------|----------------------------------------------------------------------|--------------------------------------------------|-------------------------------------|
|                                                    |                                       |                         |                                           |                              | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income<br/>(Loss)</b> | <b>Common<br/>Stock<br/>Held in<br/>Treasury</b> | <b>Noncontrolling<br/>Interests</b> |
| <b>(In millions)</b>                               | <b>Total</b>                          | <b>Common<br/>Stock</b> | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> |                                                                      |                                                  |                                     |
| Balance, January 1, 2010                           | \$ 21,085                             | \$ 4                    | \$ 3,637                                  | \$ 13,693                    | \$ (419)                                                             | \$ (16)                                          | \$ 4,186                            |
| Net income                                         | 1,164                                 |                         |                                           | 786                          |                                                                      |                                                  | 378                                 |
| Other comprehensive income                         | 799                                   |                         |                                           |                              | 713                                                                  |                                                  | 86                                  |
| Dividends paid                                     | (356)                                 |                         |                                           | (53)                         |                                                                      |                                                  | (303)                               |
| Issuance of equity securities by subsidiary        | 279                                   |                         | 83                                        |                              | 1                                                                    |                                                  | 195                                 |
| Purchase of Loews treasury stock                   | (253)                                 |                         |                                           |                              |                                                                      | (253)                                            |                                     |
| Issuance of Loews common stock                     | 1                                     |                         | 1                                         |                              |                                                                      |                                                  |                                     |
| Stock-based compensation                           | 11                                    |                         | 9                                         |                              |                                                                      |                                                  | 2                                   |
| Other                                              | (3)                                   |                         | 19                                        |                              |                                                                      |                                                  | (22)                                |
| <b>Balance, June 30, 2010</b>                      | <b>\$ 22,727</b>                      | <b>\$ 4</b>             | <b>\$ 3,749</b>                           | <b>\$ 14,426</b>             | <b>\$ 295</b>                                                        | <b>\$ (269)</b>                                  | <b>\$ 4,522</b>                     |
| <b>Balance, January 1, 2011</b>                    | <b>\$ 23,106</b>                      | <b>\$ 4</b>             | <b>\$ 3,667</b>                           | <b>\$ 14,564</b>             | <b>\$ 230</b>                                                        | <b>\$ (15)</b>                                   | <b>\$ 4,656</b>                     |
| Net income                                         | 972                                   |                         |                                           | 634                          |                                                                      |                                                  | 338                                 |
| Other comprehensive income                         | 384                                   |                         |                                           |                              | 333                                                                  |                                                  | 51                                  |
| Dividends paid                                     | (247)                                 |                         |                                           | (51)                         |                                                                      |                                                  | (196)                               |
| Acquisition of CNA Surety noncontrolling interests | (475)                                 |                         | (54)                                      |                              | 17                                                                   |                                                  | (438)                               |
| Issuance of equity securities by subsidiary        | 152                                   |                         | 28                                        |                              | 1                                                                    |                                                  | 123                                 |
| Purchase of Loews treasury stock                   | (415)                                 |                         |                                           |                              |                                                                      | (415)                                            |                                     |
| Issuance of Loews common stock                     | 4                                     |                         | 4                                         |                              |                                                                      |                                                  |                                     |
| Stock-based compensation                           | 12                                    |                         | 10                                        |                              |                                                                      |                                                  | 2                                   |
| Other                                              | (10)                                  |                         | (2)                                       | (2)                          |                                                                      |                                                  | (6)                                 |
| <b>Balance, June 30, 2011</b>                      | <b>\$ 23,483</b>                      | <b>\$ 4</b>             | <b>\$ 3,653</b>                           | <b>\$ 15,145</b>             | <b>\$ 581</b>                                                        | <b>\$ (430)</b>                                  | <b>\$ 4,530</b>                     |

See accompanying Notes to Consolidated Condensed Financial Statements.

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

| <b>Six Months Ended June 30</b>                                                       | <b>2011</b> | <b>2010</b> |
|---------------------------------------------------------------------------------------|-------------|-------------|
| <b>(In millions)</b>                                                                  |             |             |
| <b>Operating Activities:</b>                                                          |             |             |
| Net income                                                                            | \$ 972      | \$ 1,164    |
| Adjustments to reconcile net income to net cash provided by operating activities, net | 445         | 446         |
| Changes in operating assets and liabilities, net:                                     |             |             |
| Reinsurance receivables                                                               | 277         | 374         |
| Other receivables                                                                     | (74)        | (40)        |
| Deferred acquisition costs                                                            | (27)        | 13          |
| Insurance reserves                                                                    | 93          | (437)       |
| Other liabilities                                                                     | (276)       | (27)        |
| Trading securities                                                                    | (521)       | (589)       |
| Other, net                                                                            | 27          | (104)       |
| Net cash flow operating activities total                                              | 916         | 800         |
| <b>Investing Activities:</b>                                                          |             |             |
| Purchases of fixed maturities                                                         | (6,200)     | (9,478)     |
| Proceeds from sales of fixed maturities                                               | 4,124       | 6,388       |
| Proceeds from maturities of fixed maturities                                          | 1,825       | 1,866       |
| Purchases of equity securities                                                        | (44)        | (62)        |
| Proceeds from sales of equity securities                                              | 153         | 128         |
| Purchases of property, plant and equipment                                            | (300)       | (473)       |
| Deposits for construction of offshore drilling equipment                              | (478)       |             |
| Sales of property, plant and equipment                                                | 9           | 591         |
| Change in short term investments                                                      | 1,580       | 1,058       |
| Change in other investments                                                           | (301)       | (194)       |
| Other, net                                                                            | 5           | 24          |
| Net cash flow investing activities total                                              | 373         | (152)       |

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

| <b>Six Months Ended June 30</b>                    | <b>2011</b>    | <b>2010</b>  |
|----------------------------------------------------|----------------|--------------|
| <b>(In millions)</b>                               |                |              |
| <b>Financing Activities:</b>                       |                |              |
| Dividends paid                                     | \$ (51)        | \$ (53)      |
| Dividends paid to noncontrolling interests         | (196)          | (303)        |
| Acquisition of CNA Surety noncontrolling interests | (426)          |              |
| Purchases of treasury shares                       | (422)          | (266)        |
| Issuance of common stock                           | 4              | 1            |
| Proceeds from sale of subsidiary stock             | 172            | 333          |
| Principal payments on debt                         | (1,433)        | (556)        |
| Issuance of debt                                   | 1,101          | 125          |
| Other, net                                         | (12)           | (26)         |
| <b>Net cash flow financing activities total</b>    | <b>(1,263)</b> | <b>(745)</b> |
| <br>                                               |                |              |
| Effect of foreign exchange rate on cash            | 2              | (2)          |
| <br>                                               |                |              |
| <b>Net change in cash</b>                          | <b>28</b>      | <b>(99)</b>  |
| Cash, beginning of period                          | 120            | 190          |
| <br>                                               |                |              |
| <b>Cash, end of period</b>                         | <b>\$ 148</b>  | <b>\$ 91</b> |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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**Loews Corporation and Subsidiaries**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Basis of Presentation**

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: commercial property and casualty insurance (CNA Financial Corporation ( CNA ), a 90% owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. ( Diamond Offshore ), a 50.4% owned subsidiary); exploration, production and marketing of natural gas and natural gas liquids (HighMount Exploration & Production LLC ( HighMount ), a wholly owned subsidiary); the operation of interstate natural gas pipeline systems (Boardwalk Pipeline Partners, LP ( Boardwalk Pipeline ), a 64% owned subsidiary); and the operation of hotels (Loews Hotels Holding Corporation ( Loews Hotels ), a wholly owned subsidiary). In the second quarter of 2011 Boardwalk Pipeline sold 6 million common units through a public offering for \$170 million, reducing the Company's ownership interest from 66% to 64%. 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 June 30, 2011 and December 31, 2010 and the results of operations and comprehensive income for the three and six months ended June 30, 2011 and 2010 and changes in shareholders' equity and cash flows for the six months ended June 30, 2011 and 2010.

Net income for the second quarter and first half 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 2010 Annual Report on Form 10-K which should be read in conjunction with these Consolidated Condensed Financial Statements.

The Company presents basic and diluted earnings per share on the Consolidated Condensed Statements of Income. Basic earnings per share excludes dilution and is computed by dividing net income attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Stock appreciation rights ( SARs ) of 1.7 million, 2.6 million, 1.8 million and 2.5 million shares were not included in the diluted weighted average shares amount for the three and six months ended June 30, 2011 and 2010 due to the exercise price being greater than the average stock price.

On June 10, 2011, CNA completed its previously announced acquisition of the noncontrolling interests of CNA Surety Corporation ( CNA Surety ). Previously CNA owned approximately 61% of the outstanding publicly traded common stock of CNA Surety. CNA Surety is now a wholly owned subsidiary of CNA, and, effective after the close of the stock market on June 10, 2011, trading in CNA Surety common stock ceased. The aggregate purchase price was approximately \$475 million, based on the offer price of \$26.55 per share and inclusive of the retirement of CNA Surety employee stock options. The amount paid to acquire the common shares of CNA Surety in excess of the closing date noncontrolling interests included in the Company's equity of \$438 million was reflected as an adjustment to Additional paid-in capital of \$54 million. In addition, Accumulated other comprehensive income increased by \$17 million related to the portion of net unrealized gains previously allocated to the noncontrolling shareholders. Net income attributable to the noncontrolling interests for the three and six months ended June 30, 2011 and 2010 was not significant.

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

|                                           | Three Months Ended |        | Six Months Ended |          |
|-------------------------------------------|--------------------|--------|------------------|----------|
|                                           | June 30,           |        | June 30,         |          |
| (In millions)                             | 2011               | 2010   | 2011             | 2010     |
| <b>Net investment income consists of:</b> |                    |        |                  |          |
| Fixed maturity securities                 | \$ 505             | \$ 519 | \$ 1,011         | \$ 1,029 |
| Short term investments                    | 4                  | 7      | 7                | 14       |
| Limited partnerships                      | 22                 | 7      | 156              | 87       |
| Equity securities                         | 6                  | 9      | 12               | 19       |
| Income (loss) from trading portfolio (a)  | (8)                | (5)    | 15               | 16       |
| Other                                     | 5                  | 2      | 9                | 5        |
| Total investment income                   | 534                | 539    | 1,210            | 1,170    |
| Investment expenses                       | (15)               | (13)   | (30)             | (27)     |
| Net investment income                     | \$ 519             | \$ 526 | \$ 1,180         | \$ 1,143 |

(a) Includes net unrealized gains/(losses) related to changes in fair value on trading securities still held of \$(17), \$21, \$1 and \$41 for the three and six months ended June 30, 2011 and 2010.

**Investment gains (losses) are as follows:**

|                           |       |       |       |       |
|---------------------------|-------|-------|-------|-------|
| Fixed maturity securities | \$ 20 | \$ 66 | \$ 40 | \$ 93 |
| Equity securities         | (2)   | (28)  | (2)   | (25)  |
| Derivative instruments    |       | (18)  | (1)   | (31)  |
| Short term investments    | 1     | 1     | 3     | 4     |
| Other                     |       | (10)  | 2     | (9)   |
| Investment gains (a)      | \$ 19 | \$ 11 | \$ 42 | \$ 32 |

(a) Includes gross realized gains of \$90, \$133, \$183 and \$235 and gross realized losses of \$72, \$95, \$145 and \$167 on available-for-sale securities for the three and six months ended June 30, 2011 and 2010.

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

|                                                      | Three Months Ended |       | Six Months Ended |       |
|------------------------------------------------------|--------------------|-------|------------------|-------|
|                                                      | June 30,           |       | June 30,         |       |
| (In millions)                                        | 2011               | 2010  | 2011             | 2010  |
| <b>Fixed maturity securities available-for-sale:</b> |                    |       |                  |       |
| Corporate and other bonds                            | \$ 15              | \$ 24 | \$ 24            | \$ 42 |
| States, municipalities and political subdivisions    |                    | 6     |                  | 20    |
| <b>Asset-backed:</b>                                 |                    |       |                  |       |
| Residential mortgage-backed                          | 46                 | 11    | 74               | 37    |
| Commercial mortgage-backed                           |                    |       |                  | 2     |

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|                                            |              |       |               |        |
|--------------------------------------------|--------------|-------|---------------|--------|
| Other asset-backed                         |              | 2     |               | 2      |
| Total fixed maturities available-for-sale  | <b>61</b>    | 43    | <b>98</b>     | 103    |
| Equity securities available-for-sale:      |              |       |               |        |
| Common stock                               | <b>1</b>     | 5     | <b>4</b>      | 5      |
| Preferred stock                            |              | 9     | <b>1</b>      | 9      |
| Total equity securities available-for-sale | <b>1</b>     | 14    | <b>5</b>      | 14     |
| Net OTTI losses recognized in earnings     | <b>\$ 62</b> | \$ 57 | <b>\$ 103</b> | \$ 117 |

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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, credit support from lower level tranches and impacts of rating agency downgrades.

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:

| June 30, 2011<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                                            | \$ 19,213                    | \$ 1,705                     | \$ 39                         | \$ 20,879               |                                      |
| States, municipalities and political subdivisions                    | 8,628                        | 357                          | 268                           | 8,717                   |                                      |
| <b>Asset-backed:</b>                                                 |                              |                              |                               |                         |                                      |
| Residential mortgage-backed                                          | 6,076                        | 103                          | 166                           | 6,013                   | \$ 61                                |
| Commercial mortgage-backed                                           | 1,011                        | 62                           | 36                            | 1,037                   | (9)                                  |
| Other asset-backed                                                   | 925                          | 17                           | 9                             | 933                     |                                      |
| <b>Total asset-backed</b>                                            | <b>8,012</b>                 | <b>182</b>                   | <b>211</b>                    | <b>7,983</b>            | <b>52</b>                            |
| U.S. Treasury and obligations of<br>government-sponsored enterprises | 231                          | 14                           | 1                             | 244                     |                                      |
| Foreign government                                                   | 659                          | 18                           |                               | 677                     |                                      |
| Redeemable preferred stock                                           | 48                           | 6                            |                               | 54                      |                                      |
| <b>Fixed maturities available-for-sale</b>                           | <b>36,791</b>                | <b>2,282</b>                 | <b>519</b>                    | <b>38,554</b>           | <b>52</b>                            |
| <b>Fixed maturities, trading</b>                                     | <b>305</b>                   |                              | <b>6</b>                      | <b>299</b>              |                                      |
| <b>Total fixed maturities</b>                                        | <b>37,096</b>                | <b>2,282</b>                 | <b>525</b>                    | <b>38,853</b>           | <b>52</b>                            |
| <b>Equity securities:</b>                                            |                              |                              |                               |                         |                                      |
| Common stock                                                         | 107                          | 26                           |                               | 133                     |                                      |
| Preferred stock                                                      | 213                          | 2                            | 2                             | 213                     |                                      |
| <b>Equity securities available-for-sale</b>                          | <b>320</b>                   | <b>28</b>                    | <b>2</b>                      | <b>346</b>              |                                      |
| <b>Equity securities, trading</b>                                    | <b>588</b>                   | <b>102</b>                   | <b>40</b>                     | <b>650</b>              |                                      |
| <b>Total equity securities</b>                                       | <b>908</b>                   | <b>130</b>                   | <b>42</b>                     | <b>996</b>              |                                      |
| <b>Total</b>                                                         | <b>\$ 38,004</b>             | <b>\$ 2,412</b>              | <b>\$ 567</b>                 | <b>\$ 39,849</b>        | <b>\$ 52</b>                         |

December 31, 2010

|                                                                      |              |            |            |              |            |
|----------------------------------------------------------------------|--------------|------------|------------|--------------|------------|
| <b>Fixed maturity securities:</b>                                    |              |            |            |              |            |
| Corporate and other bonds                                            | \$ 19,503    | \$ 1,603   | \$ 70      | \$ 21,036    |            |
| States, municipalities and political subdivisions                    | 8,157        | 142        | 410        | 7,889        |            |
| <b>Asset-backed:</b>                                                 |              |            |            |              |            |
| Residential mortgage-backed                                          | 6,255        | 101        | 265        | 6,091        | \$ 114     |
| Commercial mortgage-backed                                           | 994          | 40         | 41         | 993          | (2)        |
| Other asset-backed                                                   | 753          | 18         | 8          | 763          |            |
| <b>Total asset-backed</b>                                            | <b>8,002</b> | <b>159</b> | <b>314</b> | <b>7,847</b> | <b>112</b> |
| U.S. Treasury and obligations of<br>government-sponsored enterprises | 122          | 16         | 1          | 137          |            |
| Foreign government                                                   | 602          | 18         |            | 620          |            |
| Redeemable preferred stock                                           | 47           | 7          |            | 54           |            |



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|                                      |           |          |        |           |        |
|--------------------------------------|-----------|----------|--------|-----------|--------|
| Fixed maturities available-for-sale  | 36,433    | 1,945    | 795    | 37,583    | 112    |
| Fixed maturities, trading            | 244       |          | 13     | 231       |        |
| Total fixed maturities               | 36,677    | 1,945    | 808    | 37,814    | 112    |
| Equity securities:                   |           |          |        |           |        |
| Common stock                         | 90        | 25       |        | 115       |        |
| Preferred stock                      | 332       | 2        | 9      | 325       |        |
| Equity securities available-for-sale | 422       | 27       | 9      | 440       |        |
| Equity securities, trading           | 557       | 123      | 34     | 646       |        |
| Total equity securities              | 979       | 150      | 43     | 1,086     |        |
| Total                                | \$ 37,656 | \$ 2,095 | \$ 851 | \$ 38,900 | \$ 112 |

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

| June 30, 2011<br>(In millions)                                    | Less than 12 Months  |                         | Greater than 12 Months |                         | Total                |                         |
|-------------------------------------------------------------------|----------------------|-------------------------|------------------------|-------------------------|----------------------|-------------------------|
|                                                                   | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value   | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| <b>Fixed maturity securities:</b>                                 |                      |                         |                        |                         |                      |                         |
| Corporate and other bonds                                         | \$ 1,321             | \$ 23                   | \$ 197                 | \$ 16                   | \$ 1,518             | \$ 39                   |
| States, municipalities and political subdivisions                 | 1,331                | 62                      | 663                    | 206                     | 1,994                | 268                     |
| <b>Asset-backed:</b>                                              |                      |                         |                        |                         |                      |                         |
| Residential mortgage-backed                                       | 2,131                | 42                      | 1,016                  | 124                     | 3,147                | 166                     |
| Commercial mortgage-backed                                        | 317                  | 15                      | 194                    | 21                      | 511                  | 36                      |
| Other asset-backed                                                | 168                  | 4                       | 61                     | 5                       | 229                  | 9                       |
| <b>Total asset-backed</b>                                         | <b>2,616</b>         | <b>61</b>               | <b>1,271</b>           | <b>150</b>              | <b>3,887</b>         | <b>211</b>              |
| U.S. Treasury and obligations of government-sponsored enterprises | 118                  | 1                       |                        |                         | 118                  | 1                       |
| <b>Total fixed maturities available-for-sale</b>                  | <b>5,386</b>         | <b>147</b>              | <b>2,131</b>           | <b>372</b>              | <b>7,517</b>         | <b>519</b>              |
| <b>Equity securities available-for-sale:</b>                      |                      |                         |                        |                         |                      |                         |
| Preferred stock                                                   | 90                   | 1                       | 19                     | 1                       | 109                  | 2                       |
| <b>Total</b>                                                      | <b>\$ 5,476</b>      | <b>\$ 148</b>           | <b>\$ 2,150</b>        | <b>\$ 373</b>           | <b>\$ 7,626</b>      | <b>\$ 521</b>           |

December 31, 2010

|                                                                   |                 |               |                 |               |                  |               |
|-------------------------------------------------------------------|-----------------|---------------|-----------------|---------------|------------------|---------------|
| <b>Fixed maturity securities:</b>                                 |                 |               |                 |               |                  |               |
| Corporate and other bonds                                         | \$ 1,719        | \$ 34         | \$ 405          | \$ 36         | \$ 2,124         | \$ 70         |
| States, municipalities and political subdivisions                 | 3,339           | 164           | 745             | 246           | 4,084            | 410           |
| <b>Asset-backed:</b>                                              |                 |               |                 |               |                  |               |
| Residential mortgage-backed                                       | 1,800           | 52            | 1,801           | 213           | 3,601            | 265           |
| Commercial mortgage-backed                                        | 164             | 3             | 333             | 38            | 497              | 41            |
| Other asset-backed                                                | 122             | 1             | 60              | 7             | 182              | 8             |
| <b>Total asset-backed</b>                                         | <b>2,086</b>    | <b>56</b>     | <b>2,194</b>    | <b>258</b>    | <b>4,280</b>     | <b>314</b>    |
| U.S. Treasury and obligations of government-sponsored enterprises | 8               | 1             |                 |               | 8                | 1             |
| <b>Total fixed maturities available-for-sale</b>                  | <b>7,152</b>    | <b>255</b>    | <b>3,344</b>    | <b>540</b>    | <b>10,496</b>    | <b>795</b>    |
| <b>Equity securities available-for-sale:</b>                      |                 |               |                 |               |                  |               |
| Preferred stock                                                   | 175             | 5             | 70              | 4             | 245              | 9             |
| <b>Total</b>                                                      | <b>\$ 7,327</b> | <b>\$ 260</b> | <b>\$ 3,414</b> | <b>\$ 544</b> | <b>\$ 10,741</b> | <b>\$ 804</b> |

The amount of pretax net unrealized gains on available-for-sale securities reclassified out of Accumulated other comprehensive income ( AOCI ) into earnings was \$20 million, \$39 million, \$41 million and \$71 million for the three and six months ended June 30, 2011 and 2010.



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The following table summarizes the activity for the three and six months ended June 30, 2011 and 2010 related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held at June 30, 2011 and 2010 for which a portion of an OTTI loss was recognized in Other comprehensive income.

|                                                                                                               | Three Months Ended<br>June 30, |               | Six Months Ended<br>June 30, |               |
|---------------------------------------------------------------------------------------------------------------|--------------------------------|---------------|------------------------------|---------------|
|                                                                                                               | 2011                           | 2010          | 2011                         | 2010          |
| <b>(In millions)</b>                                                                                          |                                |               |                              |               |
| <b>Beginning balance of credit losses on fixed maturity securities</b>                                        | <b>\$ 113</b>                  | <b>\$ 171</b> | <b>\$ 141</b>                | <b>\$ 164</b> |
| <b>Additional credit losses for which an OTTI loss was previously recognized</b>                              | <b>8</b>                       | <b>11</b>     | <b>18</b>                    | <b>22</b>     |
| <b>Credit losses for which an OTTI loss was not previously recognized</b>                                     |                                | <b>3</b>      | <b>1</b>                     | <b>8</b>      |
| <b>Reductions for securities sold during the period</b>                                                       | <b>(21)</b>                    | <b>(14)</b>   | <b>(46)</b>                  | <b>(23)</b>   |
| <b>Reductions for securities the Company intends to sell or more likely than not will be required to sell</b> | <b>(18)</b>                    |               | <b>(32)</b>                  |               |
| <b>Ending balance of credit losses on fixed maturity securities</b>                                           | <b>\$ 82</b>                   | <b>\$ 171</b> | <b>\$ 82</b>                 | <b>\$ 171</b> |

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

The classification between investment grade and non-investment grade presented in the discussion below is based on a ratings methodology that takes into account ratings from two major providers, Standard & Poor's and Moody's Investors Service, Inc. in that order of preference. If a security is not rated by these providers, the Company formulates an internal rating. For securities with credit support from third party guarantees, the rating reflects the greater of the underlying rating of the issuer or the insured rating.

**States, Municipalities and Political Subdivisions**

The fair value of total states, municipalities and political subdivisions holdings at June 30, 2011 was \$8,717 million. These holdings consist of both tax-exempt and taxable bonds, 72.2% of which are special revenue and assessment bonds, followed by general obligation political subdivision bonds at 19.1% and state general obligation bonds at 8.7%.

The unrealized losses on the Company's investments in this category are primarily due to market conditions for zero coupon bonds, particularly for those with maturity dates that exceed 20 years. Yields for these securities continue to be higher than historical norms relative to after-tax returns on similar fixed income securities. The holdings for all securities in this category include 304 securities that have at least one trade lot in a gross unrealized loss position. The aggregate severity of the total gross unrealized losses was approximately 11.8% of amortized cost.

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The states, municipalities and political subdivisions securities in a gross unrealized loss position by ratings distribution are as follows:

| <b>June 30, 2011</b><br><b>(In millions)</b> | <b>Amortized<br/>Cost</b> | <b>Estimated<br/>Fair Value</b> | <b>Gross<br/>Unrealized<br/>Losses</b> |
|----------------------------------------------|---------------------------|---------------------------------|----------------------------------------|
| <b>AAA</b>                                   | <b>\$ 412</b>             | <b>\$ 387</b>                   | <b>\$ 25</b>                           |
| <b>AA</b>                                    | <b>1,050</b>              | <b>877</b>                      | <b>173</b>                             |
| <b>A</b>                                     | <b>713</b>                | <b>650</b>                      | <b>63</b>                              |
| <b>BBB</b>                                   | <b>71</b>                 | <b>65</b>                       | <b>6</b>                               |
| <b>Non-investment grade</b>                  | <b>16</b>                 | <b>15</b>                       | <b>1</b>                               |
| <b>Total</b>                                 | <b>\$ 2,262</b>           | <b>\$ 1,994</b>                 | <b>\$ 268</b>                          |

The largest exposures at June 30, 2011 as measured by gross unrealized losses were several separate issues of Puerto Rico sales tax revenue bonds with gross unrealized losses of \$102 million and several separate issues of New Jersey transit revenue bonds with gross unrealized losses of \$41 million. All of these securities are rated investment grade.

The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of principal and interest; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at June 30, 2011.

**Asset-Backed Securities**

The fair value of total asset-backed holdings at June 30, 2011 was \$7,983 million which was comprised of 2,058 different securities. The fair value of these securities tends to be influenced by the characteristics and projected cash flows of the underlying collateral rather than the credit of the issuer. Each security has deal-specific tranche structures, credit support that results from the unique deal structure, particular collateral characteristics and other distinct security terms. As a result, seemingly common factors such as delinquency rates and collateral performance affect each security differently. Of these securities, 138 have underlying collateral that is either considered sub-prime or Alt-A in nature. The exposure to sub-prime residential mortgage collateral and Alternative A residential mortgages that have lower than normal standards of loan documentation collateral is measured by the original deal structure.

Residential mortgage-backed securities include 137 non-agency structured securities that have at least one trade lot in a gross unrealized loss position. In addition, there were 95 agency mortgage-backed securities guaranteed by agencies or sponsored enterprises of the U.S. Government that have at least one trade lot in a gross unrealized loss position. The aggregate severity of the gross unrealized loss for residential mortgage-backed securities was approximately 5.1% of amortized cost.

Commercial mortgage-backed securities include 50 securities that have at least one trade lot in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 6.5% of amortized cost. Other asset-backed securities include 21 securities that have at least one trade lot in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 3.9% of amortized cost.

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

| June 30, 2011<br>(In millions)                                                   | Amortized<br>Cost | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses |
|----------------------------------------------------------------------------------|-------------------|-------------------------|-------------------------------|
| <b>U.S. Government, Government Agencies and Government-Sponsored Enterprises</b> | <b>\$ 1,881</b>   | <b>\$ 1,852</b>         | <b>\$ 29</b>                  |
| AAA                                                                              | 688               | 660                     | 28                            |
| AA                                                                               | 318               | 295                     | 23                            |
| A                                                                                | 173               | 164                     | 9                             |
| BBB                                                                              | 296               | 256                     | 40                            |
| Non-investment grade and equity tranches                                         | 742               | 660                     | 82                            |
| <b>Total</b>                                                                     | <b>\$ 4,098</b>   | <b>\$ 3,887</b>         | <b>\$ 211</b>                 |

The Company believes the unrealized losses are primarily attributable to broader economic conditions, changes in interest rates, wider than historical bid/ask spreads, and uncertainty with regard to the timing and amount of ultimate collateral realization, but are not indicative of the ultimate collectibility of the current carrying values of 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. Generally, non-investment grade asset-backed securities consist of investments which were investment grade at the time of purchase but have subsequently been downgraded and primarily consist of holdings senior to the equity tranche. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of principal and interest, collateral shortfalls, or substantial changes in future cash flow expectations; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at June 30, 2011.

**Contractual Maturity**

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at June 30, 2011 and December 31, 2010. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

| (In millions)                          | June 30, 2011     |                         | December 31, 2010 |                         |
|----------------------------------------|-------------------|-------------------------|-------------------|-------------------------|
|                                        | Amortized<br>Cost | Estimated<br>Fair Value | Amortized<br>Cost | Estimated<br>Fair Value |
| Due in one year or less                | \$ 1,641          | \$ 1,649                | \$ 1,515          | \$ 1,506                |
| Due after one year through five years  | 11,352            | 11,882                  | 11,198            | 11,653                  |
| Due after five years through ten years | 9,778             | 10,274                  | 10,034            | 10,437                  |
| Due after ten years                    | 14,020            | 14,749                  | 13,686            | 13,987                  |
| <b>Total</b>                           | <b>\$ 36,791</b>  | <b>\$ 38,554</b>        | <b>\$ 36,433</b>  | <b>\$ 37,583</b>        |

**Investment Commitments**

As of June 30, 2011, the Company had committed approximately \$154 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 and sales. 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 June 30, 2011, the Company had commitments to purchase \$104 million and sell

\$96 million of such investments.

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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 Company attempts to establish fair value as an exit price in an orderly transaction consistent with normal settlement market conventions. The Company is responsible for the valuation process and seeks to obtain quoted market prices for all securities. When quoted market prices in active markets are not available, the Company uses a number of methodologies to establish fair value estimates, including discounted cash flow models, prices from recently executed transactions of similar securities or broker/dealer quotes, utilizing market observable information to the extent possible. In conjunction with modeling activities, the Company may use external data as inputs. The modeled inputs are consistent with observable market information, when available, or with the Company's assumptions as to what market participants would use to value the securities. The Company also uses pricing services as a significant source of data. The Company monitors all the pricing inputs to determine if the markets from which the data is gathered are active. As further validation of the Company's valuation process, the Company samples past fair value estimates and compares the valuations to actual transactions executed in the market on similar dates.



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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:

| June 30, 2011<br>(In millions)                                            | Level 1         | Level 2          | Level 3         | Total            |
|---------------------------------------------------------------------------|-----------------|------------------|-----------------|------------------|
| <b>Fixed maturity securities:</b>                                         |                 |                  |                 |                  |
| Corporate and other bonds                                                 |                 | \$ 20,067        | \$ 812          | \$ 20,879        |
| States, municipalities and political subdivisions                         |                 | 8,538            | 179             | 8,717            |
| <b>Asset-backed:</b>                                                      |                 |                  |                 |                  |
| Residential mortgage-backed                                               |                 | 5,326            | 687             | 6,013            |
| Commercial mortgage-backed                                                |                 | 942              | 95              | 1,037            |
| Other asset-backed                                                        |                 | 442              | 491             | 933              |
| <b>Total asset-backed</b>                                                 | \$              | <b>6,710</b>     | <b>1,273</b>    | <b>7,983</b>     |
| U.S. Treasury and obligations of government-sponsored enterprises         | 183             | 61               |                 | 244              |
| Foreign government                                                        | 128             | 549              |                 | 677              |
| Redeemable preferred stock                                                | 3               | 51               |                 | 54               |
| <b>Fixed maturities available-for-sale</b>                                | <b>314</b>      | <b>35,976</b>    | <b>2,264</b>    | <b>38,554</b>    |
| <b>Fixed maturities, trading</b>                                          | <b>20</b>       | <b>165</b>       | <b>114</b>      | <b>299</b>       |
| <b>Total fixed maturities</b>                                             | \$ <b>334</b>   | \$ <b>36,141</b> | \$ <b>2,378</b> | \$ <b>38,853</b> |
| <b>Equity securities available-for-sale</b>                               | \$ <b>198</b>   | \$ <b>112</b>    | \$ <b>36</b>    | \$ <b>346</b>    |
| <b>Equity securities, trading</b>                                         | <b>634</b>      |                  | <b>16</b>       | <b>650</b>       |
| <b>Total equity securities</b>                                            | \$ <b>832</b>   | \$ <b>112</b>    | \$ <b>52</b>    | \$ <b>996</b>    |
| <b>Short term investments</b>                                             | \$ <b>5,009</b> | \$ <b>677</b>    | \$ <b>6</b>     | \$ <b>5,692</b>  |
| <b>Other invested assets</b>                                              |                 | <b>5</b>         | <b>10</b>       | <b>15</b>        |
| <b>Receivables</b>                                                        |                 | <b>53</b>        | <b>1</b>        | <b>54</b>        |
| <b>Life settlement contracts</b>                                          |                 |                  | <b>129</b>      | <b>129</b>       |
| <b>Separate account business</b>                                          | <b>20</b>       | <b>393</b>       | <b>37</b>       | <b>450</b>       |
| <b>Payable to brokers</b>                                                 | <b>(72)</b>     | <b>(54)</b>      | <b>(38)</b>     | <b>(164)</b>     |
| <b>Discontinued operations investments, included in Other liabilities</b> | <b>14</b>       | <b>39</b>        |                 | <b>53</b>        |

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| December 31, 2010<br>(In millions)                                           | Level 1  | Level 2   | Level 3  | Total     |
|------------------------------------------------------------------------------|----------|-----------|----------|-----------|
| <b>Fixed maturity securities:</b>                                            |          |           |          |           |
| Corporate and other bonds                                                    |          | \$ 20,412 | \$ 624   | \$ 21,036 |
| States, municipalities and political subdivisions                            |          | 7,623     | 266      | 7,889     |
| <b>Asset-backed:</b>                                                         |          |           |          |           |
| Residential mortgage-backed                                                  |          | 5,324     | 767      | 6,091     |
| Commercial mortgage-backed                                                   |          | 920       | 73       | 993       |
| Other asset-backed                                                           |          | 404       | 359      | 763       |
| Total asset-backed                                                           | \$       | 6,648     | 1,199    | 7,847     |
| U.S. Treasury securities and obligations of government-sponsored enterprises | 76       | 61        |          | 137       |
| Foreign government                                                           | 115      | 505       |          | 620       |
| Redeemable preferred stock                                                   | 3        | 48        | 3        | 54        |
| Fixed maturities available-for-sale                                          | 194      | 35,297    | 2,092    | 37,583    |
| Fixed maturities, trading                                                    |          | 47        | 184      | 231       |
| Total fixed maturities                                                       | \$ 194   | \$ 35,344 | \$ 2,276 | \$ 37,814 |
| Equity securities available-for-sale                                         | \$ 288   | \$ 126    | \$ 26    | \$ 440    |
| Equity securities, trading                                                   | 640      |           | 6        | 646       |
| Total equity securities                                                      | \$ 928   | \$ 126    | \$ 32    | \$ 1,086  |
| Short term investments                                                       | \$ 6,079 | \$ 974    | \$ 27    | \$ 7,080  |
| Other invested assets                                                        |          |           | 26       | 26        |
| Receivables                                                                  |          | 74        | 2        | 76        |
| Life settlement contracts                                                    |          |           | 129      | 129       |
| Separate account business                                                    | 28       | 381       | 41       | 450       |
| Payable to brokers                                                           | (328)    | (79)      | (23)     | (430)     |
| Discontinued operations investments, included in Other liabilities           | 11       | 60        |          | 71        |

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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 six months ended June 30, 2011 and 2010:

| 2011<br>(In millions)                             | Net Realized Gains<br>(Losses) and Net Change<br>in Unrealized<br>Gains<br>(Losses) |                           |                    |               |                 |                 |              | Transfers<br>out of<br>Level 3 |                     | Unrealized<br>Gains (Losses)<br>Recognized<br>in<br>Net Income on<br>Level 3<br>Assets<br>and<br>Liabilities |  |
|---------------------------------------------------|-------------------------------------------------------------------------------------|---------------------------|--------------------|---------------|-----------------|-----------------|--------------|--------------------------------|---------------------|--------------------------------------------------------------------------------------------------------------|--|
|                                                   | Balance,<br>April 1                                                                 | Included<br>in Net Income | Included<br>in OCI | Purchases     | Sales           | Settlements     | to Level 3   | Level 3                        | Balance,<br>June 30 | Held at<br>June 30                                                                                           |  |
| <b>Fixed maturity securities:</b>                 |                                                                                     |                           |                    |               |                 |                 |              |                                |                     |                                                                                                              |  |
| Corporate and other bonds                         | \$ 576                                                                              | \$ (2)                    | \$ 2               | \$ 304        | \$ (29)         | \$ (70)         | \$ 31        |                                | \$ 812              | \$ (3)                                                                                                       |  |
| States, municipalities and political subdivisions | 188                                                                                 |                           | (1)                |               |                 | (8)             |              |                                | 179                 |                                                                                                              |  |
| <b>Asset-backed:</b>                              |                                                                                     |                           |                    |               |                 |                 |              |                                |                     |                                                                                                              |  |
| Residential mortgage-backed                       | 738                                                                                 | (13)                      | 12                 | 50            | (57)            | (19)            |              | \$ (24)                        | 687                 | (15)                                                                                                         |  |
| Commercial mortgage-backed                        | 88                                                                                  |                           | 2                  | 5             |                 |                 |              |                                | 95                  |                                                                                                              |  |
| Other asset-backed                                | 445                                                                                 | 1                         |                    | 127           | (44)            | (24)            |              | (14)                           | 491                 |                                                                                                              |  |
| <b>Total asset-backed</b>                         | <b>1,271</b>                                                                        | <b>(12)</b>               | <b>14</b>          | <b>182</b>    | <b>(101)</b>    | <b>(43)</b>     |              | <b>(38)</b>                    | <b>1,273</b>        | <b>(15)</b>                                                                                                  |  |
| <b>Fixed maturities available-for-sale</b>        | <b>2,035</b>                                                                        | <b>(14)</b>               | <b>15</b>          | <b>486</b>    | <b>(130)</b>    | <b>(121)</b>    | <b>31</b>    | <b>(38)</b>                    | <b>2,264</b>        | <b>(18)</b>                                                                                                  |  |
| Fixed maturities, trading                         | 182                                                                                 |                           |                    |               | (68)            |                 |              |                                | 114                 | 1                                                                                                            |  |
| <b>Total fixed maturities</b>                     | <b>\$ 2,217</b>                                                                     | <b>\$ (14)</b>            | <b>\$ 15</b>       | <b>\$ 486</b> | <b>\$ (198)</b> | <b>\$ (121)</b> | <b>\$ 31</b> | <b>\$ (38)</b>                 | <b>\$ 2,378</b>     | <b>\$ (17)</b>                                                                                               |  |
| <b>Equity securities available-for-sale</b>       | <b>\$ 30</b>                                                                        | <b>\$ (1)</b>             |                    | <b>\$ 4</b>   | <b>\$ (2)</b>   |                 | <b>\$ 5</b>  |                                | <b>\$ 36</b>        | <b>\$ (1)</b>                                                                                                |  |
| Equity securities trading                         | 6                                                                                   | (5)                       |                    | 1             |                 |                 | 14           |                                | 16                  | (5)                                                                                                          |  |
| <b>Total equity securities</b>                    | <b>\$ 36</b>                                                                        | <b>\$ (6)</b>             | <b>\$</b>          | <b>\$ 5</b>   | <b>\$ (2)</b>   | <b>\$</b>       | <b>\$ 19</b> | <b>\$</b>                      | <b>\$ 52</b>        | <b>\$ (6)</b>                                                                                                |  |
| <b>Short term investments</b>                     | <b>\$ 27</b>                                                                        |                           |                    |               |                 | <b>\$ (21)</b>  |              |                                | <b>\$ 6</b>         |                                                                                                              |  |
| Other invested assets                             | 9                                                                                   | 1                         |                    |               |                 |                 |              |                                | 10                  | 1                                                                                                            |  |
| Life settlement contracts                         | 127                                                                                 | 6                         |                    |               |                 | (4)             |              |                                | 129                 | 3                                                                                                            |  |
| Separate account business                         | 39                                                                                  |                           |                    |               | (2)             |                 |              |                                | 37                  |                                                                                                              |  |
| <b>Derivative financial instruments, net</b>      | <b>(36)</b>                                                                         | <b>(11)</b>               | <b>\$ (1)</b>      |               |                 | <b>11</b>       |              |                                | <b>(37)</b>         |                                                                                                              |  |

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| 2010<br>(In millions)                             | Balance<br>April 1 | Included<br>Net Income | Included<br>in OCI | Net Realized<br>Gains<br>(Losses) and<br>Net Change<br>in Unrealized<br>Gains<br>(Losses) | Purchases,<br>Sales,<br>Issuances<br>and<br>Settlements | Transfers<br>into<br>Level<br>3 | Transfers<br>out of<br>Level 3 | Balance,<br>June 30 | Unrealized<br>Gains (Losses)<br>Recognized<br>in<br>Net Income on<br>Level 3<br>Assets<br>and<br>Liabilities |
|---------------------------------------------------|--------------------|------------------------|--------------------|-------------------------------------------------------------------------------------------|---------------------------------------------------------|---------------------------------|--------------------------------|---------------------|--------------------------------------------------------------------------------------------------------------|
|                                                   |                    |                        |                    |                                                                                           |                                                         |                                 |                                |                     | Held at<br>June 30                                                                                           |
| <b>Fixed maturity securities:</b>                 |                    |                        |                    |                                                                                           |                                                         |                                 |                                |                     |                                                                                                              |
| Corporate and other bonds                         | \$ 680             | \$ 7                   | \$ 9               | \$ 57                                                                                     | \$ 14                                                   | \$ (49)                         | \$ 718                         | \$ (3)              |                                                                                                              |
| States, municipalities and political subdivisions | 737                |                        | 4                  | (202)                                                                                     |                                                         |                                 | 539                            |                     |                                                                                                              |
| <b>Asset-backed:</b>                              |                    |                        |                    |                                                                                           |                                                         |                                 |                                |                     |                                                                                                              |
| Residential mortgage-backed                       | 679                | 2                      | 3                  | 13                                                                                        |                                                         | (38)                            | 659                            |                     |                                                                                                              |
| Commercial mortgage-backed                        | 112                |                        | 2                  | 11                                                                                        |                                                         | (30)                            | 95                             |                     |                                                                                                              |
| Other asset-backed                                | 368                |                        | 1                  | (18)                                                                                      |                                                         | (45)                            | 306                            | (2)                 |                                                                                                              |
| Total asset-backed                                | 1,159              | 2                      | 6                  | 6                                                                                         |                                                         | (113)                           | 1,060                          | (2)                 |                                                                                                              |
| Redeemable preferred stock                        | 4                  | 6                      | (2)                | (7)                                                                                       |                                                         |                                 | 1                              |                     |                                                                                                              |
| Fixed maturities available-for-sale               | 2,580              | 15                     | 17                 | (146)                                                                                     | 14                                                      | (162)                           | 2,318                          | (5)                 |                                                                                                              |
| Fixed maturities, trading                         | 216                | 2                      |                    | (27)                                                                                      |                                                         |                                 | 191                            | 1                   |                                                                                                              |
| Total fixed maturities                            | \$ 2,796           | \$ 17                  | \$ 17              | \$ (173)                                                                                  | \$ 14                                                   | \$ (162)                        | \$ 2,509                       | \$ (4)              |                                                                                                              |
| <b>Equity securities available-for-sale</b>       |                    |                        |                    |                                                                                           |                                                         |                                 |                                |                     |                                                                                                              |
| Equity securities available-for-sale              | \$ 8               | \$ (1)                 |                    | \$ (1)                                                                                    |                                                         | \$ (2)                          | \$ 4                           | \$ (1)              |                                                                                                              |
| Short term investments                            | 1                  |                        |                    | 20                                                                                        |                                                         |                                 | 21                             |                     |                                                                                                              |
| Life settlement contracts                         | 131                | 7                      |                    | (4)                                                                                       |                                                         |                                 | 134                            | 5                   |                                                                                                              |
| Separate account business                         | 40                 |                        |                    | (3)                                                                                       |                                                         |                                 | 37                             |                     |                                                                                                              |
| Discontinued operations investments               | 15                 |                        |                    |                                                                                           |                                                         | (15)                            |                                |                     |                                                                                                              |
| Derivative financial instruments, net             | (27)               | (7)                    | \$ 28              | 10                                                                                        |                                                         |                                 | 4                              |                     |                                                                                                              |

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|                                                   | Net Realized Gains<br>(Losses) and Net Change<br>in Unrealized Gains<br>(Losses) |                           |                    |               |                 |                 |                           | Unrealized Gains<br>(Losses)<br>Recognized in<br>Net Income<br>on Level<br>3 Assets and<br>Liabilities<br>Held at<br>June 30 |                     |                |
|---------------------------------------------------|----------------------------------------------------------------------------------|---------------------------|--------------------|---------------|-----------------|-----------------|---------------------------|------------------------------------------------------------------------------------------------------------------------------|---------------------|----------------|
|                                                   | Balance,<br>January 1, 2011                                                      | Included in<br>Net Income | Included in<br>OCI | Purchases     | Sales           | Settlements     | Transfers<br>into Level 3 | Transfers<br>out of Level 3                                                                                                  | Balance,<br>June 30 | June 30        |
| <b>2011</b><br>(In millions)                      |                                                                                  |                           |                    |               |                 |                 |                           |                                                                                                                              |                     |                |
| <b>Fixed maturity securities:</b>                 |                                                                                  |                           |                    |               |                 |                 |                           |                                                                                                                              |                     |                |
| Corporate and other bonds                         | \$ 624                                                                           | \$ 2                      | \$ (3)             | \$ 346        | \$ (50)         | \$ (97)         | \$ 40                     | \$ (50)                                                                                                                      | \$ 812              | \$ (3)         |
| States, municipalities and political subdivisions | 266                                                                              |                           |                    |               |                 | (87)            |                           |                                                                                                                              | 179                 |                |
| <b>Asset-backed:</b>                              |                                                                                  |                           |                    |               |                 |                 |                           |                                                                                                                              |                     |                |
| Residential mortgage-backed                       | 767                                                                              | (12)                      | 14                 | 97            | (83)            | (41)            |                           | (55)                                                                                                                         | 687                 | (15)           |
| Commercial mortgage-backed                        | 73                                                                               | 3                         | 18                 | 5             | (4)             |                 |                           |                                                                                                                              | 95                  |                |
| Other asset-backed                                | 359                                                                              | 5                         |                    | 327           | (131)           | (55)            |                           | (14)                                                                                                                         | 491                 |                |
| <b>Total asset-backed</b>                         | <b>1,199</b>                                                                     | <b>(4)</b>                | <b>32</b>          | <b>429</b>    | <b>(218)</b>    | <b>(96)</b>     |                           | <b>(69)</b>                                                                                                                  | <b>1,273</b>        | <b>(15)</b>    |
| Redeemable preferred stock                        | 3                                                                                | 3                         | (3)                |               | (3)             |                 |                           |                                                                                                                              |                     |                |
| <b>Fixed maturities available-for-sale</b>        | <b>2,092</b>                                                                     | <b>1</b>                  | <b>26</b>          | <b>775</b>    | <b>(271)</b>    | <b>(280)</b>    | <b>40</b>                 | <b>(119)</b>                                                                                                                 | <b>2,264</b>        | <b>(18)</b>    |
| Fixed maturities, trading                         | 184                                                                              | 1                         |                    |               | (71)            |                 |                           |                                                                                                                              | 114                 | 1              |
| <b>Total fixed maturities</b>                     | <b>\$ 2,276</b>                                                                  | <b>\$ 2</b>               | <b>\$ 26</b>       | <b>\$ 775</b> | <b>\$ (342)</b> | <b>\$ (280)</b> | <b>\$ 40</b>              | <b>\$ (119)</b>                                                                                                              | <b>\$ 2,378</b>     | <b>\$ (17)</b> |
| <b>Equity securities available-for-sale</b>       | <b>\$ 26</b>                                                                     | <b>\$ (2)</b>             | <b>\$ (1)</b>      | <b>\$ 19</b>  | <b>\$ (11)</b>  |                 | <b>\$ 5</b>               |                                                                                                                              | <b>\$ 36</b>        | <b>\$ (4)</b>  |
| Equity securities trading                         | 6                                                                                | (5)                       |                    | 1             |                 |                 | 14                        |                                                                                                                              | 16                  | (5)            |
| <b>Total equity securities</b>                    | <b>\$ 32</b>                                                                     | <b>\$ (7)</b>             | <b>\$ (1)</b>      | <b>\$ 20</b>  | <b>\$ (11)</b>  |                 | <b>\$ 19</b>              |                                                                                                                              | <b>\$ 52</b>        | <b>\$ (9)</b>  |
| Short term investments                            | \$ 27                                                                            |                           |                    | \$ 12         |                 | \$ (23)         |                           | \$ (10)                                                                                                                      | \$ 6                |                |
| Other invested assets                             | 26                                                                               | 3                         |                    |               | (19)            |                 |                           |                                                                                                                              | 10                  | 1              |
| Life settlement contracts                         | 129                                                                              | 9                         |                    |               |                 | (9)             |                           |                                                                                                                              | 129                 | 3              |
| Separate account business                         | 41                                                                               |                           |                    |               | (4)             |                 |                           |                                                                                                                              | 37                  |                |
| Derivative financial instruments, net             | (21)                                                                             | (19)                      | (16)               |               |                 | 19              |                           |                                                                                                                              | (37)                |                |



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| 2010<br>(In millions)                                                               | Balance,<br>January 1 | Net Realized Gains<br>(Losses) and Net Change<br>in Unrealized Gains<br>(Losses) |                    | Purchases,<br>Sales,<br>Issuances<br>and<br>Settlements | Transfers<br>into<br>Level<br>3 | Transfers<br>out of<br>Level 3 | Balance,<br>June 30 | Unrealized<br>Gains (Losses)<br>Recognized<br>in<br>Net Income on<br>Level<br>3 Assets<br>and Liabilities<br>Held at<br>June 30 |
|-------------------------------------------------------------------------------------|-----------------------|----------------------------------------------------------------------------------|--------------------|---------------------------------------------------------|---------------------------------|--------------------------------|---------------------|---------------------------------------------------------------------------------------------------------------------------------|
|                                                                                     |                       | Included<br>in<br>Net Income                                                     | Included in<br>OCI |                                                         |                                 |                                |                     |                                                                                                                                 |
| <b>Fixed maturity securities:</b>                                                   |                       |                                                                                  |                    |                                                         |                                 |                                |                     |                                                                                                                                 |
| Corporate and other bonds                                                           | \$ 609                | \$ 9                                                                             | \$ 38              | \$ 112                                                  | \$ 23                           | \$ (73)                        | \$ 718              | \$ (4)                                                                                                                          |
| States, municipalities and<br>political subdivisions                                | 756                   |                                                                                  | 6                  | (223)                                                   |                                 |                                | 539                 |                                                                                                                                 |
| <b>Asset-backed</b>                                                                 |                       |                                                                                  |                    |                                                         |                                 |                                |                     |                                                                                                                                 |
| Residential mortgage-backed                                                         | 629                   | (8)                                                                              | 29                 | 55                                                      |                                 | (46)                           | 659                 | (10)                                                                                                                            |
| Commercial mortgage-backed                                                          | 123                   | (1)                                                                              | (2)                | 6                                                       | 7                               | (38)                           | 95                  | (1)                                                                                                                             |
| Other asset-backed                                                                  | 348                   | 4                                                                                | 22                 | (23)                                                    |                                 | (45)                           | 306                 | (2)                                                                                                                             |
| Total asset-backed                                                                  | 1,100                 | (5)                                                                              | 49                 | 38                                                      | 7                               | (129)                          | 1,060               | (13)                                                                                                                            |
| Redeemable preferred stock                                                          | 2                     | 6                                                                                |                    | (7)                                                     |                                 |                                | 1                   |                                                                                                                                 |
| <b>Fixed maturities</b>                                                             |                       |                                                                                  |                    |                                                         |                                 |                                |                     |                                                                                                                                 |
| available-for-sale                                                                  | 2,467                 | 10                                                                               | 93                 | (80)                                                    | 30                              | (202)                          | 2,318               | (17)                                                                                                                            |
| Fixed maturities, trading                                                           | 197                   | 8                                                                                |                    | (14)                                                    |                                 |                                | 191                 | 7                                                                                                                               |
| Total fixed maturities                                                              | \$ 2,664              | \$ 18                                                                            | \$ 93              | \$ (94)                                                 | \$ 30                           | \$ (202)                       | \$ 2,509            | \$ (10)                                                                                                                         |
| <b>Equity securities</b>                                                            |                       |                                                                                  |                    |                                                         |                                 |                                |                     |                                                                                                                                 |
| available-for-sale                                                                  | \$ 11                 | \$ (1)                                                                           |                    | \$ (1)                                                  | \$ 2                            | \$ (7)                         | \$ 4                | \$ (1)                                                                                                                          |
| Short term investments                                                              |                       |                                                                                  |                    | 20                                                      | 1                               |                                | 21                  |                                                                                                                                 |
| Life settlement contracts                                                           | 130                   | 17                                                                               |                    | (13)                                                    |                                 |                                | 134                 | 7                                                                                                                               |
| Separate account business                                                           | 38                    |                                                                                  |                    | (1)                                                     |                                 |                                | 37                  |                                                                                                                                 |
| Discontinued operations<br>investments                                              | 16                    |                                                                                  | \$ 1               | (2)                                                     |                                 | (15)                           |                     |                                                                                                                                 |
| Derivative financial<br>instruments, net                                            | (48)                  | (15)                                                                             | 42                 | 25                                                      |                                 |                                | 4                   |                                                                                                                                 |
| Net realized and unrealized gains and losses are reported in Net income as follows: |                       |                                                                                  |                    |                                                         |                                 |                                |                     |                                                                                                                                 |

Major Category of Assets and Liabilities

Consolidated Condensed Statements of Income Line Items

|                                                              |                                              |
|--------------------------------------------------------------|----------------------------------------------|
| Fixed maturity securities available-for-sale                 | Investment gains (losses)                    |
| Fixed maturity securities, trading                           | Net investment income                        |
| Equity securities available-for-sale                         | Investment gains (losses)                    |
| Equity securities, trading                                   | Net investment income                        |
| Other invested assets                                        | Investment gains (losses)                    |
| Derivative financial instruments held in a trading portfolio | Net investment income                        |
| Derivative financial instruments, other                      | Investment gains (losses) and Other revenues |
| Life settlement contracts                                    | Other revenues                               |





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Securities shown in the Level 3 tables may be transferred in or out of Level 3 based on the availability of observable market information used to verify pricing sources or used in pricing models. The availability of observable market information varies based on market conditions and trading volume and may cause securities to move in and out of Level 3 from reporting period to reporting period. There were no significant transfers between Level 1 and Level 2 during the three or six months ended June 30, 2011. The Company's policy is to recognize transfers between levels at the beginning of quarterly reporting periods.

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

### **Fixed Maturity Securities**

Level 1 securities include highly liquid U.S. and foreign government bonds and redeemable preferred stock valued using quoted market prices. The remaining fixed maturity securities are valued using pricing for similar securities, recently executed transactions, cash flow models with yield curves, broker/dealer quotes and other pricing models utilizing observable inputs. The valuation for most fixed maturity securities is classified as Level 2. Level 2 securities may also include securities that have firm sale commitments and prices that are not recorded until the settlement date. Securities are generally assigned to Level 3 in cases where broker/dealer quotes are significant inputs to the valuation and there is a lack of transparency as to whether these quotes are based on information that is observable in the marketplace. Level 3 securities also include tax-exempt and taxable auction rate certificates. Fair value of auction rate securities is determined utilizing a pricing model with three primary inputs. The interest rate and spread inputs are observable from like instruments while the maturity date assumption is unobservable due to the uncertain nature of the principal prepayments prior to maturity.

### **Equity Securities**

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

### **Derivative Financial Instruments**

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

### **Short Term Investments**

The valuation of securities that are actively traded or have quoted prices are classified as Level 1. These securities include money market funds and treasury bills. Level 2 primarily includes commercial paper, for which all inputs are observable. Level 3 securities include fixed maturity securities purchased within one year of maturity where broker/dealer quotes are significant inputs to the valuation and there is a lack of transparency to the market inputs used.

### **Life Settlement Contracts**

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

**Table of Contents****Discontinued Operations Investments**

Assets relating to CNA's discontinued operations include fixed maturity securities and short term investments. The valuation methodologies for these asset types have been described above.

**Separate Account Business**

Separate account business includes fixed maturity securities, equities and short term investments. The valuation methodologies for these asset types have been described above.

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

The carrying amount and estimated fair value 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 table below.

|                                        | June 30, 2011   |                      | December 31, 2010 |                      |
|----------------------------------------|-----------------|----------------------|-------------------|----------------------|
|                                        | Carrying Amount | Estimated Fair Value | Carrying Amount   | Estimated Fair Value |
| <b>(In millions)</b>                   |                 |                      |                   |                      |
| <b>Financial assets:</b>               |                 |                      |                   |                      |
| Other invested assets                  | \$ 198          | \$ 204               | \$ 87             | \$ 86                |
| <b>Financial liabilities:</b>          |                 |                      |                   |                      |
| Premium deposits and annuity contracts | \$ 105          | \$ 108               | \$ 104            | \$ 105               |
| Short term debt                        | 6               | 6                    | 647               | 662                  |
| Long term debt                         | 9,163           | 9,704                | 8,830             | 9,243                |

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

The fair values of Other invested assets were based on the present value of the expected future cash flows discounted at the current interest rate for similar financial instruments.

Premium deposits and annuity contracts were valued based on cash surrender values, estimated fair values or policyholder liabilities, net of amounts ceded related to sold business.

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

**4. Derivative Financial Instruments**

The Company invests in certain derivative instruments for a number of purposes, including: (i) asset and liability management activities, (ii) income enhancements for its portfolio management strategy and (iii) 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 the Company's portfolio strategy.

The Company does not believe that any of the derivative instruments utilized by it are unusually complex, nor do these instruments contain embedded leverage features which would expose the Company to a higher degree of risk.



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The Company uses derivatives in the normal course of business, primarily in an attempt to reduce its exposure to market risk (principally interest rate risk, equity price risk, commodity price risk and foreign currency risk) stemming from various assets and liabilities and credit risk (the ability of an obligor to make timely payment of principal and/or interest). The Company's principal objective under such risk strategies is to achieve the desired reduction in economic risk, even if the position does not receive hedge accounting treatment.

CNA's use of derivatives is limited by statutes and regulations promulgated by the various regulatory bodies to which it is subject, and by its own derivative policy. The derivative policy limits the authorization to initiate derivative transactions to certain personnel. Derivatives entered into for hedging, regardless of the choice to designate hedge accounting, shall have a maturity that effectively correlates to the underlying hedged asset or liability. The policy prohibits the use of derivatives containing greater than one-to-one leverage with respect to changes in the underlying price, rate or index. The policy also prohibits the use of borrowed funds, including funds obtained through securities lending, to engage in derivative transactions.

The Company has exposure to economic losses due to interest rate risk arising from changes in the level of, or volatility of, interest rates. The Company attempts to mitigate its exposure to interest rate risk in the normal course of portfolio management, which includes rebalancing its existing portfolios of assets and liabilities. In addition, various derivative financial instruments are used to modify the interest rate risk exposures of certain assets and liabilities. These strategies include the use of interest rate swaps, interest rate caps and floors, options, futures, forwards and commitments to purchase securities. These instruments are generally used to lock interest rates or market values, to shorten or lengthen durations of fixed maturity securities or to hedge (on an economic basis) interest rate risks associated with investments and variable rate debt. The Company infrequently designates these types of instruments as hedges against specific assets or liabilities.

The Company has exposure to equity price risk as a result of its investment in equity securities and equity derivatives. Equity price risk results from changes in the level or volatility of equity prices, which affect the value of equity securities, or instruments that derive their value from such securities. The Company attempts to mitigate its exposure to such risks by limiting its investment in any one security or index. The Company may also manage this risk by utilizing instruments such as options, swaps, futures and collars to protect appreciation in securities held.

The Company has exposure to credit risk arising from the uncertainty associated with a financial instrument obligor's ability to make timely principal and/or interest payments. The Company attempts to mitigate this risk by limiting credit concentrations, practicing diversification, and frequently monitoring the credit quality of issuers and counterparties. In addition, the Company may utilize credit derivatives such as credit default swaps (CDS) to modify the credit risk inherent in certain investments. CDS involve a transfer of credit risk from one party to another in exchange for periodic payments.

Foreign currency risk arises from the possibility that changes in foreign currency exchange rates will impact the fair value of financial instruments denominated in a foreign currency. The Company's foreign transactions are primarily denominated in Australian dollars, Brazilian reais, British pounds, Canadian dollars and the European Monetary Unit. The Company typically manages this risk via asset/liability currency matching and through the use of foreign currency forwards.

In addition to the derivatives used for risk management purposes described above, the Company may also use derivatives for purposes of income enhancement. Income enhancement transactions are entered into with the intention of providing additional income or yield to a particular portfolio segment or instrument. Income enhancement transactions are limited in scope and primarily involve the sale of covered options in which the Company receives a premium in exchange for selling a call or put option.

The Company will also use CDS to sell credit protection against a specified credit event. In selling credit protection, CDS are used to replicate fixed income securities when credit exposure to certain issuers is not available or when it is economically beneficial to transact in the derivative market compared to the cash market alternative. Credit risk includes both the default event risk and market value exposure due to fluctuations in credit spreads. In selling CDS protection, the Company receives a periodic premium in exchange for providing credit protection on a single name reference obligation or a credit derivative index. If there is an event of default as defined by the CDS

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agreement, the Company is required to pay the counterparty the referenced notional amount of the CDS contract and in exchange the Company is entitled to receive the referenced defaulted security or the cash equivalent.

The tables below summarize open CDS contracts where the Company sold credit protection as of June 30, 2011 and December 31, 2010. The fair value of the contracts represents the amounts that the Company would receive or pay at those dates to exit the derivative positions. The maximum amount of future payments assumes no residual value in the defaulted securities that the Company would receive as part of the contract terminations and is equal to the notional value of the CDS contracts.

|                                 | Fair Value<br>of Credit<br>Default<br>Swaps | Maximum<br>Amount of<br>Future<br>Payments<br>under Credit<br>Default<br>Swaps | Weighted<br>Average<br>Years<br>To Maturity |
|---------------------------------|---------------------------------------------|--------------------------------------------------------------------------------|---------------------------------------------|
| <b>June 30, 2011</b>            |                                             |                                                                                |                                             |
| <b>(In millions of dollars)</b> |                                             |                                                                                |                                             |
| <b>BBB-rated</b>                | \$ (1)                                      | \$ 10                                                                          | 5.2                                         |
| <b>BB-rated</b>                 | 1                                           | 15                                                                             | 4.0                                         |
| <b>B-rated</b>                  | 1                                           | 8                                                                              | 3.6                                         |
| <b>Total</b>                    | \$ 1                                        | \$ 33                                                                          | 4.3                                         |
| <b>December 31, 2010</b>        |                                             |                                                                                |                                             |
| <b>BB-rated</b>                 | \$ 1                                        | \$ 5                                                                           | 2.5                                         |
| <b>B-rated</b>                  |                                             | 3                                                                              | 1.5                                         |
| <b>Total</b>                    | \$ 1                                        | \$ 8                                                                           | 2.1                                         |

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized fair value of the asset related to the instruments recognized on the Consolidated Condensed Balance Sheets. The Company attempts to mitigate the risk of non-performance by monitoring the creditworthiness of counterparties and diversifying derivatives to multiple counterparties. The Company generally requires that all over-the-counter derivative contracts be governed by an International Swaps and Derivatives Association (ISDA) Master Agreement, and exchanges collateral under the terms of these agreements with its derivative investment counterparties depending on the amount of the exposure and the credit rating of the counterparty. The Company does not offset its net derivative positions against the fair value of the collateral provided. The fair value of collateral provided by the Company was \$17 million at June 30, 2011 and \$2 million at December 31, 2010 and consisted of cash and U.S. Treasury Bills. The fair value of cash collateral received from counterparties was \$1 million at June 30, 2011 and December 31, 2010.

The agreements governing HighMount's derivative instruments contain certain covenants, including a maximum debt to capitalization ratio reviewed quarterly. If HighMount does not comply with these covenants, the counterparties to the derivative instruments could terminate the agreements and request payment on those derivative instruments in net liability positions. The aggregate fair value of HighMount's derivative instruments that are in a liability position was \$90 million at June 30, 2011. HighMount was not required to post any collateral under the governing agreements. At June 30, 2011, HighMount was in compliance with all of its covenants under the derivatives agreements.

See Note 3 for information regarding the fair value of derivative instruments.

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A summary of the aggregate contractual or notional amounts and gross estimated fair values related to derivative financial instruments follows. Equity options purchased are included in Equity securities, and all other derivative assets are reported as Receivables. Derivative liabilities are included in Payable to brokers on the Consolidated Condensed Balance Sheets. 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.

|                                   | June 30, 2011            |                      |             | December 31, 2010        |                      |             |
|-----------------------------------|--------------------------|----------------------|-------------|--------------------------|----------------------|-------------|
|                                   | Contractual/<br>Notional | Estimated Fair Value |             | Contractual/<br>Notional | Estimated Fair Value |             |
|                                   | Amount                   | Asset                | (Liability) | Amount                   | Asset                | (Liability) |
| <b>(In millions)</b>              |                          |                      |             |                          |                      |             |
| <b>With hedge designation:</b>    |                          |                      |             |                          |                      |             |
| Interest rate risk:               |                          |                      |             |                          |                      |             |
| Interest rate swaps               | \$ 1,095                 |                      | \$ (53)     | \$ 1,095                 |                      | \$ (75)     |
| Commodities:                      |                          |                      |             |                          |                      |             |
| Forwards short                    | 411                      | \$ 44                | (36)        | 487                      | \$ 70                | (24)        |
| Foreign exchange:                 |                          |                      |             |                          |                      |             |
| Currency forwards short           | 122                      | 8                    |             | 140                      | 4                    |             |
| <b>Without hedge designation:</b> |                          |                      |             |                          |                      |             |
| Equity markets:                   |                          |                      |             |                          |                      |             |
| Options purchased                 | 193                      | 23                   |             | 207                      | 30                   |             |
| Options written                   | 315                      |                      | (13)        | 340                      |                      | (10)        |
| Futures short                     | 60                       |                      |             |                          |                      |             |
| Interest rate risk:               |                          |                      |             |                          |                      |             |
| Interest rate swaps               | 5                        |                      |             | 5                        |                      | (1)         |
| Credit default swaps              |                          |                      |             |                          |                      |             |
| purchased protection              | 45                       |                      | (2)         | 20                       |                      | (2)         |
| sold protection                   | 33                       | 1                    |             | 8                        | 1                    |             |

**Derivatives without hedge designation** For derivatives not held in a trading portfolio, new derivative transactions entered into totaled approximately \$10 million and \$24 million in notional value while derivative termination activity totaled approximately \$10 million and \$33 million during the three and six months ended June 30, 2011. This activity was primarily attributable to currency forwards. During the three and six months ended June 30, 2010, new derivative transactions entered into totaled approximately \$610 million and \$714 million in notional value while derivative termination activity totaled approximately \$626 million and \$775 million. This activity was primarily attributable to interest rate futures and forward commitments for mortgage-backed securities.

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A summary of the recognized gains (losses) related to derivative financial instruments without hedge designation follows. 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.

|                                        | Three Months Ended |         | Six Months Ended |         |
|----------------------------------------|--------------------|---------|------------------|---------|
|                                        | June 30,<br>2011   | 2010    | June 30,<br>2011 | 2010    |
| <b>(In millions)</b>                   |                    |         |                  |         |
| Included in Net investment income:     |                    |         |                  |         |
| Equity risk:                           |                    |         |                  |         |
| Equity options purchased               | \$ (3)             | \$ 10   | \$ (9)           | \$ (3)  |
| Equity options written                 | 2                  | (1)     | 7                | 5       |
| Futures long                           |                    | (4)     |                  | (3)     |
| Futures short                          | 1                  | 1       | (1)              | (3)     |
| Foreign exchange:                      |                    |         |                  |         |
| Currency forwards long                 |                    | (2)     |                  | (2)     |
| Currency forwards short                |                    | (1)     |                  | (1)     |
| Currency options short                 |                    | (4)     |                  | (2)     |
| Interest rate risk:                    |                    |         |                  |         |
| Futures long                           |                    | (21)    |                  | (18)    |
| Futures short                          |                    | (3)     |                  |         |
| Other                                  |                    | (1)     | (1)              | (2)     |
|                                        |                    | (26)    | (4)              | (29)    |
| Included in Investment gains (losses): |                    |         |                  |         |
| Interest rate swaps                    |                    | (18)    |                  | (44)    |
| Currency forwards short                |                    |         | (1)              |         |
| Commodity forwards short               |                    |         |                  | 13      |
|                                        |                    | (18)    | (1)              | (31)    |
| Total                                  | \$                 | \$ (44) | \$ (5)           | \$ (60) |

**Cash flow hedges** A significant portion of the Company's hedge strategies represents cash flow hedges of the variable price risk associated with the purchase and sale of natural gas and other energy-related products. As of June 30, 2011, approximately 73.3 billion cubic feet of natural gas equivalents was hedged by qualifying cash flow hedges. The effective portion of these commodity hedges is reclassified from AOCI into earnings when the anticipated transaction affects earnings. Approximately 38% of these derivatives have settlement dates in 2011 and 45% have settlement dates in 2012. As of June 30, 2011, the estimated amount of net unrealized gains associated with commodity contracts that will be reclassified into earnings during the next twelve months was \$10 million. However, these amounts are likely to vary materially as a result of changes in market conditions. Foreign currency forward exchange contracts are used to reduce exposure to future foreign currency expenditures. The effective portion of these hedges is reclassified from AOCI into earnings when the hedged transaction affects earnings or it is determined that the hedged transaction will not occur. As of June 30, 2011, the estimated amount of net unrealized gains associated with these contracts that will be reclassified into earnings over the next twelve months was \$8 million. The Company also uses interest rate swaps to hedge its exposure to variable interest rates or risk attributable to changes in interest rates on long term debt. The effective portion of the hedges is amortized to interest expense over the term of the related notes. As of June 30, 2011, the estimated amount of net unrealized losses associated with interest rate swaps that will be reclassified into earnings during the next twelve months was \$55 million. However, this is likely to vary as a result of changes in LIBOR. For the three and six months ended June 30, 2011 and 2010, the net amounts recognized due to ineffectiveness were less than \$1 million.





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As a result of the sale of certain gas producing properties in 2010, HighMount recognized losses of \$14 million and \$36 million in Investment gains (losses) in the Consolidated Condensed Statements of Income for the three and six months ended June 30, 2010, reflecting the reclassification of net derivative losses from AOCI to earnings.

The following table summarizes the effective portion of the net derivative gains or losses included in OCI and the amount reclassified into income for derivatives designated as cash flow hedges and for de-designated hedges:

|                                                           | Three Months Ended<br>June 30, |                | Six Months Ended<br>June 30, |                |
|-----------------------------------------------------------|--------------------------------|----------------|------------------------------|----------------|
|                                                           | 2011                           | 2010           | 2011                         | 2010           |
| <b>(In millions)</b>                                      |                                |                |                              |                |
| Amount of gain (loss) recognized in OCI:                  |                                |                |                              |                |
| Commodities                                               | \$ 1                           | \$ 13          | \$ (18)                      | \$ 117         |
| Foreign exchange                                          | 7                              | (5)            | 12                           | (5)            |
| Interest rate                                             | (3)                            | (12)           | (5)                          | (34)           |
| <b>Total</b>                                              | <b>\$ 5</b>                    | <b>\$ (4)</b>  | <b>\$ (11)</b>               | <b>\$ 78</b>   |
| Amount of gain (loss) reclassified from AOCI into income: |                                |                |                              |                |
| Commodities                                               | \$ 5                           | \$ 18          | \$ 25                        | \$ 48          |
| Foreign exchange                                          | 6                              | (1)            | 8                            | 1              |
| Interest rate                                             | (14)                           | (33)           | (28)                         | (79)           |
| <b>Total</b>                                              | <b>\$ (3)</b>                  | <b>\$ (16)</b> | <b>\$ 5</b>                  | <b>\$ (30)</b> |

Location of gain (loss) reclassified from AOCI into income:

| Type of cash flow hedge | Consolidated Condensed Statements of Income line items |
|-------------------------|--------------------------------------------------------|
| Commodities             | Other revenues and Investment gains (losses)           |
| Foreign exchange        | Contract drilling expenses                             |
| Interest rate           | Interest expense and Investment gains (losses)         |

The Company also enters into short sales as part of its portfolio management strategy. Short sales are commitments to sell a financial instrument not owned at the time of sale, usually done in anticipation of a price decline. Short sales resulted in proceeds of \$53 million and \$308 million with fair value liabilities of \$59 million and \$317 million at June 30, 2011 and December 31, 2010. These positions are marked to market and investment gains or losses are included in Net investment income in the Consolidated Condensed Statements of Income.

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

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

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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

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of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims, such as property damage claims, tend to be more reasonably estimable than long-tail claims, such as workers' compensation, general liability and professional liability claims. Adjustments to prior year reserve estimates, if necessary, are reflected in the results of operations in the period that the need for such adjustments is determined. There can be no assurance that CNA's ultimate cost for insurance losses will not exceed current estimates.

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company's results of operations and/or equity. CNA reported catastrophe losses, net of reinsurance, of \$100 million and \$155 million for the three and six months ended June 30, 2011. Catastrophe losses in 2011 related primarily to domestic storms and the event in Japan. CNA reported catastrophe losses, net of reinsurance, of \$48 million and \$88 million for the three and six months ended June 30, 2010, for events occurring in those periods.

**Net Prior Year Development**

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

| Three Months Ended June 30, 2011<br>(In millions)                                                                     | CNA<br>Specialty | CNA<br>Commercial | Other<br>Insurance | Total          |
|-----------------------------------------------------------------------------------------------------------------------|------------------|-------------------|--------------------|----------------|
| <b>Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development</b> | \$ (52)          | \$ (50)           | \$ (9)             | \$ (111)       |
| <b>Pretax (favorable) unfavorable premium development</b>                                                             | (1)              | 40                |                    | 39             |
| <b>Total pretax (favorable) unfavorable net prior year development</b>                                                | <b>\$ (53)</b>   | <b>\$ (10)</b>    | <b>\$ (9)</b>      | <b>\$ (72)</b> |

## Three Months Ended June 30, 2010

|                                                                                                                |                 |                 |               |                 |
|----------------------------------------------------------------------------------------------------------------|-----------------|-----------------|---------------|-----------------|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$ (125)        | \$ (175)        | \$ 1          | \$ (299)        |
| Pretax (favorable) unfavorable premium development                                                             | 1               | 35              | (2)           | 34              |
| <b>Total pretax (favorable) unfavorable net prior year development</b>                                         | <b>\$ (124)</b> | <b>\$ (140)</b> | <b>\$ (1)</b> | <b>\$ (265)</b> |

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| Six Months Ended June 30, 2011                                                                                 | CNA<br>Specialty | CNA<br>Commercial | Other<br>Insurance | Total           |
|----------------------------------------------------------------------------------------------------------------|------------------|-------------------|--------------------|-----------------|
| <b>(In millions)</b>                                                                                           |                  |                   |                    |                 |
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$ (67)          | \$ (57)           | \$ (6)             | \$ (130)        |
| Pretax (favorable) unfavorable premium development                                                             | (8)              | 32                | (1)                | 23              |
| <b>Total pretax (favorable) unfavorable net prior year development</b>                                         | <b>\$ (75)</b>   | <b>\$ (25)</b>    | <b>\$ (7)</b>      | <b>\$ (107)</b> |

Six Months Ended June 30, 2010

|                                                                                                                |                 |                 |           |                 |
|----------------------------------------------------------------------------------------------------------------|-----------------|-----------------|-----------|-----------------|
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$ (150)        | \$ (203)        | \$ 3      | \$ (350)        |
| Pretax (favorable) unfavorable premium development                                                             | (3)             | 56              | (3)       | 50              |
| <b>Total pretax (favorable) unfavorable net prior year development</b>                                         | <b>\$ (153)</b> | <b>\$ (147)</b> | <b>\$</b> | <b>\$ (300)</b> |

For the three and six months ended June 30, 2011, unfavorable premium development was recorded due to a reduction of ultimate premium estimates relating to retrospectively rated policies, partially offset by premium adjustments on auditable policies due to increased exposures.

For the three and six months ended June 30, 2010, unfavorable premium development was recorded due to a change in ultimate premium estimates relating to retrospectively rated policies and return premium on auditable policies due to reduced exposures.

**CNA Specialty**

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

|                                                                                                                             | Three Months Ended<br>June 30, |                 | Six Months Ended<br>June 30, |                 |
|-----------------------------------------------------------------------------------------------------------------------------|--------------------------------|-----------------|------------------------------|-----------------|
|                                                                                                                             | 2011                           | 2010            | 2011                         | 2010            |
| <b>(In millions)</b>                                                                                                        |                                |                 |                              |                 |
| Medical professional liability                                                                                              | \$ (20)                        | \$ (44)         | \$ (34)                      | \$ (48)         |
| Other professional liability                                                                                                | (27)                           | (65)            | (21)                         | (88)            |
| Surety                                                                                                                      | (3)                            | (9)             | (3)                          | (11)            |
| Warranty                                                                                                                    | (2)                            |                 | (12)                         |                 |
| Other                                                                                                                       |                                | (7)             | 3                            | (3)             |
| <b>Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development</b> | <b>\$ (52)</b>                 | <b>\$ (125)</b> | <b>\$ (67)</b>               | <b>\$ (150)</b> |

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***Three Month Comparison***

**2011**

Favorable development for medical professional liability was primarily due to favorable case incurred emergence in 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.

**2010**

Favorable development for medical professional liability was primarily due to lower frequency of large losses, primarily in accident years 2007 and prior.

Favorable development for other professional liability was recorded in errors & omissions and directors & officers coverages due to several factors, including reduced frequency of large claims, favorable ceded recoveries and claims closing favorable to expectations, primarily in accident years 2007 and prior.

***Six Month Comparison***

**2011**

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

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

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

**2010**

Favorable development for medical professional liability was primarily due to lower frequency of large losses, primarily in accident years 2007 and prior.

Favorable development for other professional liability was recorded in errors & omissions and directors & officers coverages due to several factors, including reduced frequency of large claims, favorable ceded recoveries and claims closing favorable to expectations, primarily in accident years 2007 and prior. Unfavorable development in employment practices liability was recorded in accident years 2008 and 2009, driven by the economic recession and higher unemployment.

**CNA Commercial**

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

| <b>Three Months Ended<br/>June 30,</b> |      | <b>Six Months Ended<br/>June 30,</b> |      |
|----------------------------------------|------|--------------------------------------|------|
| <b>2011</b>                            | 2010 | <b>2011</b>                          | 2010 |

**(In millions)**

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|                                                                                                                      |         |          |         |          |
|----------------------------------------------------------------------------------------------------------------------|---------|----------|---------|----------|
| Commercial auto                                                                                                      | \$ (44) | \$ (61)  | \$ (34) | \$ (70)  |
| General liability                                                                                                    |         | 1        | 22      | (42)     |
| Workers compensation                                                                                                 | 28      | (10)     | 36      |          |
| Property and other                                                                                                   | (34)    | (105)    | (81)    | (91)     |
| Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | \$ (50) | \$ (175) | \$ (57) | \$ (203) |

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### ***Three Month Comparison***

#### **2011**

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

Unfavorable development for workers compensation primarily reflected higher than expected severity on risk management claims, in accident years 2006 and prior.

Favorable development for property coverages was due to favorable loss emergence related to catastrophe claims in accident year 2008 and non-catastrophe claims in accident years 2009 and prior.

#### **2010**

Favorable development for commercial auto coverages was primarily due to decreased frequency and severity trends in accident years 2009 and prior.

Favorable development was recorded for property coverages. Favorable catastrophe development was due to favorable incurred loss emergence, primarily in accident years 2008 and 2009. Favorable non-catastrophe development was due to decreased severity in accident years 2009 and prior.

### ***Six Month Comparison***

#### **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 primarily reflected higher than expected severity on risk management claims, in accident years 2006 and prior.

Favorable development for property coverages was due to lower than expected frequency in commercial multi-peril coverages primarily in accident year 2010, a favorable settlement on an individual claim in accident year 2003 in the equipment breakdown book, favorable loss emergence related to catastrophe claims in accident year 2008 and favorable loss emergence related to non-catastrophe claims in accident years 2009 and prior.

#### **2010**

Favorable development for commercial auto coverages was primarily due to decreased frequency and severity trends in accident years 2009 and prior.

Favorable development was recorded in general liability due to favorable emergence primarily in accident years 2006 and prior. Unfavorable development was recorded due to increased claim frequency in a portion of CNA's primary casualty surplus lines book in accident years 2008 and 2009.

Favorable development was recorded for property coverages. Favorable catastrophe development was due to favorable incurred loss emergence, primarily in accident years 2008 and 2009. Favorable non-catastrophe development was due to decreased severity in accident years 2009 and prior.





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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</b> |       | <b>Six Months Ended</b> |       |
|                                       | <b>June 30,</b>           |       | <b>June 30,</b>         |       |
|                                       | <b>2011</b>               | 2010  | <b>2011</b>             | 2010  |
| <b>(In millions)</b>                  |                           |       |                         |       |
| Service cost                          | \$ 5                      | \$ 7  | \$ 12                   | \$ 13 |
| Interest cost                         | 41                        | 41    | 82                      | 83    |
| Expected return on plan assets        | (47)                      | (44)  | (94)                    | (88)  |
| Amortization of unrecognized net loss | 7                         | 7     | 14                      | 14    |
| Net periodic benefit cost             | \$ 6                      | \$ 11 | \$ 14                   | \$ 22 |

|                                                    | <b>Other Postretirement Benefits</b> |      |                         |      |
|----------------------------------------------------|--------------------------------------|------|-------------------------|------|
|                                                    | <b>Three Months</b>                  |      | <b>Six Months Ended</b> |      |
|                                                    | <b>Ended</b>                         |      | <b>June 30,</b>         |      |
|                                                    | <b>2011</b>                          | 2010 | <b>2011</b>             | 2010 |
| <b>(In millions)</b>                               |                                      |      |                         |      |
| Service cost                                       |                                      |      |                         | \$ 1 |
| Interest cost                                      | \$ 2                                 | \$ 3 | \$ 4                    | 6    |
| Expected return on plan assets                     | (1)                                  | (1)  | (2)                     | (2)  |
| Amortization of unrecognized net (gain) loss       | (1)                                  | 1    |                         | 2    |
| Amortization of unrecognized prior service benefit | (6)                                  | (6)  | (13)                    | (12) |
| Regulatory asset decrease                          | 2                                    | 2    | 3                       | 3    |

|                           |        |        |        |        |
|---------------------------|--------|--------|--------|--------|
| Net periodic benefit cost | \$ (4) | \$ (1) | \$ (8) | \$ (2) |
|---------------------------|--------|--------|--------|--------|

**7. Business Segments**

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

CNA's core property and casualty commercial insurance operations are reported in two business segments: CNA Specialty and CNA Commercial. CNA Specialty provides a broad array of professional, financial and specialty property and casualty products and services, primarily through insurance brokers and managing general underwriters. CNA Commercial includes property and casualty coverages sold to small businesses and middle

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market entities and organizations primarily through an independent agency distribution system. CNA Commercial also includes commercial insurance and risk management products sold to large corporations primarily through insurance brokers.

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

Diamond Offshore's business primarily consists of operating 46 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. On June 30, 2011, Diamond Offshore's drilling rigs were located offshore 12 countries in addition to the United States.

HighMount's business consists primarily of natural gas exploration and production operations located primarily in the Permian Basin in Texas. In the second quarter of 2010, HighMount sold substantially all of its exploration and production assets located in the Antrim Shale in Michigan and the Black Warrior Basin in Alabama. The Michigan and Alabama properties represented approximately 17%, in aggregate, of HighMount's total proved reserves as of December 31, 2009.

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 14,200 miles of pipeline.

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, 2010. 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>June 30, |          | Six Months Ended<br>June 30, |          |
|-------------------------|--------------------------------|----------|------------------------------|----------|
|                         | 2011                           | 2010     | 2011                         | 2010     |
| <b>(In millions)</b>    |                                |          |                              |          |
| <b>Revenues (a):</b>    |                                |          |                              |          |
| CNA Financial:          |                                |          |                              |          |
| CNA Specialty           | \$ 875                         | \$ 875   | \$ 1,766                     | \$ 1,741 |
| CNA Commercial          | 984                            | 984      | 2,078                        | 2,060    |
| Life and Group Non-Core | 333                            | 321      | 659                          | 641      |
| Other Insurance         | 10                             | 53       | 23                           | 106      |
| Total CNA Financial     | 2,202                          | 2,233    | 4,526                        | 4,548    |
| Diamond Offshore        | 892                            | 823      | 1,701                        | 1,685    |
| HighMount               | 98                             | 105      | 202                          | 253      |
| Boardwalk Pipeline      | 263                            | 256      | 574                          | 557      |
| Loews Hotels            | 89                             | 81       | 169                          | 156      |
| Corporate and other     | (2)                            | (12)     | 38                           |          |
| Total                   | \$ 3,542                       | \$ 3,486 | \$ 7,210                     | \$ 7,199 |

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

|                         |        |        |          |          |
|-------------------------|--------|--------|----------|----------|
| CNA Financial:          |        |        |          |          |
| CNA Specialty           | \$ 189 | \$ 302 | \$ 405   | \$ 518   |
| CNA Commercial          | 68     | 189    | 282      | 353      |
| Life and Group Non-Core | (45)   | (45)   | (93)     | (66)     |
| Other Insurance         | (30)   | 3      | (76)     | 4        |
| Total CNA Financial     | 182    | 449    | 518      | 809      |
| Diamond Offshore        | 343    | 320    | 639      | 725      |
| HighMount               | 24     | 18     | 53       | 75       |
| Boardwalk Pipeline      | 13     | 53     | 95       | 141      |
| Loews Hotels            | 11     | 6      | 14       | 5        |
| Corporate and other     | (22)   | (43)   | (7)      | (56)     |
| Total                   | \$ 551 | \$ 803 | \$ 1,312 | \$ 1,699 |

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

|                         |        |        |        |        |
|-------------------------|--------|--------|--------|--------|
| CNA Financial:          |        |        |        |        |
| CNA Specialty           | \$ 107 | \$ 170 | \$ 229 | \$ 293 |
| CNA Commercial          | 42     | 101    | 169    | 202    |
| Life and Group Non-Core | (16)   | (17)   | (35)   | (20)   |
| Other Insurance         | (18)   | 5      | (46)   | 9      |

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|                     |               |        |               |        |
|---------------------|---------------|--------|---------------|--------|
| Total CNA Financial | <b>115</b>    | 259    | <b>317</b>    | 484    |
| Diamond Offshore    | <b>125</b>    | 104    | <b>242</b>    | 240    |
| HighMount           | <b>15</b>     | 5      | <b>34</b>     | 37     |
| Boardwalk Pipeline  | <b>5</b>      | 21     | <b>38</b>     | 59     |
| Loews Hotels        | <b>6</b>      | 4      | <b>8</b>      | 3      |
| Corporate and other | <b>(14)</b>   | (27)   | <b>(5)</b>    | (37)   |
| Total               | <b>\$ 252</b> | \$ 366 | <b>\$ 634</b> | \$ 786 |

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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>June 30, |       | Six Months Ended<br>June 30, |       |
|-----------------------------------------------------------------------------------|--------------------------------|-------|------------------------------|-------|
|                                                                                   | 2011                           | 2010  | 2011                         | 2010  |
| <b>Revenues and Income (loss) before income tax and noncontrolling interests:</b> |                                |       |                              |       |
| CNA Financial:                                                                    |                                |       |                              |       |
| CNA Specialty                                                                     | \$ 7                           | \$ 32 | \$ 15                        | \$ 45 |
| CNA Commercial                                                                    | 11                             | (12)  | 28                           | 9     |
| Life & Group Non-Core                                                             | 1                              | (1)   | (3)                          | (5)   |
| Other Insurance                                                                   |                                | 10    | 1                            | 14    |
| Total CNA Financial                                                               | 19                             | 29    | 41                           | 63    |
| Corporate and other                                                               |                                | (18)  | 1                            | (31)  |
| Total                                                                             | \$ 19                          | \$ 11 | \$ 42                        | \$ 32 |

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

|                       |       |       |       |       |
|-----------------------|-------|-------|-------|-------|
| CNA Financial:        |       |       |       |       |
| CNA Specialty         | \$ 4  | \$ 19 | \$ 9  | \$ 27 |
| CNA Commercial        | 7     | (12)  | 16    |       |
| Life & Group Non-Core |       |       | (2)   | (4)   |
| Other Insurance       | 1     | 5     | 1     | 8     |
| Total CNA Financial   | 12    | 12    | 24    | 31    |
| Corporate and other   |       | (11)  |       | (19)  |
| Total                 | \$ 12 | \$ 1  | \$ 24 | \$ 12 |

**8. Legal Proceedings**

In August 2005, CNA and certain insurance subsidiaries were joined as defendants, along with other insurers and brokers, in multidistrict litigation pending in the United States District Court for the District of New Jersey, *In re Insurance Brokerage Antitrust Litigation*, Civil No. 04-5184 ( GEB ). The plaintiffs consolidated class action complaint alleges bid rigging and improprieties in the payment of contingent commissions in connection with the sale of insurance that violated federal and state antitrust laws, the federal Racketeer Influenced and Corrupt Organizations ( RICO ) Act and state common law. After discovery, the District Court dismissed the federal antitrust claims and the RICO claims, and declined to exercise supplemental jurisdiction over the state law claims. The plaintiffs appealed the dismissal of their complaint to the Third Circuit Court of Appeals. In August 2010, the Court of Appeals affirmed the District Court's dismissal of the antitrust claims and the RICO claims against CNA and certain insurance subsidiaries, but vacated the dismissal of one portion of those claims against some other parties and remanded them for further proceedings on motions to dismiss. The Court of Appeals also vacated and remanded the dismissal of the state law claims against CNA and certain insurance subsidiaries and other parties to allow for further proceedings relating to motions to dismiss before the District Court. In November 2010, CNA and certain insurance subsidiaries filed in the district court a motion to dismiss the remaining state law claims pending against them. In March 2011, CNA and certain insurance subsidiaries, along with certain other defendants, entered into a memorandum of settlement understanding with the plaintiffs to settle all claims asserted, or which could have been asserted, in the class action lawsuit. After negotiating additional terms, the parties executed final settlement documents and the plaintiffs filed a motion for preliminary approval of the settlement in May 2011. In June 2011, the Court entered an order preliminarily approving the settlement. A fairness hearing is

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scheduled in September 2011 to determine final settlement, after providing notice to the class and an opportunity for any objections to be heard. As currently structured, the settlement will not have a material impact on CNA's results of operations. In addition, CNA does not believe it has any material ongoing exposure relating to this matter.

The Company has been named as a defendant in the following four cases alleging substantial damages based on alleged health effects caused by smoking cigarettes or exposure to tobacco smoke, all of which also name a former subsidiary, Lorillard, Inc. or one of its subsidiaries, as a defendant. In *Cypret vs. The American Tobacco Company, Inc. et al.* (1998, Circuit Court, Jackson County, Missouri), the Company would contest jurisdiction and make use of all available defenses in the event it receives personal service of this action. In *Clalit vs. Philip Morris, Inc., et al.* (1998, Jerusalem District Court of Israel), the court did not permit plaintiffs to effect service on the Company and plaintiffs noticed an appeal to the Israel Supreme Court; one of several appeals pending in the case. In *Young vs. The American Tobacco Company, Inc. et al.* (1997, Civil District Court, Orleans Parish, Louisiana), the Company filed

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an exception for lack of personal jurisdiction during 2000, which remains pending. In *Luciano vs. Alcoa Inc., et al.* (2011, Supreme Court, New York County, New York), the Company filed an answer to plaintiff's complaint during April 2011 denying any liability to plaintiff in this matter.

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

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

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

## **9. Commitments and Contingencies**

### **Guarantees**

In the course of selling business entities and assets to third parties, CNA 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 June 30, 2011, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was \$719 million.

In addition, CNA has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of June 30, 2011, CNA had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser's ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire, or until the agreed upon contract terms expire.

### **Offshore Rig Purchase Obligations**

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



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**10. Consolidating Financial Information**

The following schedules present the Company's consolidating balance sheet information at June 30, 2011 and December 31, 2010, and consolidating statements of income information for the six months ended June 30, 2011 and 2010. These schedules present the individual subsidiaries of the Company and their contribution to the consolidated condensed financial statements. Amounts presented will not necessarily be the same as those in the individual financial statements of the Company's subsidiaries due to adjustments for purchase accounting, income taxes and noncontrolling interests. In addition, many of the Company's subsidiaries use a classified balance sheet which also leads to differences in amounts reported for certain line items.

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

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Loews Corporation

Consolidating Balance Sheet Information

| June 30, 2011<br>(In millions)                       | CNA<br>Financial | Diamond<br>Offshore | HighMount       | Boardwalk<br>Pipeline | Loews<br>Hotels | Corporate<br>and<br>Other | Eliminations       | Total            |
|------------------------------------------------------|------------------|---------------------|-----------------|-----------------------|-----------------|---------------------------|--------------------|------------------|
| <b>Assets:</b>                                       |                  |                     |                 |                       |                 |                           |                    |                  |
| Investments                                          | \$ 43,377        | \$ 945              | \$ 113          | \$ 50                 | \$ 60           | \$ 4,339                  |                    | \$ 48,884        |
| Cash                                                 | 84               | 36                  | 11              | 5                     | 10              | 2                         |                    | 148              |
| Receivables                                          | 9,252            | 629                 | 81              | 83                    | 43              | 148                       | \$ (103)           | 10,133           |
| Property, plant and equipment                        | 258              | 4,166               | 1,386           | 6,263                 | 339             | 44                        |                    | 12,456           |
| Deferred income taxes                                | 406              |                     | 536             |                       |                 |                           | (942)              |                  |
| Goodwill                                             | 86               | 20                  | 584             | 163                   | 3               |                           |                    | 856              |
| Investments in capital stocks of subsidiaries        |                  |                     |                 |                       |                 | 16,006                    | (16,006)           |                  |
| Other assets                                         | 707              | 944                 | 21              | 325                   | 29              | 10                        |                    | 2,036            |
| Deferred acquisition costs of insurance subsidiaries | 1,106            |                     |                 |                       |                 |                           |                    | 1,106            |
| Separate account business                            | 450              |                     |                 |                       |                 |                           |                    | 450              |
| <b>Total assets</b>                                  | <b>\$ 55,726</b> | <b>\$ 6,740</b>     | <b>\$ 2,732</b> | <b>\$ 6,889</b>       | <b>\$ 484</b>   | <b>\$ 20,549</b>          | <b>\$ (17,051)</b> | <b>\$ 76,069</b> |
| <b>Liabilities and Equity:</b>                       |                  |                     |                 |                       |                 |                           |                    |                  |
| Insurance reserves                                   | \$ 37,792        |                     |                 |                       |                 |                           |                    | \$ 37,792        |
| Payable to brokers                                   | 362              |                     | \$ 107          |                       |                 | \$ 89                     |                    | 558              |
| Short term debt                                      |                  |                     |                 |                       | \$ 6            |                           |                    | 6                |
| Long term debt                                       | 2,648            | \$ 1,488            | 1,100           | \$ 3,122              | 213             | 692                       | \$ (100)           | 9,163            |
| Deferred income taxes                                |                  | 518                 |                 | 458                   | 55              | 549                       | (942)              | 638              |
| Other liabilities                                    | 2,773            | 570                 | 64              | 348                   | 22              | 205                       | (3)                | 3,979            |
| Separate account business                            | 450              |                     |                 |                       |                 |                           |                    | 450              |
| <b>Total liabilities</b>                             | <b>44,025</b>    | <b>2,576</b>        | <b>1,271</b>    | <b>3,928</b>          | <b>296</b>      | <b>1,535</b>              | <b>(1,045)</b>     | <b>52,586</b>    |
| <b>Total shareholders equity</b>                     | <b>10,416</b>    | <b>2,112</b>        | <b>1,461</b>    | <b>1,768</b>          | <b>188</b>      | <b>19,014</b>             | <b>(16,006)</b>    | <b>18,953</b>    |
| <b>Noncontrolling interests</b>                      | <b>1,285</b>     | <b>2,052</b>        |                 | <b>1,193</b>          |                 |                           |                    | <b>4,530</b>     |
| <b>Total equity</b>                                  | <b>11,701</b>    | <b>4,164</b>        | <b>1,461</b>    | <b>2,961</b>          | <b>188</b>      | <b>19,014</b>             | <b>(16,006)</b>    | <b>23,483</b>    |
| <b>Total liabilities and equity</b>                  | <b>\$ 55,726</b> | <b>\$ 6,740</b>     | <b>\$ 2,732</b> | <b>\$ 6,889</b>       | <b>\$ 484</b>   | <b>\$ 20,549</b>          | <b>\$ (17,051)</b> | <b>\$ 76,069</b> |

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Loews Corporation

Consolidating Balance Sheet Information

| December 31, 2010<br>(In millions)                      | CNA<br>Financial | Diamond<br>Offshore | HighMount       | Boardwalk<br>Pipeline | Loews<br>Hotels | Corporate<br>and<br>Other | Eliminations       | Total            |
|---------------------------------------------------------|------------------|---------------------|-----------------|-----------------------|-----------------|---------------------------|--------------------|------------------|
| <b>Assets:</b>                                          |                  |                     |                 |                       |                 |                           |                    |                  |
| Investments                                             | \$ 42,655        | \$ 1,055            | \$ 128          | \$ 52                 | \$ 57           | \$ 4,960                  |                    | \$ 48,907        |
| Cash                                                    | 77               | 22                  | 2               | 7                     | 10              | 2                         |                    | 120              |
| Receivables                                             | 9,224            | 671                 | 109             | 71                    | 33              | 169                       | \$ (135)           | 10,142           |
| Property, plant and equipment                           | 286              | 4,291               | 1,350           | 6,326                 | 347             | 36                        |                    | 12,636           |
| Deferred income taxes                                   | 699              |                     | 548             |                       |                 |                           | (958)              | 289              |
| Goodwill                                                | 86               | 20                  | 584             | 163                   | 3               |                           |                    | 856              |
| Investments in capital stocks of<br>subsidiaries        |                  |                     |                 |                       |                 | 15,314                    | (15,314)           |                  |
| Other assets                                            | 724              | 678                 | 27              | 339                   | 24              | 6                         |                    | 1,798            |
| Deferred acquisition costs of<br>insurance subsidiaries | 1,079            |                     |                 |                       |                 |                           |                    | 1,079            |
| Separate account business                               | 450              |                     |                 |                       |                 |                           |                    | 450              |
| <b>Total assets</b>                                     | <b>\$ 55,280</b> | <b>\$ 6,737</b>     | <b>\$ 2,748</b> | <b>\$ 6,958</b>       | <b>\$ 474</b>   | <b>\$ 20,487</b>          | <b>\$ (16,407)</b> | <b>\$ 76,277</b> |
| <b>Liabilities and Equity:</b>                          |                  |                     |                 |                       |                 |                           |                    |                  |
| Insurance reserves                                      | \$ 37,590        |                     |                 |                       |                 |                           |                    | \$ 37,590        |
| Payable to brokers                                      | 239              |                     | \$ 115          | \$ 2                  |                 | \$ 329                    |                    | 685              |
| Short term debt                                         | 400              |                     |                 |                       | \$ 72           | 175                       |                    | 647              |
| Long term debt                                          | 2,251            | \$ 1,487            | 1,100           | 3,252                 | 148             | 692                       | \$ (100)           | 8,830            |
| Deferred income taxes                                   |                  | 533                 |                 | 410                   | 54              | 523                       | (958)              | 562              |
| Other liabilities                                       | 2,877            | 831                 | 93              | 372                   | 21              | 248                       | (35)               | 4,407            |
| Separate account business                               | 450              |                     |                 |                       |                 |                           |                    | 450              |
| <b>Total liabilities</b>                                | <b>43,807</b>    | <b>2,851</b>        | <b>1,308</b>    | <b>4,036</b>          | <b>295</b>      | <b>1,967</b>              | <b>(1,093)</b>     | <b>53,171</b>    |
| <b>Total shareholders' equity</b>                       | <b>9,838</b>     | <b>1,972</b>        | <b>1,440</b>    | <b>1,815</b>          | <b>179</b>      | <b>18,520</b>             | <b>(15,314)</b>    | <b>18,450</b>    |
| Noncontrolling interests                                | 1,635            | 1,914               |                 | 1,107                 |                 |                           |                    | 4,656            |
| <b>Total equity</b>                                     | <b>11,473</b>    | <b>3,886</b>        | <b>1,440</b>    | <b>2,922</b>          | <b>179</b>      | <b>18,520</b>             | <b>(15,314)</b>    | <b>23,106</b>    |
| <b>Total liabilities and equity</b>                     | <b>\$ 55,280</b> | <b>\$ 6,737</b>     | <b>\$ 2,748</b> | <b>\$ 6,958</b>       | <b>\$ 474</b>   | <b>\$ 20,487</b>          | <b>\$ (16,407)</b> | <b>\$ 76,277</b> |

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Loews Corporation

Consolidating Statement of Income Information

| Six Months Ended<br>June 30, 2011                   | CNA<br>Financial | Diamond<br>Offshore | HighMount  | Boardwalk<br>Pipeline | Loews<br>Hotels | Corporate<br>and Other | Eliminations | Total        |
|-----------------------------------------------------|------------------|---------------------|------------|-----------------------|-----------------|------------------------|--------------|--------------|
| <b>(In millions)</b>                                |                  |                     |            |                       |                 |                        |              |              |
| <b>Revenues:</b>                                    |                  |                     |            |                       |                 |                        |              |              |
| Insurance premiums                                  | \$ 3,210         |                     |            |                       |                 |                        |              | \$ 3,210     |
| Net investment income                               | 1,137            | \$ 2                |            |                       |                 | \$ 41                  |              | 1,180        |
| Intercompany interest and<br>dividends              |                  |                     |            |                       |                 | 311                    | \$ (311)     |              |
| Investment gains                                    | 41               | 1                   |            |                       |                 |                        |              | 42           |
| Contract drilling revenues                          |                  | 1,659               |            |                       |                 |                        |              | 1,659        |
| Other                                               | 138              | 40                  | \$ 202     | \$ 574                | \$ 169          |                        | (4)          | 1,119        |
| <b>Total</b>                                        | <b>4,526</b>     | <b>1,702</b>        | <b>202</b> | <b>574</b>            | <b>169</b>      | <b>352</b>             | <b>(315)</b> | <b>7,210</b> |
| <b>Expenses:</b>                                    |                  |                     |            |                       |                 |                        |              |              |
| Insurance claims and<br>policyholders benefits      | 2,731            |                     |            |                       |                 |                        |              | 2,731        |
| Amortization of deferred<br>acquisition costs       | 695              |                     |            |                       |                 |                        |              | 695          |
| Contract drilling expenses                          |                  | 750                 |            |                       |                 |                        |              | 750          |
| Other operating expenses                            | 483              | 268                 | 125        | 392                   | 150             | 28                     | (4)          | 1,442        |
| Interest                                            | 99               | 44                  | 24         | 87                    | 5               | 25                     | (4)          | 280          |
| <b>Total</b>                                        | <b>4,008</b>     | <b>1,062</b>        | <b>149</b> | <b>479</b>            | <b>155</b>      | <b>53</b>              | <b>(8)</b>   | <b>5,898</b> |
| Income before income tax                            | 518              | 640                 | 53         | 95                    | 14              | 299                    | (307)        | 1,312        |
| Income tax (expense) benefit                        | (152)            | (142)               | (19)       | (24)                  | (6)             | 3                      |              | (340)        |
| Net income                                          | 366              | 498                 | 34         | 71                    | 8               | 302                    | (307)        | 972          |
| Amounts attributable to<br>noncontrolling interests | (49)             | (256)               |            | (33)                  |                 |                        |              | (338)        |
| Net income attributable to<br>Loews Corporation     | \$ 317           | \$ 242              | \$ 34      | \$ 38                 | \$ 8            | \$ 302                 | \$ (307)     | \$ 634       |

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Loews Corporation

Consolidating Statement of Income Information

| Six Months Ended June 30, 2010                      | CNA<br>Financial | Diamond<br>Offshore | HighMount  | Boardwalk<br>Pipeline | Loews<br>Hotels | Corporate<br>and<br>Other | Eliminations | Total        |
|-----------------------------------------------------|------------------|---------------------|------------|-----------------------|-----------------|---------------------------|--------------|--------------|
| (In millions)                                       |                  |                     |            |                       |                 |                           |              |              |
| <b>Revenues:</b>                                    |                  |                     |            |                       |                 |                           |              |              |
| Insurance premiums                                  | \$ 3,223         |                     |            |                       |                 |                           |              | \$ 3,223     |
| Net investment income                               | 1,111            | \$ 2                |            |                       |                 | \$ 30                     |              | 1,143        |
| Intercompany interest and dividends                 |                  |                     |            |                       |                 | 435                       | \$ (435)     |              |
| Investment gains (losses)                           | 63               |                     | \$ (31)    |                       |                 |                           |              | 32           |
| Contract drilling revenues                          |                  | 1,656               |            |                       |                 |                           |              | 1,656        |
| Other                                               | 151              | 27                  | 253        | \$ 557                | \$ 156          | 1                         |              | 1,145        |
| <b>Total</b>                                        | <b>4,548</b>     | <b>1,685</b>        | <b>222</b> | <b>557</b>            | <b>156</b>      | <b>466</b>                | <b>(435)</b> | <b>7,199</b> |
| <b>Expenses:</b>                                    |                  |                     |            |                       |                 |                           |              |              |
| Insurance claims and policyholders<br>benefits      | 2,455            |                     |            |                       |                 |                           |              | 2,455        |
| Amortization of deferred acquisition<br>costs       | 687              |                     |            |                       |                 |                           |              | 687          |
| Contract drilling expenses                          |                  | 658                 |            |                       |                 |                           |              | 658          |
| Other operating expenses                            | 524              | 258                 | 141        | 341                   | 146             | 33                        |              | 1,443        |
| Interest                                            | 73               | 44                  | 37         | 75                    | 5               | 27                        | (4)          | 257          |
| <b>Total</b>                                        | <b>3,739</b>     | <b>960</b>          | <b>178</b> | <b>416</b>            | <b>151</b>      | <b>60</b>                 | <b>(4)</b>   | <b>5,500</b> |
| Income before income tax                            | 809              | 725                 | 44         | 141                   | 5               | 406                       | (431)        | 1,699        |
| Income tax (expense) benefit                        | (249)            | (229)               | (26)       | (36)                  | (2)             | 7                         |              | (535)        |
| Net income                                          | 560              | 496                 | 18         | 105                   | 3               | 413                       | (431)        | 1,164        |
| Amounts attributable to<br>noncontrolling interests | (76)             | (256)               |            | (46)                  |                 |                           |              | (378)        |
| Net income attributable to Loews<br>Corporation     | \$ 484           | \$ 240              | \$ 18      | \$ 59                 | \$ 3            | \$ 413                    | \$ (431)     | \$ 786       |

**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, 2010. 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);

exploration, production and marketing of natural gas, natural gas liquids (predominantly ethane and propane) and, to a lesser extent, oil (HighMount Exploration & Production LLC ( HighMount ), a wholly owned subsidiary);

operation of interstate natural gas transmission pipeline systems (Boardwalk Pipeline Partners, LP ( Boardwalk Pipeline ), a 64% 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 second quarter of 2011 amounted to \$252 million, or \$0.62 per share, compared to \$366 million, or \$0.87 per share, in the 2010 second quarter. Net income for the six months ended June 30, 2011 was \$634 million, or \$1.54 per share compared to \$786 million, or \$1.87 per share, in the prior year period.

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Net income decreased primarily due to lower favorable net prior year development recorded by CNA in 2011 than in 2010 as well as higher natural catastrophe losses in 2011. These declines were partially offset by higher earnings at Diamond Offshore primarily due to an increase in utilization of high specification floaters.

In the first six months of 2011, net income decreased as compared to the prior year period primarily due lower favorable net prior year development in 2011 than in 2010 and higher natural catastrophe losses in 2011 at CNA.

Net income included net investment gains of \$24 million (after tax and noncontrolling interests) in the first six months of 2011 as compared to net investment gains of \$12 million in the comparable prior year period. Net investment gains for the six months ended June 30, 2011 were driven by net trading activity and lower other-than-temporary impairment losses at CNA as compared to the prior year period.

Book value per share increased to \$46.81 at June 30, 2011, compared to \$45.54 at March 31, 2011 and \$44.51 at December 31, 2010.

## **Parent Company Structure**

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

## **CRITICAL ACCOUNTING ESTIMATES**

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

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

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

Insurance Reserves

Reinsurance and Other Receivables

Litigation

Valuation of Investments and Impairment of Securities

Long Term Care Products



Payout Annuity Contracts

Pension and Postretirement Benefit Obligations

Valuation of HighMount's Proved Reserves

Impairment of Long-lived Assets

Goodwill

Income Taxes

Due to the inherent uncertainties involved with these types of judgments, actual results could differ significantly from estimates, which may have a material adverse impact on our results of operations or equity. See the Critical Accounting Estimates section and the Results of Operations by Business Segment CNA Financial Reserves Estimates and Uncertainties section of our MD&A included under Item 7 of our Form 10-K for the year ended December 31, 2010 for further information.

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

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

**CNA Financial**

The following table summarizes the results of operations for CNA for the three and six months ended June 30, 2011 and 2010 as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

|                                                     | Three Months Ended |               | Six Months Ended |               |
|-----------------------------------------------------|--------------------|---------------|------------------|---------------|
|                                                     | June 30,<br>2011   | 2010          | June 30,<br>2011 | 2010          |
| <b>(In millions)</b>                                |                    |               |                  |               |
| <b>Revenues:</b>                                    |                    |               |                  |               |
| Insurance premiums                                  | \$ 1,595           | \$ 1,608      | \$ 3,210         | \$ 3,223      |
| Net investment income                               | 517                | 521           | 1,137            | 1,111         |
| Investment gains                                    | 19                 | 29            | 41               | 63            |
| Other revenue                                       | 71                 | 75            | 138              | 151           |
| <b>Total</b>                                        | <b>2,202</b>       | <b>2,233</b>  | <b>4,526</b>     | <b>4,548</b>  |
| <b>Expenses:</b>                                    |                    |               |                  |               |
| Insurance claims and policyholders' benefits        | 1,367              | 1,147         | 2,731            | 2,455         |
| Amortization of deferred acquisition costs          | 350                | 345           | 695              | 687           |
| Other operating                                     | 259                | 255           | 483              | 524           |
| Interest                                            | 44                 | 37            | 99               | 73            |
| <b>Total</b>                                        | <b>2,020</b>       | <b>1,784</b>  | <b>4,008</b>     | <b>3,739</b>  |
| Income before income tax                            | 182                | 449           | 518              | 809           |
| Income tax expense                                  | (49)               | (146)         | (152)            | (249)         |
| Net income                                          | 133                | 303           | 366              | 560           |
| Amounts attributable to noncontrolling interests    | (18)               | (44)          | (49)             | (76)          |
| <b>Net income attributable to Loews Corporation</b> | <b>\$ 115</b>      | <b>\$ 259</b> | <b>\$ 317</b>    | <b>\$ 484</b> |

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

Net income decreased \$144 million for the three months ended June 30, 2011 as compared with the 2010 period, see the Investments section of this MD&A for further discussion of net realized investment results and net investment income. Insurance claims and policyholders' benefits increased \$220 million, primarily due to a lower level of favorable net prior year development and higher catastrophe losses in 2011. Further information on net prior year development for the three months ended June 30, 2011 and 2010 is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

**Six Months Ended June 30, 2011 Compared to 2010**

Net income decreased \$167 million for the six months ended June 30, 2011 as compared with the same period in 2010. Investment gains decreased \$22 million (\$7 million after tax and noncontrolling interests). See the Investments section of this MD&A for further discussion of net realized investment results and net investment income. Insurance claims and policyholders' benefits increased \$276 million primarily due to a lower level of favorable net prior year development, the favorable impact in 2010 of reserve development arising from a commutation of an

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assumed reinsurance agreement and higher catastrophe losses. Further information on net prior year development for the six months ended June 30, 2011 and 2010 is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1. Additionally, expenses in 2010 were unfavorably impacted by information technology ( IT ) costs.

### **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) after tax and noncontrolling interests the effects of (i) net realized investment gains or losses, (ii) income or loss from discontinued operations and (iii) any cumulative effects of changes in accounting guidance. In evaluating the results of the CNA Specialty and CNA Commercial segments, CNA utilizes the loss ratio,

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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>June 30, |        | Six Months Ended<br>June 30, |          |
|----------------------------------|--------------------------------|--------|------------------------------|----------|
|                                  | 2011                           | 2010   | 2011                         | 2010     |
| <b>(In millions, except %)</b>   |                                |        |                              |          |
| Net written premiums             | \$ 683                         | \$ 647 | \$ 1,422                     | \$ 1,303 |
| Net earned premiums              | 688                            | 665    | 1,357                        | 1,319    |
| Net investment income            | 126                            | 125    | 286                          | 272      |
| Net operating income             | 103                            | 151    | 220                          | 266      |
| Net realized investment gains    | 4                              | 19     | 9                            | 27       |
| Net income                       | 107                            | 170    | 229                          | 293      |
| <b>Ratios:</b>                   |                                |        |                              |          |
| Loss and loss adjustment expense | 60.8%                          | 48.2%  | 62.5%                        | 54.8%    |
| Expense                          | 31.5                           | 30.3   | 31.0                         | 30.6     |
| Dividend                         | (0.1)                          | 0.5    |                              | 0.3      |
| Combined                         | 92.2%                          | 79.0%  | 93.5%                        | 85.7%    |

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

Net written premiums for CNA Specialty increased \$36 million for the three months ended June 30, 2011 as compared with the same period in 2010, primarily driven by new business. Net earned premiums increased \$23 million as compared to the same period in 2010, consistent with modest increases in net written premiums in recent quarters.

CNA Specialty's average rate was flat for the three months ended June 30, 2011, as compared to a decrease of 2% for the three months ended June 30, 2010 for the policies that renewed in each period. Retention of 85% was achieved in each period.

Net income decreased \$63 million for the three months ended June 30, 2011 as compared with the same period in 2010. This decrease was due to a lower net operating income and lower net realized investment gains.

Net operating income decreased \$48 million for the three months ended June 30, 2011 as compared with the same period in 2010, primarily due to a lower level of favorable net prior year development.

The combined ratio increased 13.2 points for the three months ended June 30, 2011 as compared with the same period in 2010. The loss ratio increased 12.6 points, primarily due to a lower level of favorable net prior year development and the impact of a higher current accident year loss ratio. The 2011 current accident year loss ratio is being unfavorably affected by the rate trend as noted above, and increased frequency trends of employment practices liability claims and increased severity trends in CNA's medical technology business over the past several quarters. The expense ratio increased 1.2 points, primarily due to higher underwriting expenses as CNA continued its investments across this business segment.

Favorable net prior year development of \$53 million and \$124 million was recorded for the three months ended June 30, 2011 and 2010. Further information on CNA Specialty's net prior year development for the three months ended June 30, 2011 and 2010 is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Part I, Item 1.



**Table of Contents****Six Months Ended June 30, 2011 Compared to 2010**

Net written premiums for CNA Specialty increased \$119 million and net earned premiums increased \$38 million for the six months ended June 30, 2011 as compared with the same period in 2010, primarily due to the same reasons discussed above in the three month comparison.

CNA Specialty's average rate was flat for the six months ended June 30, 2011, as compared to a decrease of 2% for the six months ended June 30, 2010 for the policies that renewed in each period. Retention of 86% was achieved in each period.

Net income decreased \$64 million and net operating income decreased \$46 million for the six months ended June 30, 2011 as compared with the same period in 2010, primarily due to the same reasons discussed above in the three month comparison.

The combined ratio increased 7.8 points for the six months ended June 30, 2011 as compared with the same period in 2010. The loss ratio increased 7.7 points, primarily due to a lower level of favorable net prior year development and the impact of a higher current accident year loss ratio, as noted above. The expense ratio increased 0.4 points, primarily due to higher underwriting expenses, partially offset by the impact of IT costs incurred in 2010.

Favorable net prior year development of \$75 million and \$153 million was recorded for the six months ended June 30, 2011 and 2010. Further information on CNA Specialty's net prior year development for the six months ended June 30, 2011 and 2010 is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Part I, Item 1.

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

| <b>(In millions)</b>                                                   | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|------------------------------------------------------------------------|--------------------------|------------------------------|
| Gross Case Reserves                                                    | \$ 2,470                 | \$ 2,341                     |
| Gross IBNR Reserves                                                    | 4,483                    | 4,452                        |
| <b>Total Gross Carried Claim and Claim Adjustment Expense Reserves</b> | <b>\$ 6,953</b>          | <b>\$ 6,793</b>              |
| Net Case Reserves                                                      | \$ 2,104                 | \$ 1,992                     |
| Net IBNR Reserves                                                      | 3,947                    | 3,926                        |
| <b>Total Net Carried Claim and Claim Adjustment Expense Reserves</b>   | <b>\$ 6,051</b>          | <b>\$ 5,918</b>              |

**CNA Commercial**

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

| <b>(In millions, except %)</b> | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                | <b>2011</b>                            | <b>2010</b> | <b>2011</b>                          | <b>2010</b> |
| Net written premiums           | \$ 880                                 | \$ 838      | \$ 1,708                             | \$ 1,667    |
| Net earned premiums            | 768                                    | 797         | 1,570                                | 1,613       |
| Net investment income          | 193                                    | 184         | 454                                  | 405         |
| Net operating income           | 35                                     | 113         | 153                                  | 202         |

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|                                        |               |       |               |        |
|----------------------------------------|---------------|-------|---------------|--------|
| Net realized investment gains (losses) | <b>7</b>      | (12)  | <b>16</b>     |        |
| Net income                             | <b>42</b>     | 101   | <b>169</b>    | 202    |
| <b>Ratios:</b>                         |               |       |               |        |
| Loss and loss adjustment expense       | <b>80.7%</b>  | 60.9% | <b>77.9%</b>  | 67.6%  |
| Expense                                | <b>36.6</b>   | 36.7  | <b>34.6</b>   | 36.1   |
| Dividend                               | <b>0.4</b>    | 0.8   | <b>0.1</b>    | 0.4    |
| Combined                               | <b>117.7%</b> | 98.4% | <b>112.6%</b> | 104.1% |

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

Net written premiums for CNA Commercial increased \$42 million for the three months ended June 30, 2011 as compared with the same period in 2010. This increase was primarily driven by new business across several lines of business as well as continued positive rate impacts. Net earned premiums decreased \$29 million for the three months ended June 30, 2011 as compared with the same period in 2010, primarily due to the impact of decreased net written premiums in prior quarters.

CNA Commercial's average rate increased 2% for the three months ended June 30, 2011 and 2010 for the policies that renewed in each period. Retention of 78% was achieved in each period.

Net income decreased \$59 million for the three months ended June 30, 2011 as compared with the same period in 2010. This decrease was due to lower net operating income, partially offset by improved net realized investment results.

Net operating income decreased \$78 million for the three months ended June 30, 2011 as compared with the same period in 2010. This decrease was primarily due to a lower level of favorable net prior year development and higher catastrophe losses, partially offset by improved non-catastrophe current accident year underwriting results.

The combined ratio increased 19.3 points for the three months ended June 30, 2011 as compared with the same period in 2010. The loss ratio increased 19.8 points, primarily due to a lower level of favorable net prior year development and increased catastrophe losses, partially offset by an improved current accident year non-catastrophe loss ratio. Catastrophe losses were \$96 million, or 12.5 points of the loss ratio, for the three months ended June 30, 2011, as compared to \$45 million, or 5.7 points of the loss ratio, for the same period in 2010. Catastrophe losses in the second quarter of 2011 related primarily to domestic storms.

Favorable net prior year development of \$10 million and \$140 million was recorded for the three months ended June 30, 2011 and 2010. Further information on CNA Commercial net prior year development for the three months ended June 30, 2011 and 2010 is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Part I, Item 1.

***Six Months Ended June 30, 2011 Compared to 2010***

Net written premiums for CNA Commercial increased \$41 million and net earned premiums decreased \$43 million for the six months ended June 30, 2011 as compared with the same period in 2010, primarily due to the same reasons discussed above in the three month comparison.

CNA Commercial's average rate increased 2% for the six months ended June 30, 2011, as compared with an increase of 1% for the six months ended June 30, 2010 for the policies that renewed in each period. Retention of 79% and 78% was achieved in each period.

Net income decreased \$33 million for the six months ended June 30, 2011 as compared with the same period in 2010, due to the same reasons discussed above in the three month comparison.

Net operating income decreased \$49 million for the six months ended June 30, 2011 as compared with the same period in 2010, primarily due to a lower level of favorable net prior year development and higher catastrophe losses, partially offset by improved non-catastrophe current accident year underwriting results and higher net investment income. In 2010, expenses were unfavorably impacted by IT costs.

The combined ratio increased 8.5 points for the six months ended June 30, 2011 as compared with the same period in 2010. The loss ratio increased 10.3 points, due to the same reasons discussed above in the three month comparison. Catastrophe losses were \$149 million, or 9.5 points of the loss ratio, for the six months ended June 30, 2011, as compared to \$83 million, or 5.2 points of the loss ratio, for the same period in 2010. Catastrophe losses in the six months ended June 30, 2011 related primarily to domestic storms and the event in Japan.

The expense ratio improved 1.5 points for the six months ended June 30, 2011 as compared with the same period in 2010, primarily due to the favorable impact of recoveries on insurance receivables written off in prior years and the impact of IT costs incurred in the first quarter of 2010.

Favorable net prior year development of \$25 million and \$147 million was recorded for the six months ended June 30, 2011 and 2010. Further information on CNA Commercial net prior year development for the six months ended June 30, 2011 and 2010 is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Part I, Item 1.





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

| <b>(In millions)</b>                                                   | <b>June 30,<br/>2011</b> | December 31,<br>2010 |
|------------------------------------------------------------------------|--------------------------|----------------------|
| Gross Case Reserves                                                    | <b>\$ 6,431</b>          | \$ 6,390             |
| Gross IBNR Reserves                                                    | <b>5,851</b>             | 6,132                |
| <b>Total Gross Carried Claim and Claim Adjustment Expense Reserves</b> | <b>\$ 12,282</b>         | \$ 12,522            |
| Net Case Reserves                                                      | <b>\$ 5,423</b>          | \$ 5,349             |
| Net IBNR Reserves                                                      | <b>5,073</b>             | 5,292                |
| <b>Total Net Carried Claim and Claim Adjustment Expense Reserves</b>   | <b>\$ 10,496</b>         | \$ 10,641            |

**Life & Group Non-Core**

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

| <b>(In millions)</b>           | <b>Three Months Ended<br/>June 30,</b> |        | <b>Six Months Ended<br/>June 30,</b> |        |
|--------------------------------|----------------------------------------|--------|--------------------------------------|--------|
|                                | <b>2011</b>                            | 2010   | <b>2011</b>                          | 2010   |
| Net earned premiums            | <b>\$ 141</b>                          | \$ 146 | <b>\$ 285</b>                        | \$ 291 |
| Net investment income          | <b>189</b>                             | 174    | <b>377</b>                           | 349    |
| Net operating loss             | <b>(16)</b>                            | (17)   | <b>(33)</b>                          | (16)   |
| Net realized investment losses |                                        |        | <b>(2)</b>                           | (4)    |
| Net loss                       | <b>(16)</b>                            | (17)   | <b>(35)</b>                          | (20)   |

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

Net earned premiums for Life & Group Non-Core decreased \$5 million for the three months ended June 30, 2011 as compared with the same period in 2010. Net earned premiums relate primarily to the individual and group long term care businesses.

Net loss decreased \$1 million for the three months ended June 30, 2011 as compared with the same period in 2010. This improvement was primarily due to lower expenses and improved investment results, substantially offset by unfavorable claim experience in CNA's long term care business and less favorable performance on CNA's remaining pension deposit business.

Certain of the separate account investment contracts related to CNA's pension deposit business guarantee principal and an annual minimum rate of interest, for which CNA may record an additional pretax liability in Policyholders' funds based on the results of the investments supporting this business. During the second quarter of 2010, CNA decreased this pretax liability by \$6 million. There was no change in this liability during the second quarter of 2011.

**Six Months Ended June 30, 2011 Compared to 2010**

Net earned premiums for Life & Group Non-Core decreased \$6 million for the six months ended June 30, 2011 as compared with the same period in 2010.

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Net loss increased \$15 million for the six months ended June 30, 2011 as compared with the same period in 2010. This increase was primarily due to the \$14 million (after tax and noncontrolling interests) favorable impact in 2010 of reserve development arising from a commutation of an assumed reinsurance agreement. Additionally, less favorable performance on CNA's remaining pension deposit business and unfavorable claim experience in its long term care business were substantially offset by lower expenses. In 2010, expenses were unfavorably impacted by IT costs.

CNA decreased the pretax liability related to its pension deposit business, as discussed above, by \$2 million and \$19 million during the six month periods ended June 30, 2011 and 2010. As of June 30, 2011, there was no additional liability in Policyholders' funds for these separate account investment contracts.

**Table of Contents****Other Insurance**

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

|                               | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |       |
|-------------------------------|--------------------------------|-------|------------------------------|-------|
|                               | 2011                           | 2010  | 2011                         | 2010  |
| <b>(In millions)</b>          |                                |       |                              |       |
| Net investment income         | \$ 9                           | \$ 38 | \$ 20                        | \$ 85 |
| Net operating income (loss)   | (19)                           |       | (47)                         | 1     |
| Net realized investment gains | 1                              | 5     | 1                            | 8     |
| Net income (loss)             | (18)                           | 5     | (46)                         | 9     |

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

Net results decreased \$23 million for the three months ended June 30, 2011 as compared with the same period in 2010, driven by lower net investment income partially offset by lower net incurred claims, both resulting from the Loss Portfolio Transfer consummated in the third quarter of 2010. Under the Loss Portfolio Transfer, CNA ceded approximately \$1.6 billion of net A&EP claim and allocated claim adjustment expense reserves under a retroactive reinsurance agreement. As a result of that transaction, the investment income allocated to the Other Insurance segment decreased because of the lower net reserve base and associated risk capital. Claim adjustment expenses are lower because the counterparty to the Loss Portfolio Transfer is responsible for A&EP claim handling.

Additionally, the decrease in net results was driven by decreased net realized investment results and higher interest expense. The increase in interest expense primarily relates to the use of debt to fund a portion of the 2010 redemption of CNA's preferred stock. These unfavorable impacts were partially offset by increased favorable net prior year development.

Favorable net prior year development of \$9 million and \$1 million was recorded for the three months ended June 30, 2011 and 2010.

**Six Months Ended June 30, 2011 Compared to 2010**

Net results decreased \$55 million for the six months ended June 30, 2011 as compared with the same period in 2010, primarily due to the same reasons discussed above in the three month comparison.

Favorable net prior year development of \$7 million was recorded for the six months ended June 30, 2011, compared to no net prior year development for the same period of 2010.

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

|                                                                 | June 30,<br>2011 | December 31,<br>2010 |
|-----------------------------------------------------------------|------------------|----------------------|
| <b>(In millions)</b>                                            |                  |                      |
| Gross Case Reserves                                             | \$ 1,383         | \$ 1,430             |
| Gross IBNR Reserves                                             | 1,844            | 2,012                |
| Total Gross Carried Claim and Claim Adjustment Expense Reserves | \$ 3,227         | \$ 3,442             |

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|                                                               |    |     |    |     |
|---------------------------------------------------------------|----|-----|----|-----|
| Net Case Reserves                                             | \$ | 425 | \$ | 461 |
| Net IBNR Reserves                                             |    | 248 |    | 257 |
| Total Net Carried Claim and Claim Adjustment Expense Reserves | \$ | 673 | \$ | 718 |

### **Diamond Offshore**

### **Recent Developments**

The U.S. government lifted the ban on certain drilling activities in the U.S. Gulf of Mexico ( GOM ) on October 12, 2010. Currently, all drilling in the GOM is subject to compliance with the final Drilling Safety Rule (codification of

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Notice to Lessees, NTL , 2010-N05), the Workplace Safety Rule on Safety and Environmental Management Systems and other requirements set forth in NTL 2010-N06 and NTL 2010-N10 (known as the Compliance and Review NTL). The Bureau of Ocean Energy Management, Regulation and Enforcement ( BOEMRE ) recently announced that additional regulations are forthcoming and that multi-person inspection teams will now be utilized for offshore oil and gas inspections. In addition, the BOEMRE is in the process of a comprehensive review of its application of the National Environmental Policy Act of 1969 ( NEPA ) in reviewing drilling plans, lease sales and other drilling activities in the GOM, particularly the use of categorical exclusions under NEPA to preclude the requirement for or limit the scope of environmental assessments. Diamond Offshore is not able to predict the likelihood, nature or extent of any additional rulemaking or the results of reviews by the BOEMRE.

In addition, in the aftermath of the April 20, 2010 Macondo incident, the number of new drilling permits issued by BOEMRE has been limited. Although the BOEMRE has announced that it is putting in place significant improvements in the oil and gas permit application process, Diamond Offshore is unable to predict when or if the pace of permitting in the GOM will return to pre-Macondo levels. It has been reported that the industry currently has approximately 33 floating rigs in the GOM that have been impacted by the regulatory uncertainty that has followed the Macondo incident and that five floating rigs have left the GOM since the imposition of the moratorium in 2010, two of which are owned by Diamond Offshore. Absent an increase in permitting activity, weakness in the GOM market is likely to continue throughout 2011, with the possibility of additional rigs being cold stacked by Diamond Offshore and others in the industry.

Improving oil prices, which have climbed as high as \$114 per barrel since 2011 began, appear to be supporting demand for Diamond Offshore s equipment in international markets. As a result, dayrates for Diamond Offshore s international floater rigs appear to have stabilized, and Diamond Offshore is encouraged by the increase in tender activity by its customers across all classes of floater rigs outside the GOM, although demand for Diamond Offshore s services has not yet risen sufficiently to provide pricing power on new contracts.

Intermediate and high specification floater rigs, both domestic and international, accounted for approximately 93% of revenue during the second quarter of 2011. This market remains stable with marketed industry floater utilization reportedly nearing 90%. Approximately 82% of the time for Diamond Offshore s intermediate and high specification floater rigs is committed for the remainder of 2011. Additionally, 55% of the time on floating rigs is committed in 2012.

During the second quarter of 2011, international demand for standard jack-ups remained stable with narrow profit margins, though there was a significant increase in tender activity for standard jack-up rigs in Mexico late in the period. However, high specification new-build jack-up rigs coming to market are enjoying significantly higher utilization rates and better pricing than older existing equipment. This new-build activity could result in an oversupply of jack-up rigs and negatively impact the market for standard jack-ups, which comprise most of Diamond Offshore s jack-up fleet, during the remainder of 2011 and beyond.

Among other new drilling contracts in the second quarter of 2011, Diamond Offshore announced two five-year agreements which will utilize two of its new-build drillships under construction, the *Ocean BlackHawk* and the *Ocean BlackHornet*. The two contracts, which are expected to commence in late 2013 and early 2014, are expected to generate combined maximum total revenue of approximately \$1.8 billion. In May, Diamond Offshore executed a contract for the construction of a third new-build drillship, for delivery in the second quarter of 2014.

Ten other agreements were announced in mid-July 2011 following the close of the quarter which are expected to generate combined maximum total revenue of approximately \$1.1 billion and represent approximately 14.4 years of contract drilling backlog.

Since December 31, 2010 through the date of this report, Diamond Offshore has entered into 33 new drilling contracts totaling approximately \$3.5 billion in backlog and ranging in duration from one well to five years. As of July 21, 2011, Diamond Offshore s contract backlog was approximately \$8.6 billion, of which its contracts in Brazil and the GOM represented approximately \$5.0 billion, or 58%, and, \$2.1 billion, or 24%.

### **Contract Drilling Backlog**

The following table reflects Diamond Offshore s contract drilling backlog as of July 21, 2011 and February 1, 2011 (the date reported in our Annual Report on Form 10-K for the year ended December 31, 2010). 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 95% - 98% during contracted periods,



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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.

|                                       | July 21,<br>2011 | February 1,<br>2011 |
|---------------------------------------|------------------|---------------------|
| <b>(In millions)</b>                  |                  |                     |
| High specification floaters (a)       | \$ 6,022         | \$ 3,838            |
| Intermediate semisubmersible rigs (b) | 2,369            | 2,700               |
| Jack-ups (c)                          | 259              | 107                 |
| <b>Total</b>                          | <b>\$ 8,650</b>  | <b>\$ 6,645</b>     |

- (a) Contract drilling backlog as of July 21, 2011 for Diamond Offshore's high specification floaters includes (i) \$3.2 billion attributable to contracted operations offshore Brazil for the years 2011 to 2016 and (ii) \$2.1 billion attributable to contracted operations in the GOM for the years 2011 to 2019, including \$1.8 billion in the aggregate for the years 2013 to 2019 attributable to contracts for two of Diamond Offshore's drillships under construction.
- (b) Contract drilling backlog as of July 21, 2011 for Diamond Offshore's intermediate semisubmersible rigs includes (i) \$1.8 billion attributable to contracted operations offshore Brazil for the years 2011 to 2015 and (ii) \$6 million attributable to contracted operations in the GOM during 2011.
- (c) Contract drilling backlog as of July 21, 2011 for Diamond Offshore's jack-ups includes (i) \$29 million attributable to contracted operations offshore Brazil for the years 2011 to 2012 and (ii) \$4 million attributable to contracted operations in the GOM during 2011.

The following table reflects the amount of Diamond Offshore's contract drilling backlog by year as of July 21, 2011.

| Year Ended December 31<br>(In millions) | Total           | 2011 (a)        | 2012            | 2013            | 2014 - 2019     |
|-----------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| High specification floaters (b)         | \$ 6,022        | \$ 827          | \$ 1,132        | \$ 1,087        | \$ 2,976        |
| Intermediate semisubmersible rigs (c)   | 2,369           | 587             | 769             | 526             | 487             |
| Jack-ups (d)                            | 259             | 76              | 92              | 69              | 22              |
| <b>Total</b>                            | <b>\$ 8,650</b> | <b>\$ 1,490</b> | <b>\$ 1,993</b> | <b>\$ 1,682</b> | <b>\$ 3,485</b> |

- (a) Represents a six month period beginning July 1, 2011.
- (b) Contract drilling backlog as of July 21, 2011 for Diamond Offshore's high specification floaters includes (i) \$397 million, \$787 million and \$866 million for the years 2011 to 2013, and \$1.2 billion in the aggregate for the years 2014 to 2016, attributable to contracted operations offshore Brazil and (ii) \$80 million, \$99 million and \$117 million for the years 2011 to 2013, and \$1.8 billion in the aggregate for the years 2014 to 2019 attributable to contracted operations in the GOM.
- (c) Contract drilling backlog as of July 21, 2011 for Diamond Offshore's intermediate semisubmersible rigs includes (i) \$356 million, \$541 million and \$402 million for the years 2011 to 2013, and \$459 million in the aggregate for the years 2014 to 2015, attributable to contracted operations offshore Brazil, and (ii) \$6 million for 2011 attributable to contracted operations in the GOM.
- (d) Contract drilling backlog as of July 21, 2011 for Diamond Offshore's jack-ups includes (i) \$25 million and \$4 million for years 2011 and 2012 attributable to contracted operations offshore Brazil and (ii) \$4 million for 2011 attributable to contracted operations in the GOM.





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The following table reflects the percentage of rig days committed by year as of July 21, 2011. 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 final commissioning dates for the *Ocean BlackHawk* and *Ocean BlackHornet* and does not include available days for Diamond Offshore's third drillship on order with Hyundai Heavy Industries, Co. Ltd., (Hyundai).

| Year Ended December 31            | 2011 (a) (b) | 2012 (b) | 2013 (b) | 2014 | 2019 (b) |
|-----------------------------------|--------------|----------|----------|------|----------|
| High specification floaters       | 97%          | 71%      | 62%      |      | 20%      |
| Intermediate semisubmersible rigs | 70%          | 43%      | 29%      |      | 4%       |
| Jack-ups                          | 48%          | 21%      | 15%      |      | 1%       |

(a) Represents a six month period beginning July 1, 2011.

(b) Includes approximately 800 and 600 scheduled shipyard, survey and mobilization days for 2011 and 2012, and also includes 125 final commissioning and mobilization days for each of the years 2013 and 2014 for the *Ocean BlackHawk* and *Ocean BlackHornet*.

**Dayrate and Utilization Statistics**

|                                   | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|-----------------------------------|--------------------------------|------------|------------------------------|------------|
|                                   | 2011                           | 2010       | 2011                         | 2010       |
| <b>Revenue earning days (a)</b>   |                                |            |                              |            |
| High specification floaters       | 1,201                          | 885        | 2,219                        | 1,824      |
| Intermediate semisubmersible rigs | 1,320                          | 1,417      | 2,688                        | 2,750      |
| Jack-ups                          | 714                            | 965        | 1,269                        | 1,757      |
| <b>Utilization (b)</b>            |                                |            |                              |            |
| High specification floaters       | 94%                            | 69%        | 88%                          | 74%        |
| Intermediate semisubmersible rigs | 76%                            | 82%        | 78%                          | 80%        |
| Jack-ups                          | 60%                            | 76%        | 54%                          | 69%        |
| <b>Average daily revenue (c)</b>  |                                |            |                              |            |
| High specification floaters       | \$ 364,000                     | \$ 373,400 | \$ 352,800                   | \$ 387,000 |
| Intermediate semisubmersible rigs | 265,600                        | 269,600    | 269,200                      | 274,200    |
| Jack-ups                          | 81,600                         | 84,700     | 81,900                       | 91,800     |

(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.

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

The following table summarizes the results of operations for Diamond Offshore for the three and six months ended June 30, 2011 and 2010, as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

|                                                  | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |              |
|--------------------------------------------------|--------------------------------|------------|------------------------------|--------------|
|                                                  | 2011                           | 2010       | 2011                         | 2010         |
| <b>(In millions)</b>                             |                                |            |                              |              |
| <b>Revenues:</b>                                 |                                |            |                              |              |
| Contract drilling                                | \$ 870                         | \$ 812     | \$ 1,659                     | \$ 1,656     |
| Net investment income                            | 2                              | 1          | 2                            | 2            |
| Investment gains                                 |                                |            | 1                            |              |
| Other revenue                                    | 20                             | 10         | 40                           | 27           |
| <b>Total</b>                                     | <b>892</b>                     | <b>823</b> | <b>1,702</b>                 | <b>1,685</b> |
| <b>Expenses:</b>                                 |                                |            |                              |              |
| Contract drilling                                | 388                            | 352        | 750                          | 658          |
| Other operating                                  | 139                            | 129        | 268                          | 258          |
| Interest                                         | 22                             | 22         | 44                           | 44           |
| <b>Total</b>                                     | <b>549</b>                     | <b>503</b> | <b>1,062</b>                 | <b>960</b>   |
| Income before income tax                         | 343                            | 320        | 640                          | 725          |
| Income tax expense                               | (86)                           | (104)      | (142)                        | (229)        |
| Net income                                       | 257                            | 216        | 498                          | 496          |
| Amounts attributable to noncontrolling interests | (132)                          | (112)      | (256)                        | (256)        |
| Net income attributable to Loews Corporation     | \$ 125                         | \$ 104     | \$ 242                       | \$ 240       |

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

Contract drilling revenues increased \$58 million, or 7.1%, for the three months ended June 30, 2011 as compared to 2010, primarily as a result of an increase in average utilization of Diamond Offshore's high specification floaters from 69% during the second quarter of 2010 to 94% during the second quarter of 2011, partially offset by a decline in contract drilling revenues earned by the remainder of its fleet. Results for the second quarter of 2011 reflected the return to work of three of Diamond Offshore's high specification floaters (two in international markets and one in the GOM) after being idled during the second quarter of 2010 following the Macondo incident in the GOM, as well as revenue generated by the newest addition to Diamond Offshore's floater fleet, the *Ocean Valor*, which began operating under contract offshore Brazil in the fourth quarter of 2010. In contrast, subsequent to the second quarter of 2010, Diamond Offshore cold stacked two additional intermediate semisubmersible rigs and one jack-up rig, which negatively impacted revenue during the second quarter of 2011.

Revenues from high specification floaters increased \$112 million for the three months ended June 30, 2011 as compared to 2010. This increase was primarily due to a \$118 million increase in utilization, partially offset by an \$11 million decrease in dayrates. Revenue earning days increased from 885 for the three months ended June 30, 2010 to 1,201 for the 2011 period, primarily due to the operation of the *Ocean Valor* and *Ocean Baroness* offshore Brazil for the majority of the second quarter of 2011, compared to the second quarter of 2010 when the rigs were mobilizing from the GOM and undergoing customer acceptance, and the *Ocean Alliance* which was in the shipyard for a 5 year survey and thruster change out for the entire second quarter of 2010.

Revenues from intermediate semisubmersible rigs decreased \$32 million for the three months ended June 30, 2011 as compared to 2010, primarily due to decreased utilization of \$26 million and decreased dayrates of \$5 million.

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Revenues from jack-up rigs decreased \$22 million for the three months ended June 30, 2011 as compared to 2010, primarily due to decreased utilization of \$21 million, which decreased from 76% in 2010 to 60% in 2011. Revenue earning days decreased by 251, mainly due to the sale of the *Ocean Shield* in July 2010 and cold stacking of the *Ocean Spartan* in September 2010.

Net income increased \$21 million for the three months ended June 30, 2011 as compared to 2010, primarily due to an increase in Contract drilling revenues and lower income tax expense, partially offset by an increase in Contract drilling expense. Contract drilling expense increased \$36 million and included normal operating costs for the *Ocean Valor*, as well as increased amortized mobilization costs and higher costs associated with rigs operating internationally rather than domestically.

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Diamond Offshore's effective tax rate decreased for the three months ended June 30, 2011 as compared with 2010. The lower effective tax rate in the current period is partially the result of differences in the mix of Diamond Offshore's domestic and international pretax earnings and losses, as well as the mix of international tax jurisdictions in which Diamond Offshore operates. Also contributing to the lower effective tax rate in the 2011 period was the impact of a tax law provision that expired at the end of 2009 but was subsequently signed back into law in December 2010. This provision allows Diamond Offshore to defer recognition of certain foreign earnings for U.S. income tax purposes. The extension of this tax law provision and Diamond Offshore's decisions in the fourth quarter of 2010 and the first and second quarter of 2011 to build three new drillships overseas, caused Diamond Offshore to reassess its intent to repatriate certain foreign earnings to the U.S. It is now Diamond Offshore's intent to reinvest those earnings internationally. Consequently, Diamond Offshore was able to defer the recognition of certain of its foreign earnings for U.S. income tax purposes in the second quarter of 2011 that it was unable to defer during the second quarter of 2010.

***Six Months Ended June 30, 2011 Compared to 2010***

Contract drilling revenues increased \$3 million for the six months ended June 30, 2011 as compared to 2010. Revenue generated by Diamond Offshore's domestic and international high specification floater rigs increased an aggregate \$89 million, or 12%, and revenue for Diamond Offshore's semisubmersible and jack-up fleet decreased \$33 million and \$53 million, or 4% and 33%, during the first half of 2011 compared to the first half of 2010. The two newest additions to Diamond Offshore's floater fleet, the *Ocean Courage* and *Ocean Valor*, which began operating under contract late in the first quarter and in the fourth quarter of 2010, contributed incremental revenue of \$88 million during the first six months of 2011. However, as of the end of the first half of 2011, Diamond Offshore cold stacked eight rigs, consisting of four intermediate semisubmersible rigs and four jack-up rigs, including the semisubmersible *Ocean Epoch*, which was cold stacked in the first quarter of 2011.

Revenues from high specification floaters increased \$89 million for the six months ended June 30, 2011 as compared to 2010. This increase was primarily due to a \$152 million increase in utilization and a \$13 million increase in amortized mobilization fees, partially offset by a \$76 million decrease in dayrates. Revenue earning days increased from 1,824 for the six months ended June 30, 2010 to 2,219 for the 2011 period, primarily due to 525 additional revenue earning days offshore Brazil reflecting additional rigs operating in this region compared to the prior period.

Revenues from intermediate semisubmersible rigs decreased \$33 million for the six months ended June 30, 2011 as compared to 2010, primarily due to decreased utilization of \$17 million and decreased dayrates of \$14 million.

Revenues from jack-up rigs decreased \$53 million for the six months ended June 30, 2011 as compared to 2010, primarily due to decreased utilization of \$45 million, which decreased from 69% in 2010 to 54% in 2011. Revenue earning days decreased by 488, mainly due to the sale of the *Ocean Shield* in July 2010 and cold stacking of the *Ocean Spartan* in September 2010.

Net income increased slightly for the six months ended June 30, 2011 as compared to 2010, primarily due to a decrease in income tax expense, offset by an increase in Contract drilling expense. Contract drilling expense increased \$92 million and included a full six months of expense for the *Ocean Courage* and *Ocean Valor*, as well as increased amortized mobilization costs and higher costs associated with rigs operating internationally rather than domestically.

Diamond Offshore's effective tax rate decreased for the six months ended June 30, 2011 as compared with 2010. The lower effective tax rate in the current period is due to the same reasons discussed above in the three month comparison.

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**HighMount**

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

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

HighMount's revenues, profitability and future growth depend substantially on natural gas and NGL prices and HighMount's ability to increase its natural gas and NGL production. In recent years, there has been significant price volatility in natural gas and NGL prices due to a variety of factors HighMount cannot control or predict. These factors, which include weather conditions, political and economic events and competition from other energy sources, impact supply and demand for natural gas, which determines the pricing. In addition, the price HighMount realizes for its gas production is affected by HighMount's hedging activities as well as locational differences in market prices. The level of natural gas production is dependent upon HighMount's ability to realize attractive returns on its capital investment program. Returns are affected by commodity prices, capital and operating costs.

Since 2008, natural gas prices have declined significantly. Consequently, HighMount reduced its drilling program in 2010, which continues to negatively impact HighMount's 2011 production volumes and revenues.

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 NGLs increase or decrease, but they are also affected by changes in production, as well as appreciated property values. HighMount calculates depletion using the units-of-production method, which depletes the capitalized costs and future development costs associated with evaluated properties based on the ratio of production volumes for the current period to total remaining reserve volumes for the evaluated properties. HighMount's depletion expense is affected by its capital spending program and projected future development costs, as well as reserve changes resulting from drilling programs, well performance and revisions due to changing commodity prices.

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

Presented below are production and sales statistics related to HighMount's operations for the three and six months ended June 30, 2011 and 2010:

|                                                  | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |
|--------------------------------------------------|--------------------------------|---------|------------------------------|---------|
|                                                  | 2011                           | 2010    | 2011                         | 2010    |
| Gas production (Bcf)                             | <b>11.8</b>                    | 15.0    | <b>23.4</b>                  | 32.6    |
| Gas sales (Bcf)                                  | <b>11.1</b>                    | 14.0    | <b>22.0</b>                  | 30.2    |
| Oil production/sales (Mbbls)                     | <b>81.6</b>                    | 67.9    | <b>142.2</b>                 | 128.8   |
| NGL production/sales (Mbbls)                     | <b>671.3</b>                   | 738.2   | <b>1,374.1</b>               | 1,472.6 |
| Equivalent production (Bcfe)                     | <b>16.4</b>                    | 19.8    | <b>32.5</b>                  | 42.2    |
| Equivalent sales (Bcfe)                          | <b>15.6</b>                    | 18.8    | <b>31.1</b>                  | 39.8    |
| Average realized prices without hedging results: |                                |         |                              |         |
| Gas (per Mcf)                                    | <b>\$ 4.21</b>                 | \$ 3.90 | <b>\$ 4.08</b>               | \$ 4.61 |
| NGL (per Bbl)                                    | <b>54.28</b>                   | 38.52   | <b>51.02</b>                 | 41.16   |
| Oil (per Bbl)                                    | <b>97.28</b>                   | 71.08   | <b>93.02</b>                 | 72.55   |
| Equivalent (per Mcfe)                            | <b>5.83</b>                    | 4.67    | <b>5.57</b>                  | 5.26    |
| Average realized prices with hedging results:    |                                |         |                              |         |
| Gas (per Mcf)                                    | <b>\$ 5.53</b>                 | \$ 5.19 | <b>\$ 5.96</b>               | \$ 6.25 |
| NGL (per Bbl)                                    | <b>39.72</b>                   | 33.20   | <b>39.25</b>                 | 33.81   |
| Oil (per Bbl)                                    | <b>97.28</b>                   | 71.08   | <b>93.02</b>                 | 72.55   |
| Equivalent (per Mcfe)                            | <b>6.14</b>                    | 5.42    | <b>6.38</b>                  | 6.23    |
| Average cost per Mcfe:                           |                                |         |                              |         |
| Production expenses                              | <b>\$ 1.21</b>                 | \$ 1.14 | <b>\$ 1.21</b>               | \$ 1.11 |
| Production and ad valorem taxes                  | <b>0.48</b>                    | 0.42    | <b>0.46</b>                  | 0.39    |
| General and administrative expenses              | <b>0.60</b>                    | 0.77    | <b>0.63</b>                  | 0.65    |
| Depletion expense                                | <b>1.14</b>                    | 0.87    | <b>1.13</b>                  | 0.88    |

**Results of Operations**

The following table summarizes the results of operations for HighMount for the three and six months ended June 30, 2011 and 2010, as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1.

|                                    | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |        |
|------------------------------------|--------------------------------|--------|------------------------------|--------|
|                                    | 2011                           | 2010   | 2011                         | 2010   |
| <b>(In millions)</b>               |                                |        |                              |        |
| Revenues:                          |                                |        |                              |        |
| Other revenue, primarily operating | <b>\$ 98</b>                   | \$ 105 | <b>\$ 202</b>                | \$ 253 |
| Investment losses                  |                                | (18)   |                              | (31)   |
| Total                              | <b>98</b>                      | 87     | <b>202</b>                   | 222    |
| Expenses:                          |                                |        |                              |        |
| Operating                          | <b>62</b>                      | 69     | <b>125</b>                   | 141    |
| Interest                           | <b>12</b>                      | 18     | <b>24</b>                    | 37     |

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|                                              |              |        |              |       |
|----------------------------------------------|--------------|--------|--------------|-------|
| Total                                        | <b>74</b>    | 87     | <b>149</b>   | 178   |
| Income before income tax                     | <b>24</b>    |        | <b>53</b>    | 44    |
| Income tax expense                           | <b>(9)</b>   | (6)    | <b>(19)</b>  | (26)  |
| Net income attributable to Loews Corporation | <b>\$ 15</b> | \$ (6) | <b>\$ 34</b> | \$ 18 |



**Table of Contents*****Three Months Ended June 30, 2011 Compared to 2010***

HighMount's operating revenues decreased \$7 million in the second quarter of 2011, as compared with the 2010 period. Operating revenues decreased by \$10 million due to the sale of HighMount's assets in Michigan and Alabama in the second quarter of 2010. Permian Basin operating revenues increased by \$3 million on sales volumes of 15.6 Bcfe in the second quarter of 2011 compared to 16.6 Bcfe in 2010. Average prices realized per Mcfe for Permian Basin sales were \$6.14 in the second quarter of 2011 compared to \$5.55 in the 2010 period. The decrease in Permian Basin sales volume is primarily due to the reduction in HighMount's drilling activity.

As a result of the Michigan and Alabama asset sales in 2010, a portion of the expected underlying transactions related to HighMount's interest rate and commodity hedging activities were no longer probable of occurring and hedge accounting was discontinued. This resulted in a pretax loss of \$18 million for the three months ended June 30, 2010.

HighMount had hedges in place as of June 30, 2011 that cover approximately 76% and 53% of total estimated 2011 and 2012 natural gas equivalent production at a weighted average price of \$6.27 and \$5.48 per Mcfe.

Operating expenses decreased \$7 million in the second quarter of 2011, as compared with the 2010 period. The decline is primarily due to the sale of HighMount's assets in Michigan and Alabama.

DD&A expenses were \$24 million and \$22 million for the three months ended June 30, 2011 and 2010. This reflects a \$4 million increase of DD&A expenses in the Permian Basin due to negative reserve revisions in December 2010 and projected 2011 capital activity, partially offset by a \$2 million decrease due to the sale of HighMount's assets in Michigan and Alabama.

***Six Months Ended June 30, 2011 Compared to 2010***

HighMount's operating revenues decreased \$51 million in the first six months of 2011, as compared with the 2010 period. Operating revenues decreased by \$46 million due to the sale of HighMount's assets in Michigan and Alabama. Permian Basin operating revenues decreased by \$5 million on sales volumes of 31.1 Bcfe in 2011 compared to 33.2 Bcfe in the 2010 period. Average prices realized per Mcfe for Permian Basin sales were \$6.38 in 2011 compared to \$6.09 in the 2010 period. The decrease in Permian Basin sales volume is primarily due to the reduction in HighMount's drilling activity. For the six months ended June 30, 2010, HighMount recorded a pretax loss of \$31 million related to the discontinuation of hedge accounting, as discussed above.

Operating expenses decreased by \$16 million for the first six months of 2011, as compared with the 2010 period. The decline reflects a \$22 million decrease related to the sale of HighMount's assets in Michigan and Alabama, partially offset by a \$6 million increase in other operating expenses in the Permian Basin. The increase in other operating expenses is due to higher DD&A expenses, increased well maintenance and other efforts to increase production, partially offset by lower general and administrative expenses.

DD&A expenses were \$47 million and \$48 million for the first six months of 2011 and 2010. This reflects an \$8 million decrease due to the sale of HighMount's assets in Michigan and Alabama offset by a \$7 million increase in the Permian Basin, due to negative reserve revisions in December 2010 and projected 2011 capital activity.

**Boardwalk Pipeline**

Boardwalk Pipeline's ability to market available transportation capacity is impacted by supply and demand for natural gas, competition from other pipelines, natural gas price volatility, the price differential between physical locations on its pipeline systems (basis spreads), economic conditions and other factors. Over the past several years, new sources of natural gas have been identified throughout the U.S. and new pipeline infrastructure has been developed, which has led to changes in pricing dynamics between supply basins, pooling points and market areas and an overall weakening of basis spreads across Boardwalk Pipeline's pipeline systems. Under these market conditions, marketing available capacity and renewing expiring contracts have become more difficult and Boardwalk Pipeline's ability to renew some of its expiring contracts at attractive rates and its revenues from interruptible and short term firm transportation services have been negatively impacted.

The narrowing of basis spreads on Boardwalk Pipeline's pipeline systems has made it more difficult to renew expiring long term firm transportation contracts at similar rates because, as basis spreads decrease, the rates customers are willing to pay decrease. In addition, as rates decline customers typically seek longer term agreements while Boardwalk Pipeline generally seeks shorter terms. However, changing basis spreads do not have as significant or immediate an impact on long term firm agreements as they do on short term or interruptible services because long term agreements are also



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influenced by other factors, such as baseload supply needs, certainty of delivery, predictability of long term costs, the ability to manage those costs through the capacity release mechanism and the terms of service.

As of June 30, 2011, a substantial portion of Boardwalk Pipeline's operating capacity has been contracted for under firm agreements having a weighted-average remaining life of approximately 6.0 years. However, an important aspect of Boardwalk Pipeline's business is its ability to market available short term firm or interruptible transportation capacity and renew existing longer term transportation contracts. Boardwalk Pipeline actively markets available capacity, which includes reserved capacity not fully utilized. The revenues Boardwalk Pipeline will be able to earn from that available capacity and from renewals of expiring contracts will be influenced by basis spreads and other factors discussed above.

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

Boardwalk Pipeline holds materials and supplies comprised of pipe, valves, fittings and other materials to support its ongoing operations and for potential future growth projects. In the second quarter of 2011, Boardwalk Pipeline determined that a portion of its materials and supplies would not be used given the types of projects it would likely pursue under its new growth strategy and the costs to carry and maintain the materials. As a result, an impairment charge of \$28 million was recognized to adjust the carrying amount of those materials and supplies to an estimated fair value of \$6 million. At June 30, 2011, Boardwalk Pipeline held approximately \$26 million of materials and supplies which was reflected in Other assets on the Consolidated Condensed Balance Sheets.

**Results of Operations**

The following table summarizes the results of operations for Boardwalk Pipeline for the three and six months ended June 30, 2011 as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included under Item 1 of this Report:

|                                                  | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |        |
|--------------------------------------------------|--------------------------------|--------|------------------------------|--------|
|                                                  | 2011                           | 2010   | 2011                         | 2010   |
| <b>(In millions)</b>                             |                                |        |                              |        |
| Revenues:                                        |                                |        |                              |        |
| Other revenue, primarily operating               | \$ 263                         | \$ 256 | \$ 574                       | \$ 557 |
| Total                                            | 263                            | 256    | 574                          | 557    |
| Expenses:                                        |                                |        |                              |        |
| Operating                                        | 211                            | 165    | 392                          | 341    |
| Interest                                         | 39                             | 38     | 87                           | 75     |
| Total                                            | 250                            | 203    | 479                          | 416    |
| Income before income tax                         | 13                             | 53     | 95                           | 141    |
| Income tax expense                               | (3)                            | (13)   | (24)                         | (36)   |
| Net income                                       | 10                             | 40     | 71                           | 105    |
| Amounts attributable to noncontrolling interests | (5)                            | (19)   | (33)                         | (46)   |
| Net income attributable to Loews Corporation     | \$ 5                           | \$ 21  | \$ 38                        | \$ 59  |

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

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Total revenues increased \$7 million for the three months ended June 30, 2011, compared to the same period in 2010. Gas transportation revenues, excluding fuel, increased \$14 million primarily from increased capacities resulting from the completion of several compression projects in 2010 and operating the Fayetteville Lateral at its design capacity. PAL and storage revenues decreased \$7 million due to decreased parking opportunities from unfavorable natural gas price spreads between time periods and fuel retained decreased \$2 million primarily due to lower natural gas prices.

Operating expenses increased \$46 million for the three months ended June 30, 2011, compared to the same period in 2010. The increase includes a \$28 million impairment charge associated with Boardwalk Pipeline's materials and supplies, increased operation and maintenance expenses of \$8 million due to an increase in maintenance projects mainly from integrity management and reliability spending, \$4 million of gas losses associated with the Bistineau storage

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facility and higher depreciation and property taxes of \$4 million associated with an increase in the asset base. These increases were partially offset by \$3 million of storage gas sales.

Net income decreased \$16 million for the three months ended June 30, 2011, compared to the same period in 2010 primarily due to the impairment charge associated with materials and supplies, decreased PAL and storage revenues and increased operation and maintenance expenses. These negative impacts were partially offset by higher gas transportation revenues from increased capacities.

**Six Months Ended June 30, 2011 Compared to 2010**

Total revenues increased \$17 million for the first half of 2011, compared to the same period in 2010. Gas transportation revenues, excluding fuel, increased \$38 million primarily from increased capacities resulting from the completion of several compression projects in 2010 and operating the Fayetteville Lateral at its design capacity. PAL and storage revenues decreased \$15 million due to decreased parking opportunities from unfavorable natural gas price spreads between time periods and fuel retained decreased \$8 million primarily due to lower natural gas prices.

Operating expenses increased \$51 million for the first half of 2011, compared to the same period in 2010. The increase includes a \$28 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. There were also higher operation and maintenance expenses of \$13 million primarily due to an increase in maintenance projects, mainly from integrity management and reliability spending and lower amounts of labor capitalized from fewer growth projects, and higher depreciation and property taxes of \$7 million associated with an increase in the asset base. These increases were partially offset by lower fuel consumed of \$5 million primarily due to lower natural gas prices and \$3 million of storage gas sales. Interest expense increased by \$12 million for the first half of 2011, primarily from a \$7 million loss on the early extinguishment of debt and \$5 million resulting from higher average interest rates on Boardwalk Pipeline's long term debt, higher debt levels and lower capitalized interest.

Net income decreased \$21 million for the first half of 2011, compared to the same period in 2010 primarily due to the factors described above for the three month period, as well as the insurance deductible expense associated with replacing compressor assets and the loss on the early extinguishment of debt. These negative impacts were partially offset by higher gas transportation revenues from increased capacities.

**Loews Hotels**

The following table summarizes the results of operations for Loews Hotels for the three and six months ended June 30, 2011 as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

| (In millions)                      | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |            |
|------------------------------------|--------------------------------|-----------|------------------------------|------------|
|                                    | 2011                           | 2010      | 2011                         | 2010       |
| <b>Revenues:</b>                   |                                |           |                              |            |
| Other revenue, primarily operating | \$ 89                          | \$ 81     | \$ 169                       | \$ 156     |
| <b>Total</b>                       | <b>89</b>                      | <b>81</b> | <b>169</b>                   | <b>156</b> |
| <b>Expenses:</b>                   |                                |           |                              |            |
| Operating                          | 75                             | 72        | 150                          | 146        |
| Interest                           | 3                              | 3         | 5                            | 5          |
| <b>Total</b>                       | <b>78</b>                      | <b>75</b> | <b>155</b>                   | <b>151</b> |
| Income before income tax           | 11                             | 6         | 14                           | 5          |
| Income tax expense                 | (5)                            | (2)       | (6)                          | (2)        |

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|                                              |      |      |      |      |
|----------------------------------------------|------|------|------|------|
| Net income attributable to Loews Corporation | \$ 6 | \$ 4 | \$ 8 | \$ 3 |
|----------------------------------------------|------|------|------|------|

Revenues increased by \$8 million and \$13 million, or 9.9% and 8.3%, for the three and six months ended June 30, 2011 as compared to the 2010 periods. Net income increased by \$2 million and \$5 million for the three and six months ended June 30, 2011 as compared to the 2010 periods.

Revenue per available room increased \$22.77 and \$15.15 to \$175.59 and \$163.90 for the three and six months ended June 30, 2011 as compared to the 2010 periods. The increase in revenue per available room reflects improving occupancy and average room rates. Occupancy rates increased to 78.8% and 73.2% in the three and six months ended

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June 30, 2011, from 73.6% and 69.5% in the 2010 periods. Average room rates increased by \$15.29 and \$9.80, or 7.4% and 4.6%, in the three and six months ended June 30, 2011 as compared to the 2010 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.

The improvement in operating results is due primarily to the increases in revenue per available room described above, and increases in earnings from joint venture properties reflecting higher occupancy and average room rates at the Orlando properties.

**Corporate and Other**

Corporate operations consist primarily of investment income at the Parent Company, corporate interest expense and other corporate administrative costs.

The following table summarizes the results of operations for Corporate and Other for the three and six months ended June 30, 2011 as presented in Note 10 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

| (In millions)                              | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |
|--------------------------------------------|--------------------------------|---------|------------------------------|---------|
|                                            | 2011                           | 2010    | 2011                         | 2010    |
| <b>Revenues:</b>                           |                                |         |                              |         |
| Net investment income                      |                                | \$ 4    | \$ 41                        | \$ 30   |
| Other                                      | \$ (1)                         | 2       |                              | 1       |
| Total                                      | (1)                            | 6       | 41                           | 31      |
| <b>Expenses:</b>                           |                                |         |                              |         |
| Operating                                  | 12                             | 22      | 28                           | 33      |
| Interest                                   | 11                             | 9       | 25                           | 23      |
| Total                                      | 23                             | 31      | 53                           | 56      |
| Income before income tax                   | (24)                           | (25)    | (12)                         | (25)    |
| Income tax benefit                         | 8                              | 9       | 3                            | 7       |
| Net loss attributable to Loews Corporation | \$ (16)                        | \$ (16) | \$ (9)                       | \$ (18) |

Revenues decreased by \$7 million for the three months ended June 30, 2011, and increased by \$10 million for the six months ended June 30, 2011 as compared to the 2010 periods. Investment income decreased due primarily to lower performance of fixed income investments, partially offset by improved performance of equity based investments for the three months ended June 30, 2011. The increase in investment income for the six months ended June 30, 2011 is primarily attributable to improved performance of equity based investments, partially offset by lower performance of fixed income investments.

There was a net loss of \$16 million and \$9 million for the three and six months ended June 30, 2011 as compared to a net loss of \$16 million and \$18 million in the 2010 periods. These changes were primarily due to the change in revenues discussed above.

**LIQUIDITY AND CAPITAL RESOURCES****CNA Financial**

*Cash Flows*

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

For the six months ended June 30, 2011, net cash provided by operating activities was \$412 million as compared with net cash provided by operating activities of \$581 million for the same period in 2010. Because cash receipts and cash payments resulting from purchases and sales of trading securities are reported as cash flows related to operating activities, during 2010 operating cash flows were increased by \$153 million related to net cash inflows primarily from



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sales of trading securities as compared to a decrease of \$9 million during 2011 related to net trading cash outflows. Cash provided by operating activities was also impacted by decreased investment income receipts during 2011 compared to 2010, and increased premium receipts.

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

For the six months ended June 30, 2011, net cash provided by investing activities was \$97 million as compared with net cash used by investing activities of \$523 million for the same period in 2010. Investing cash flows related principally to purchases and sales of fixed maturity securities and short term investments. The cash flow from investing activities is impacted by various factors such as the anticipated payment of claims, financing activity, asset/liability management and individual security buy and sell decisions made in the normal course of portfolio management.

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

For the six months ended June 30, 2011, net cash used by financing activities was \$504 million as compared with net cash used by financing activities of \$124 million for the same period in 2010. During 2011, CNA purchased the noncontrolling interest of CNA Surety. Additionally, during 2011 CNA issued \$400 million of 5.75% senior notes due August 15, 2021 and used the net proceeds of the offering, together with cash on hand, to redeem the outstanding \$400 million aggregate principal amount of 6.00% senior notes due August 15, 2011, plus accrued and unpaid interest thereon, along with a call premium.

### ***Dividends***

On June 1, 2011, CNA paid a quarterly dividend of \$0.10 per share to stockholders of record on May 16, 2011. On July 29, 2011, CNA declared a quarterly dividend of \$0.10 per share, payable August 31, 2011 to stockholders of record on August 15, 2011. The declaration and payment of future dividends to holders of CNA's common stock will be at the discretion of its Board of Directors and will depend on many factors, including CNA's earnings, financial condition, business needs, and regulatory constraints.

### ***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. There are currently no amounts outstanding under CNA's revolving credit facility, which provides for a total commitment of up to \$250 million.

### ***Diamond Offshore***

Cash and investments totaled \$981 million at June 30, 2011, compared to \$1.1 billion at December 31, 2010. During the first half of 2011, Diamond Offshore paid cash dividends totaling \$246 million, consisting of aggregate regular cash dividends of \$35 million and aggregate special cash dividends of \$211 million. On July 20, 2011, Diamond Offshore declared a regular quarterly cash dividend of \$0.125 per share and a special cash dividend of \$0.75 per share.

Cash provided by operating activities for the first half of 2011 was \$724 million, compared to \$694 million in 2010. The increase is primarily due to less net cash required to satisfy working capital requirements, mainly lower estimated income taxes paid in the U.S. federal jurisdiction, in 2011 compared to 2010.

Diamond Offshore has budgeted approximately \$320 million on capital expenditures for 2011 associated with its ongoing rig equipment replacement and enhancement programs and other corporate requirements. During the first half of 2011, Diamond Offshore spent approximately \$101 million toward these programs. In addition, in the first half of 2011, Diamond Offshore paid \$478 million as the first of two installment payments for the construction of its three new, ultra-deepwater drillships. The final installments of the contracted price are payable upon delivery of each vessel. The total cost of the three drillships, including commissioning, spares and project management, is expected to be approximately \$1.8 billion in the aggregate. Diamond Offshore also has a fixed-price option from Hyundai for the construction of a fourth drillship that expires September 15, 2011. Diamond Offshore expects to finance its 2011 capital expenditures through the use of existing cash balances or internally generated funds. From time to time, however, Diamond Offshore may issue debt or equity securities, or a combination thereof, to finance capital expenditures, the acquisition of assets and businesses or for general corporate purposes.



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As of June 30, 2011, there were no loans outstanding under Diamond Offshore's \$285 million credit facility; however, \$4 million in letters of credit were issued and outstanding under the credit facility.

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 new drillships. As a result of Diamond Offshore's intention to indefinitely reinvest the earnings of its wholly owned subsidiary, Diamond Offshore International Limited ( DOIL ), to finance its foreign activities, Diamond Offshore does not expect such earnings to be available for distribution to its stockholders or to finance its domestic activities. However, Diamond Offshore believes that the operating cash flows generated by and cash reserves of DOIL, and the operating cash flows available to and cash reserves of Diamond Offshore Drilling, Inc., will be sufficient to meet both its working capital requirements and its capital commitments over the next twelve months. Diamond Offshore will, however, continue to make periodic assessments based on industry conditions and will adjust capital spending programs if required.

### **HighMount**

At June 30, 2011 and December 31, 2010, cash and investments amounted to \$124 million and \$130 million. Net cash flows provided by operating activities were \$81 million in both six month periods ended June 30, 2011 and 2010. Key drivers of net operating cash flows are commodity prices, production volumes and operating costs.

Cash used in investing activities was \$88 million for the six months ended June 30, 2011, compared to cash provided by investing activities of \$447 million for the 2010 period. Cash provided by investing activities for the six months ended June 30, 2010 includes net proceeds from the sale of HighMount's assets in Michigan and Alabama of approximately \$500 million. The primary driver of cash used in investing activities was capital spent developing HighMount's natural gas and oil reserves. HighMount spent \$43 million and \$58 million on capital expenditures for its drilling program in the six months ended June 30, 2011 and 2010. In 2011, funds for capital expenditures and working capital requirements are expected to be provided from existing cash balances and operating activities.

At June 30, 2011, no borrowings were outstanding under HighMount's revolving credit facility which expires on July 26, 2012, however, \$2 million in letters of credit were issued. The available capacity under the facility is \$398 million. HighMount maintains \$1.1 billion of variable rate term loans which are due on July 26, 2012. HighMount expects to replace these facilities through refinancing, use of existing cash balances and advances or capital contributions from us.

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. The credit agreement also contains customary restrictions or limitations on HighMount's ability to enter or engage in certain transactions, including transactions with affiliates. At June 30, 2011, HighMount was in compliance with all of its covenants under the credit agreement.

### **Boardwalk Pipeline**

At June 30, 2011 and December 31, 2010, cash and investments amounted to \$55 million and \$59 million. Funds from operations for the six months ended June 30, 2011 amounted to \$243 million, compared to \$252 million for the 2010 period. For the six months ended June 30, 2011 and 2010, Boardwalk Pipeline's capital expenditures were \$74 million and \$131 million.

In January of 2011, Boardwalk Pipelines issued \$325 million aggregate principal amount of 4.5% notes due February 1, 2021. In June of 2011, Boardwalk Pipeline issued an additional \$115 million of the 2021 notes. The proceeds from both offerings were used to repay borrowings under Boardwalk Pipeline's revolving credit facility and its 5.5% notes due April 1, 2013.

In June of 2011, Boardwalk Pipeline completed a public offering of 6 million of its common units at a price of \$29.33 per unit and received net cash proceeds of approximately \$174 million, including a \$4 million contribution by us to maintain our 2% general partner interest.

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.



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As of June 30, 2011, Boardwalk Pipeline had \$269 million of loans outstanding under its revolving credit facility with a weighted-average interest rate on the borrowings of 0.4% and had no letters of credit issued. At June 30, 2011, Boardwalk Pipeline was in compliance with all covenant requirements under its credit facility and had available borrowing capacity of \$681 million. Subsequent to June 30, 2011, Boardwalk Pipeline made additional borrowings under its revolving credit facility. As of July 29, 2011, outstanding borrowings under the revolving credit facility were \$359 million, with an available borrowing capacity of \$591 million.

Boardwalk Pipelines incurs substantial costs for ongoing maintenance of its pipeline systems and related facilities some of which reflect increased regulatory requirements applicable to all interstate pipelines. These costs include those incurred for pipeline integrity management activities, equipment overhauls, general upkeep and repairs. Maintenance costs may be capitalized or expensed depending on the nature of the activities. For any given reporting period the mix of projects undertaken by Boardwalk Pipeline will affect the amounts recorded as property, plant and equipment on the balance sheet or expensed in earnings.

In 2011, Boardwalk Pipeline expects to incur costs of approximately \$250 million to maintain its pipeline systems, of which \$82 million is expected to be recorded as maintenance capital, net of expected insurance proceeds. In 2010, these costs were approximately \$213 million, of which \$63 million was recorded as maintenance capital. The increase of \$37 million is primarily related to integrity management, reliability and general pipeline maintenance and repairs which are necessary to comply with regulatory requirements.

### **Loews Hotels**

Funds from operations continue to exceed operating requirements. Cash and investments totaled \$70 million at June 30, 2011, as compared to \$67 million at December 31, 2010. Funds for other capital expenditures, working capital requirements and mortgage debt coming due in the next twelve months 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 June 30, 2011 totaled \$4.3 billion, as compared to \$4.6 billion at December 31, 2010. During the six months ended June 30, 2011, we paid \$415 million to fund treasury stock purchases, repaid at maturity the entire \$175 million principal amount of our 8.9% debentures and paid \$51 million of cash dividends to our shareholders. These cash outflows were partially offset by the receipt of \$311 million in interest and dividends from our subsidiaries.

During the six months ended June 30, 2011, we purchased 9.9 million shares of Loews common stock at an aggregate cost of \$415 million. As of June 30, 2011, there were 404,886,000 shares of Loews common stock outstanding. From July 1, 2011 through July 28, 2011, we acquired an additional 1.0 million shares of our common stock at an aggregate cost of \$41 million. Depending on market and other conditions, we may purchase shares of our and our subsidiaries' outstanding common stock in the open market or otherwise.

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. The Parent Company portfolio is considered part of our trading activities and, accordingly, the portfolio is marked to market and realized and unrealized gains and losses are reported as Net investment income in the Consolidated Condensed Statements of Income.

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



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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.

We do not believe that any of the derivative instruments we use are unusually complex, nor do the use of these instruments, in our opinion, result in a higher degree of risk. Please read Note 2 and Note 4 of the Notes to Consolidated Condensed Financial Statements included under Item 1 for additional information with respect to investments and derivative instruments, including recognized gains and losses on these instruments.

**Insurance**

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

**Net Investment Income**

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

|                           | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |          |
|---------------------------|--------------------------------|--------|------------------------------|----------|
|                           | 2011                           | 2010   | 2011                         | 2010     |
| <b>(In millions)</b>      |                                |        |                              |          |
| Fixed maturity securities | \$ 505                         | \$ 519 | \$ 1,011                     | \$ 1,029 |
| Short term investments    | 2                              | 5      | 4                            | 11       |
| Limited partnerships      | 11                             | (4)    | 125                          | 68       |
| Equity securities         | 6                              | 9      | 12                           | 19       |
| Trading portfolio         | 3                              | 2      | 6                            | 6        |
| Other                     | 5                              | 3      | 9                            | 5        |
| Gross investment income   | 532                            | 534    | 1,167                        | 1,138    |
| Investment expense        | (15)                           | (13)   | (30)                         | (27)     |
| Net investment income     | \$ 517                         | \$ 521 | \$ 1,137                     | \$ 1,111 |

Net investment income decreased \$4 million for the three months ended June 30, 2011 as compared with the same period in 2010. The decrease was primarily driven by a decrease in fixed maturity security income, due to the effective income yield of the fixed maturity portfolio and a lower invested asset base, substantially offset by an increase in limited partnership investment income. Limited partnership investments generally present greater volatility, higher illiquidity and greater risk than fixed income investments.

Net investment income increased \$26 million for the six months ended June 30, 2011 as compared with the same period in 2010. The increase was primarily driven by improved results from limited partnership investments, partially offset by a decrease in investment income from fixed maturity and short term investments due primarily to a decrease in the effective income yield of the fixed maturity portfolio and a lower invested asset base.

The fixed maturity investment portfolio provided a pretax effective income yield of 5.5% and 5.6% for the six months ended June 30, 2011 and 2010. The fixed maturity investment portfolio and short term investments combined provided a pretax effective income yield of 5.3% and 5.2%

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for the six months ended June 30, 2011 and 2010. Tax-exempt municipal bonds generated \$58 million and \$114 million of net investment income for the three and six months ended June 30, 2011 compared with \$68 million and \$146 million of net investment income for the same periods in 2010.



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

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

|                                                                        | Three Months Ended<br>June 30, |              | Six Months Ended<br>June 30, |              |
|------------------------------------------------------------------------|--------------------------------|--------------|------------------------------|--------------|
|                                                                        | 2011                           | 2010         | 2011                         | 2010         |
| <b>(In millions)</b>                                                   |                                |              |                              |              |
| Realized investment gains (losses):                                    |                                |              |                              |              |
| Fixed maturity securities:                                             |                                |              |                              |              |
| Corporate and other bonds                                              | \$ 38                          | \$ 30        | \$ 91                        | \$ 63        |
| States, municipalities and political subdivisions                      | 11                             | 11           | (10)                         | 8            |
| Asset-backed                                                           | (32)                           | 15           | (47)                         | 10           |
| U.S. Treasury and obligations of government-sponsored enterprises      | 1                              | 4            | 1                            | 4            |
| Foreign government                                                     | 2                              | (1)          | 2                            | 1            |
| Redeemable preferred stock                                             |                                | 7            | 3                            | 7            |
| <b>Total fixed maturity securities</b>                                 | <b>20</b>                      | <b>66</b>    | <b>40</b>                    | <b>93</b>    |
| Equity securities                                                      | (2)                            | (28)         | (2)                          | (25)         |
| Derivative securities                                                  |                                |              | (1)                          |              |
| Short term investments                                                 | 2                              | 1            | 3                            | 4            |
| Other                                                                  | (1)                            | (10)         | 1                            | (9)          |
| <b>Total realized investment gains</b>                                 | <b>19</b>                      | <b>29</b>    | <b>41</b>                    | <b>63</b>    |
| Income tax expense                                                     | (6)                            | (16)         | (14)                         | (28)         |
| <b>Net realized investment gains</b>                                   | <b>13</b>                      | <b>13</b>    | <b>27</b>                    | <b>35</b>    |
| Amounts attributable to noncontrolling interests                       | (1)                            | (1)          | (3)                          | (4)          |
| <b>Net realized investment gains attributable to Loews Corporation</b> | <b>\$ 12</b>                   | <b>\$ 12</b> | <b>\$ 24</b>                 | <b>\$ 31</b> |

Net realized investment gains remained flat and decreased \$7 million for the three and six months ended June 30, 2011 compared to the same periods in 2010. 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.

CNA's fixed maturity portfolio consists primarily of high quality bonds, 91.1% and 90.6% of which were rated as investment grade (rated BBB- or higher) at June 30, 2011 and December 31, 2010. 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. For securities with credit support from third party guarantors, the rating reflects the greater of the underlying rating of the issuer or the insured rating.

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

| <b>(In millions of dollars)</b>                                           | June 30, 2011 |       | December 31, 2010 |       |
|---------------------------------------------------------------------------|---------------|-------|-------------------|-------|
|                                                                           |               |       |                   |       |
| U.S. Government, Government agencies and Government-sponsored enterprises | \$ 4,461      | 11.6% | \$ 4,003          | 10.7% |
| AAA rated                                                                 | 4,012         | 10.4  | 3,950             | 10.5  |
| AA and A rated                                                            | 16,429        | 42.6  | 15,665            | 41.7  |

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|                      |                  |               |           |        |
|----------------------|------------------|---------------|-----------|--------|
| BBB rated            | <b>10,211</b>    | <b>26.5</b>   | 10,425    | 27.7   |
| Non-investment grade | <b>3,441</b>     | <b>8.9</b>    | 3,534     | 9.4    |
| Total                | <b>\$ 38,554</b> | <b>100.0%</b> | \$ 37,577 | 100.0% |

CNA's fixed maturity portfolio includes exposure to sub-prime residential mortgages ( sub-prime ) and Alternative A residential mortgages that have lower than normal standards of loan documentation ( Alt-A ), as measured by the original deal structure. As of June 30, 2011, the fair value of sub-prime securities was \$383 million with associated net unrealized losses of \$27 million, 70% of which were rated investment grade. As of June 30, 2011, the fair value of Alt-A

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securities was \$576 million with associated net unrealized losses of \$21 million, 88% of which were rated investment grade. Pretax OTTI losses of \$31 million for securities with sub-prime and Alt-A exposure were included in the \$74 million of pretax OTTI losses related to asset-backed securities recognized in earnings on the Consolidated Condensed Statements of Income for the six months ended June 30, 2011. If additional deterioration in the underlying collateral occurs beyond CNA's current expectations, additional OTTI losses may be recognized in earnings. See Note 2 of the Notes to Consolidated Condensed Financial Statements included under Part I, Item 1 for additional information related to unrealized losses on asset-backed securities.

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 \$3,343 million and \$3,490 million at June 30, 2011 and December 31, 2010. The following table summarizes the ratings of this portfolio at carrying value.

| (In millions, except %) | June 30, 2011   |               | December 31, 2010 |               |
|-------------------------|-----------------|---------------|-------------------|---------------|
|                         | \$              | %             | \$                | %             |
| BB                      | \$ 1,646        | 47.8%         | \$ 1,492          | 42.2%         |
| B                       | 1,105           | 32.1          | 1,163             | 32.9          |
| CCC-C                   | 568             | 16.5          | 801               | 22.7          |
| D                       | 122             | 3.6           | 78                | 2.2           |
| <b>Total</b>            | <b>\$ 3,441</b> | <b>100.0%</b> | <b>\$ 3,534</b>   | <b>100.0%</b> |

Included within the fixed maturity portfolio are securities that contain credit support from third party guarantees from mono-line insurers. At June 30, 2011, \$404 million of the carrying value of CNA's fixed maturity portfolio had a third party guarantee that increased the underlying average rating of those securities from A+ to AA+. Of this amount, over 87% was within the states, municipalities and political subdivisions securities sector.

At June 30, 2011 and December 31, 2010, approximately 98% of CNA's fixed maturity portfolio was issued or guaranteed by the U.S. Government, Government agencies or Government-sponsored enterprises or was rated by S&P or Moody's. The remaining bonds were rated by other rating agencies or internally.

The carrying value of CNA's fixed maturity and equity securities that trade in illiquid private placement markets at June 30, 2011 was \$296 million, which represents approximately 0.7% of CNA's total investment portfolio. These securities were in a net unrealized gain position of \$11 million at June 30, 2011.

The gross unrealized loss on CNA's available-for-sale fixed maturity securities was \$519 million at June 30, 2011. The following table provides the maturity profile for these available-for-sale fixed maturity securities. Securities not due at a single date are allocated based on weighted average life.

|                                        | Percent of Fair Value | Percent of Unrealized Loss |
|----------------------------------------|-----------------------|----------------------------|
| Due in one year or less                | 6%                    | 3%                         |
| Due after one year through five years  | 19                    | 12                         |
| Due after five years through ten years | 36                    | 24                         |
| Due after ten years                    | 39                    | 61                         |
| <b>Total</b>                           | <b>100%</b>           | <b>100%</b>                |

**Duration**

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

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A further consideration in the management of the investment portfolio is the characteristics of the underlying 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 benefit settlements and long term care products.

The effective durations of CNA's fixed maturity securities, short term investments, non-redeemable preferred stocks 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.

|                                              | June 30, 2011    |                               | December 31, 2010 |                               |
|----------------------------------------------|------------------|-------------------------------|-------------------|-------------------------------|
|                                              | Fair Value       | Effective Duration<br>(Years) | Fair Value        | Effective Duration<br>(Years) |
| <b>(In millions of dollars)</b>              |                  |                               |                   |                               |
| Investments supporting Life & Group Non-Core | \$ 12,510        | 11.5                          | \$ 11,825         | 11.0                          |
| Other interest sensitive investments         | 27,804           | 4.4                           | 28,096            | 4.5                           |
| <b>Total</b>                                 | <b>\$ 40,314</b> | <b>6.6</b>                    | <b>\$ 39,921</b>  | <b>6.4</b>                    |

The investment portfolio is periodically analyzed for changes in duration and related price change risk. Additionally, CNA periodically reviews the sensitivity of the portfolio to the level of foreign exchange rates and other factors that contribute to market price changes. A summary of these risks and specific analysis on changes is included in the Quantitative and Qualitative Disclosures about Market Risk in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2010.

**Short Term Investments**

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

|                                     | June 30,<br>2011 | December 31,<br>2010 |
|-------------------------------------|------------------|----------------------|
| <b>(In millions)</b>                |                  |                      |
| Short term investments:             |                  |                      |
| Commercial paper                    | \$ 530           | \$ 686               |
| U.S. Treasury securities            | 636              | 903                  |
| Money market funds                  | 157              | 94                   |
| Other                               | 386              | 532                  |
| <b>Total short term investments</b> | <b>\$ 1,709</b>  | <b>\$ 2,215</b>      |

**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.

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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:

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**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, 2010, including the sufficiency of the reserves and the possibility for future increases;

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

the performance of reinsurance companies under reinsurance contracts with CNA;

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

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

general economic and business conditions, including recessionary conditions that may decrease the size and number of CNA's insurance customers and create additional losses to CNA's lines of business, especially those that provide management and professional liability insurance, as well as surety bonds, to businesses 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;

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regulatory limitations and restrictions, including limitations upon CNA's ability to receive dividends from its insurance subsidiaries imposed by state regulatory agencies and minimum risk-based capital standards established by the National Association of Insurance Commissioners;

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;



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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;

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 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 cost of maintaining and ensuring the integrity and reliability of Boardwalk Pipeline's pipeline systems;

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the timing, cost, scope and financial performance of Boardwalk Pipeline's recent and future growth projects; 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;

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

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

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

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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;

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 six months ended June 30, 2011. See the Quantitative and Qualitative Disclosures About Market Risk included in Item 7A of our Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2010 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 June 30, 2011.

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the foregoing evaluation that occurred during the quarter ended June 30, 2011 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 8 of the Notes to Consolidated Condensed Financial Statements included in Part I of this Report.

**Item 1A. Risk Factors.**

Our Annual Report on Form 10-K for the year ended December 31, 2010 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 June 30, 2011.

**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) |
|-----------------------------------|--------------------------------------------|----------------------------------------|--------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| April 1, 2011 - April 30,<br>2011 | 2,000,000                                  | \$ 43.11                               | N/A                                                                                              | N/A                                                                                                                                                  |
| May 1, 2011 - May 31,<br>2011     | 518,573                                    | \$ 41.88                               | N/A                                                                                              | N/A                                                                                                                                                  |
| June 1, 2011 - June 30,<br>2011   | 2,931,310                                  | \$ 41.05                               | N/A                                                                                              | N/A                                                                                                                                                  |

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**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: August 3, 2011

By: /s/ Peter W. Keegan  
PETER W. KEEGAN  
Senior Vice President and Chief Financial Officer  
(Duly authorized officer and principal financial officer)