LOEWS CORP
Form 10-Q
August 04, 2015
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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, 2015**

**OR**

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

**OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the Transition Period From ____________ to ____________**

**Commission File Number 1-6541**

**LOEWS CORPORATION**

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

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

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

**(Address of principal executive offices) (Zip Code)**

**(212) 521-2000**

**(Registrant s telephone number, including area code)**

**NOT APPLICABLE**

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

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

Yes X No ____

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

Yes X No ____ Not Applicable ____

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

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

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

Yes ____ No X

| Class | Outstanding at July 24, 2015 |
|---|---|
| Common stock, $0.01 par value | 363,081,509 shares |

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## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements.**

**Loews Corporation and Subsidiaries**

**CONSOLIDATED CONDENSED BALANCE SHEETS**

**(Unaudited)**

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **(Dollar amounts in millions, except per share data)** | | |
| **Assets:** | | |
| Investments: | | |
| Fixed maturities, amortized cost of $37,321 and $37,469 | **$ 39,954** | $ 40,885 |
| Equity securities, cost of $783 and $733 | **756** | 728 |
| Limited partnership investments | **3,714** | 3,674 |
| Other invested assets, primarily mortgage loans | **768** | 731 |
| Short term investments | **5,856** | 6,014 |
| Total investments | **51,048** | 52,032 |
| Cash | **249** | 364 |
| Receivables | **8,097** | 7,770 |
| Property, plant and equipment | **15,917** | 15,611 |
| Goodwill | **373** | 374 |
| Other assets | **1,710** | 1,616 |
| Deferred acquisition costs of insurance subsidiaries | **621** | 600 |
| Total assets | **$ 78,015** | $ 78,367 |
| **Liabilities and Equity:** | | |
| Insurance reserves: | | |
| Claim and claim adjustment expense | **$ 23,193** | $ 23,271 |
| Future policy benefits | **9,360** | 9,490 |
| Unearned premiums | **3,815** | 3,592 |
| Policyholders funds | | 27 |
| Total insurance reserves | **36,368** | 36,380 |
| Payable to brokers | **741** | 673 |
| Short term debt | **1,061** | 335 |
| Long term debt | **9,791** | 10,333 |

| | | |
|---|---|---|
| Deferred income taxes | **773** | 893 |
| Other liabilities | **4,949** | 5,103 |
| Total liabilities | **53,683** | 53,717 |
| Commitments and contingent liabilities | | |
| Preferred stock, $0.10 par value: | | |
| Authorized 100,000,000 shares | | |
| Common stock, $0.01 par value: | | |
| Authorized 1,800,000,000 shares | | |
| Issued 373,203,709 and 372,934,540 shares | **4** | 4 |
| Additional paid-in capital | **3,483** | 3,481 |
| Retained earnings | **15,747** | 15,515 |
| Accumulated other comprehensive income | **53** | 280 |
| | **19,287** | 19,280 |
| Less treasury stock, at cost (7,572,200 shares) | **(305)** | |
| Total shareholders equity | **18,982** | 19,280 |
| Noncontrolling interests | **5,350** | 5,370 |
| Total equity | **24,332** | 24,650 |
| Total liabilities and equity | **$ 78,015** | $ 78,367 |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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**Loews Corporation and Subsidiaries**

**CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **(In millions, except per share data)** | | | | |
| **Revenues:** | | | | |
| Insurance premiums | **$ 1,735** | $ 1,811 | **$ 3,422** | $ 3,617 |
| Net investment income | **510** | 597 | **1,098** | 1,174 |
| Investment gains (losses): | | | | |
| Other-than-temporary impairment losses | **(31)** | (5) | **(43)** | (7) |
| Portion of other-than-temporary impairment losses recognized in Other comprehensive income (loss) | | | | |
| Net impairment losses recognized in earnings | **(31)** | (5) | **(43)** | (7) |
| Other net investment gains (losses) | **29** | (9) | **51** | 35 |
| Total investment gains (losses) | **(2)** | (14) | **8** | 28 |
| Contract drilling revenues | **617** | 650 | **1,217** | 1,335 |
| Other revenues | **575** | 549 | **1,168** | 1,127 |
| Total | **3,435** | 3,593 | **6,913** | 7,281 |
| **Expenses:** | | | | |
| Insurance claims and policyholders benefits | **1,469** | 1,441 | **2,808** | 2,887 |
| Amortization of deferred acquisition costs | **314** | 335 | **617** | 664 |
| Contract drilling expenses | **344** | 395 | **695** | 765 |
| Other operating expenses (Note 4) | **879** | 750 | **2,128** | 1,657 |
| Interest | **134** | 126 | **265** | 248 |
| Total | **3,140** | 3,047 | **6,513** | 6,221 |
| Income before income tax | **295** | 546 | **400** | 1,060 |
| Income tax expense | **(48)** | (145) | **(104)** | (248) |
| Income from continuing operations | **247** | 401 | **296** | 812 |
| Discontinued operations, net | | (186) | | (413) |

| | | | | |
|---|---|---|---|---|
| Net income | **247** | 215 | **296** | 399 |
| Amounts attributable to noncontrolling interests | **(77)** | (99) | **(17)** | (224) |
| Net income attributable to Loews Corporation | **$ 170** | $ 116 | **$ 279** | $ 175 |
| **Net income attributable to Loews Corporation:** | | | | |
| Income from continuing operations | **$ 170** | $ 303 | **$ 279** | $ 568 |
| Discontinued operations, net | | (187) | | (393) |
| Net income | **$ 170** | $ 116 | **$ 279** | $ 175 |
| **Basic and diluted net income per share:** | | | | |
| Income from continuing operations | **$ 0.46** | $ 0.79 | **$ 0.75** | $ 1.47 |
| Discontinued operations, net | | (0.49) | | (1.02) |
| Net income | **$ 0.46** | $ 0.30 | **$ 0.75** | $ 0.45 |
| **Dividends per share** | **$ 0.0625** | $ 0.0625 | **$ 0.125** | $ 0.125 |
| **Weighted average shares outstanding:** | | | | |
| Shares of common stock | **369.61** | 385.72 | **371.21** | 386.53 |
| Dilutive potential shares of common stock | **0.36** | 0.65 | **0.36** | 0.68 |
| Total weighted average shares outstanding assuming dilution | **369.97** | 386.37 | **371.57** | 387.21 |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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**Loews Corporation and Subsidiaries**

**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **(In millions)** | | | | |
| Net income | **$ 247** | $ 215 | **$ 296** | $ 399 |
| Other comprehensive income (loss), after tax | | | | |
| Changes in: | | | | |
| Net unrealized gains (losses) on investments with other-than-temporary impairments | **(4)** | 2 | **(5)** | 14 |
| Net other unrealized gains (losses) on investments | **(363)** | 270 | **(253)** | 507 |
| Total unrealized gains (losses) on available-for-sale investments | **(367)** | 272 | **(258)** | 521 |
| Discontinued operations | | 10 | | 15 |
| Unrealized gains on cash flow hedges | **1** | | **4** | 3 |
| Pension liability | **43** | (53) | **47** | (54) |
| Foreign currency | **49** | 42 | **(47)** | 36 |
| Other comprehensive income (loss) | **(274)** | 271 | **(254)** | 521 |
| Comprehensive income (loss) | **(27)** | 486 | **42** | 920 |
| Amounts attributable to noncontrolling interests | **(48)** | (126) | **9** | (277) |
| Total comprehensive income (loss) attributable to Loews Corporation | **$ (75)** | $ 360 | **$ 51** | $ 643 |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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**Loews Corporation and Subsidiaries**

**CONSOLIDATED CONDENSED STATEMENTS OF EQUITY**

**(Unaudited)**

| | | | Loews Corporation Shareholders | | | | |
|---|---|---|---|---|---|---|---|
| (In millions) | Total | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Common Stock Held in Treasury | Noncontrolling Interests |
| Balance, January 1, 2014 | $ 24,906 | $ 4 | $ 3,607 | $ 15,508 | $ 339 | $ - | $ 5,448 |
| Net income | 399 | | | 175 | | | 224 |
| Other comprehensive income | 521 | | | | 468 | | 53 |
| Dividends paid | (232) | | | (48) | | | (184) |
| Purchases of subsidiary stock from noncontrolling interests | (83) | | (8) | | | | (75) |
| Purchases of Loews treasury stock | (195) | | | | | (195) | |
| Issuance of Loews common stock | 5 | | 5 | | | | |
| Stock-based compensation | 14 | | 4 | | | | 10 |
| Other | 20 | | | (2) | | | 22 |
| Balance, June 30, 2014 | $ 25,355 | $ 4 | $ 3,608 | $ 15,633 | $ 807 | $ (195) | $ 5,498 |
| **Balance, January 1, 2015** | **$ 24,650** | **$ 4** | **$ 3,481** | **$ 15,515** | **$ 280** | **$ -** | **$ 5,370** |
| **Net income** | **296** | | | **279** | | | **17** |
| | **(254)** | | | | **(228)** | | **(26)** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Other comprehensive income** | | | | | | | |
| **Dividends paid** | **(156)** | | | **(46)** | | | **(110)** |
| **Issuance of equity securities by subsidiary** | **115** | | **(2)** | | **1** | | **116** |
| **Purchases of subsidiary stock from noncontrolling interests** | **(26)** | | **3** | | | | **(29)** |
| **Purchases of Loews treasury stock** | **(305)** | | | | | **(305)** | |
| **Issuance of Loews common stock** | **7** | | **7** | | | | |
| **Stock-based compensation** | **12** | | **12** | | | | |
| **Other** | **(7)** | | **(18)** | **(1)** | | | **12** |
| **Balance, June 30, 2015** | **$ 24,332** | **$ 4** | **$ 3,483** | **$ 15,747** | **$ 53** | **$ (305)** | **$ 5,350** |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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**Loews Corporation and Subsidiaries**

**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| Six Months Ended June 30 | 2015 | 2014 |
|---|---|---|
| (In millions) | | |
| **Operating Activities:** | | |
| Net income | $ **296** | $ 399 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities, net | **803** | 1,112 |
| Changes in operating assets and liabilities, net: | | |
| Receivables | **(243)** | (142) |
| Deferred acquisition costs | **(8)** | (10) |
| Insurance reserves | **451** | 234 |
| Other assets | **(102)** | (178) |
| Other liabilities | **(120)** | (106) |
| Trading securities | **10** | (117) |
| Net cash flow operating activities | **1,087** | 1,192 |
| **Investing Activities:** | | |
| Purchases of fixed maturities | **(5,029)** | (4,921) |
| Proceeds from sales of fixed maturities | **2,859** | 2,919 |
| Proceeds from maturities of fixed maturities | **2,304** | 1,954 |
| Purchases of equity securities | **(30)** | (11) |
| Proceeds from sales of equity securities | **33** | 14 |
| Purchases of limited partnership investments | **(78)** | (109) |
| Proceeds from sales of limited partnership investments | **85** | 118 |
| Purchases of property, plant and equipment | **(1,227)** | (1,152) |
| Dispositions | **20** | 30 |
| Change in short term investments | **119** | 3 |
| Other, net | **(90)** | (4) |
| Net cash flow investing activities | **(1,034)** | (1,159) |
| **Financing Activities:** | | |
| Dividends paid | **(46)** | (48) |
| Dividends paid to noncontrolling interests | **(110)** | (184) |
| Purchases of subsidiary stock from noncontrolling interests | **(24)** | (88) |

| | | | | |
|---|---|---|---|---|
| Purchases of Loews treasury stock | | **(287)** | | (182) |
| Issuance of Loews common stock | | **7** | | 5 |
| Proceeds from sale of subsidiary stock | | **114** | | 4 |
| Principal payments on debt | | **(1,329)** | | (331) |
| Issuance of debt | | **1,503** | | 766 |
| Other, net | | **6** | | 17 |
| Net cash flow financing activities | | **(166)** | | (41) |
| Effect of foreign exchange rate on cash | | **(2)** | | 2 |
| Transfer of cash to assets of discontinued operations | | | | (11) |
| Net change in cash | | **(115)** | | (17) |
| Cash, beginning of period | | **364** | | 294 |
| Cash, end of period | **$** | **249** | $ | 277 |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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Loews Corporation and Subsidiaries

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(Unaudited)**

## 1. Basis of Presentation

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: commercial property and casualty insurance (CNA Financial Corporation ( CNA ), a 90% owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. ( Diamond Offshore ), a 53% owned subsidiary); transportation and storage of natural gas and natural gas liquids and gathering and processing of natural gas (Boardwalk Pipeline Partners, LP ( Boardwalk Pipeline ), a 51% owned subsidiary); and the operation of a chain of hotels (Loews Hotels Holding Corporation ( Loews Hotels ), a wholly owned subsidiary). Unless the context otherwise requires, the terms Company, Loews and Registrant as used herein mean Loews Corporation excluding its subsidiarie and the term Net income (loss) attributable to Loews Corporation as used herein means Net income (loss) attributable to Loews Corporation shareholders.

Loews segments are CNA Financial, including Specialty, Commercial, International and Other Non-Core; Diamond Offshore; Boardwalk Pipeline; Loews Hotels; and Corporate and other. See Note 9 for additional information on segments.

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, 2015 and December 31, 2014, the results of operations and comprehensive income for the three and six months ended June 30, 2015 and 2014 and changes in shareholders equity and cash flows for the six months ended June 30, 2015 and 2014.

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 2014 Annual Report on Form 10-K which should be read in conjunction with these Consolidated Condensed Financial Statements.

The Company presents basic and diluted net income per share on the Consolidated Condensed Statements of Income. Basic net income per share excludes dilution and is computed by dividing net income attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Stock appreciation rights ( SARs ) of 3.7 million, 2.2 million, 3.6 million and 2.1 million shares were not included in the diluted weighted average shares amounts for the three and six months ended June 30, 2015 and 2014 due to the exercise price being greater than the average stock price.

As of June 30, 2015, the Company had $20 million of goodwill related to its investment in Diamond Offshore. As a result of the continued deterioration of the market fundamentals in the oil and gas industry, the Company performed the first step of a goodwill impairment test as of June 30, 2015 comparing the fair market value of the Company s investment in Diamond Offshore to book value. No impairment charge was required based on passing the first step of the impairment test. Due to the continued market decline subsequent to June 30, 2015, the Company may be required to record an impairment charge in the near future.

On August 1, 2014, CNA completed the sale of Continental Assurance Company ( CAC ), its former life insurance subsidiary and on September 30, 2014, the Company sold HighMount Exploration & Production LLC ( HighMount ), its natural gas and oil exploration and production subsidiary. The results of these sold businesses are reflected as discontinued operations in the Consolidated Condensed Statements of Income as further discussed in Note 12.

**Updated accounting guidance not yet adopted** In May of 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2015-09, Financial Services-Insurance (Topic 944): Disclosures about Short-Duration Contracts. The updated accounting guidance requires enhanced disclosures to provide additional information about insurance liabilities for short-duration contracts. The updated guidance is effective for annual reporting periods beginning after December 15, 2015 and for interim periods beginning after December 15, 2016. The Company is currently evaluating the effect the updated guidance will have on its financial statement disclosures.

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In May of 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the new accounting guidance is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new accounting guidance provides a five-step analysis of transactions to determine when and how revenue is recognized and requires enhanced disclosures about revenue. This update was effective for annual reporting periods beginning after December 15, 2016, including interim periods, and can be adopted either retrospectively or as a cumulative effect adjustment at the date of adoption. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated financial statements. In July of 2015, the FASB voted to approve a one year deferral of the effective date of ASU 2014-09. The FASB expects to issue a final ASU formally amending the effective date by the end of the third quarter of 2015.

## 2. Investments

Net investment income is as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **(In millions)** | | | | |
| Fixed maturity securities | **$ 452** | $ 451 | **$ 895** | $ 903 |
| Short term investments | | 1 | **3** | 2 |
| Limited partnership investments | **50** | 116 | **210** | 203 |
| Equity securities | **3** | 3 | **6** | 5 |
| Income (loss) from trading portfolio (a) | **11** | 30 | **(4)** | 70 |
| Other | **9** | 10 | **17** | 18 |
| Total investment income | **525** | 611 | **1,127** | 1,201 |
| Investment expenses | **(15)** | (14) | **(29)** | (27) |
| Net investment income | **$ 510** | $ 597 | **$ 1,098** | $ 1,174 |

(a) Includes net unrealized gains (losses) related to changes in fair value on trading securities still held of $(10), $40, $(17) and $60 for the three and six months ended June 30, 2015 and 2014.

Investment gains (losses) are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |

**(In millions)**

| | | | | |
|---|---|---|---|---|
| Fixed maturity securities | **$ (12)** | $ (19) | | $ 19 |
| Equity securities | **(1)** | | **$ (1)** | 5 |
| Derivative instruments | **11** | 1 | **10** | 1 |
| Short term investments and other | | 4 | **(1)** | 3 |
| Investment gains (losses) (a) | **$ (2)** | $ (14) | **$ 8** | $ 28 |

(a) Includes gross realized gains of $36, $20, $70 and $78 and gross realized losses of $49, $39, $71 and $54 on available-for-sale securities for the three and six months ended June 30, 2015 and 2014.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **(In millions)** | | | | |
| Fixed maturity securities available-for-sale: | | | | |
| Corporate and other bonds | **$ 11** | $ 2 | **$ 16** | $ 3 |
| States, municipalities and political subdivisions | **13** | | **18** | |
| Asset-backed: | | | | |
| Residential mortgage-backed | **5** | 1 | **6** | 2 |
| Other asset-backed | **1** | 1 | **1** | 1 |
| Total asset-backed | **6** | 2 | **7** | 3 |
| Total fixed maturities available-for-sale | **30** | 4 | **41** | 6 |
| Equity securities available-for-sale: | | | | |
| Common stock | | 1 | **1** | 1 |
| Short term investments | **1** | | **1** | |
| Net OTTI losses recognized in earnings | **$ 31** | $ 5 | **$ 43** | $ 7 |

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

| **June 30, 2015** | **Cost or Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Estimated Fair Value** | **Unrealized OTTI Losses (Gains)** |
|---|---|---|---|---|---|
| **(In millions)** | | | | | |
| **Fixed maturity securities:** | | | | | |
| **Corporate and other bonds** | **$ 16,879** | **$1,337** | **$ 88** | **$ 18,128** | |
| **States, municipalities and political subdivisions** | **11,707** | **1,186** | **40** | **12,853** | |
| **Asset-backed:** | | | | | |
| **Residential mortgage-backed** | **4,940** | **175** | **15** | **5,100** | **$ (46)** |
| **Commercial mortgage-backed** | **2,186** | **77** | **12** | **2,251** | **(2)** |
| **Other asset-backed** | **1,044** | **12** | **1** | **1,055** | |

| | | | | | |
|---|---|---|---|---|---|
| **Total asset-backed** | **8,170** | **264** | **28** | **8,406** | **(48)** |
| **U.S. Treasury and obligations of government-sponsored enterprises** | **24** | **5** | | **29** | |
| **Foreign government** | **387** | **13** | **1** | **399** | |
| **Redeemable preferred stock** | **33** | **2** | | **35** | |
| **Fixed maturities available-for-sale** | **37,200** | **2,807** | **157** | **39,850** | **(48)** |
| **Fixed maturities trading** | **121** | | **17** | **104** | |
| **Total fixed maturities** | **37,321** | **2,807** | **174** | **39,954** | **(48)** |
| **Equity securities:** | | | | | |
| **Common stock** | **54** | **8** | **2** | **60** | |
| **Preferred stock** | **154** | **4** | **2** | **156** | |
| **Equity securities available-for-sale** | **208** | **12** | **4** | **216** | **-** |
| **Equity securities trading** | **575** | **74** | **109** | **540** | |
| **Total equity securities** | **783** | **86** | **113** | **756** | **-** |
| **Total** | **$ 38,104** | **$2,893** | **$ 287** | **$ 40,710** | **$ (48)** |

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| December 31, 2014 | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | Unrealized OTTI Losses (Gains) |
|---|---|---|---|---|---|
| (In millions) | | | | | |
| Fixed maturity securities: | | | | | |
| Corporate and other bonds | $ 17,226 | $1,721 | $ 61 | $ 18,886 | |
| States, municipalities and political subdivisions | 11,285 | 1,463 | 8 | 12,740 | |
| Asset-backed: | | | | | |
| Residential mortgage-backed | 5,028 | 218 | 13 | 5,233 | $ (53) |
| Commercial mortgage-backed | 2,056 | 93 | 5 | 2,144 | (2) |
| Other asset-backed | 1,234 | 11 | 10 | 1,235 | |
| Total asset-backed | 8,318 | 322 | 28 | 8,612 | (55) |
| U.S. Treasury and obligations of government-sponsored enterprises | 26 | 5 | | 31 | |
| Foreign government | 438 | 16 | | 454 | |
| Redeemable preferred stock | 39 | 3 | | 42 | |
| Fixed maturities available-for-sale | 37,332 | 3,530 | 97 | 40,765 | (55) |
| Fixed maturities trading | 137 | | 17 | 120 | |
| Total fixed maturities | 37,469 | 3,530 | 114 | 40,885 | (55) |
| Equity securities: | | | | | |
| Common stock | 38 | 9 | | 47 | |
| Preferred stock | 172 | 5 | 2 | 175 | |
| Equity securities available-for-sale | 210 | 14 | 2 | 222 | - |
| Equity securities trading | 523 | 96 | 113 | 506 | |
| Total equity securities | 733 | 110 | 115 | 728 | - |
| Total | $ 38,202 | $3,640 | $ 229 | $ 41,613 | $ (55) |

The net unrealized gains on investments included in the tables above are recorded as a component of Accumulated other comprehensive income ( AOCI ). When presented in AOCI, these amounts are net of tax and noncontrolling interests and any required Shadow Adjustments. As of June 30, 2015 and December 31, 2014, the net unrealized gains on investments included in AOCI were net of Shadow Adjustments of $917 million and $1.2 billion. To the extent that unrealized gains on fixed income securities supporting certain products within CNA s Life & Group Non-Core business would result in a premium deficiency if realized, a related decrease in Deferred acquisition costs, and/or increase in Insurance reserves are recorded, net of tax and noncontrolling interests, as a reduction of net unrealized gains through Other comprehensive income ( Shadow Adjustments ).

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

| | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| **June 30, 2015** | **Estimated Fair Value** | **Gross Unrealized Losses** | **Estimated Fair Value** | **Gross Unrealized Losses** | **Estimated Fair Value** | **Gross Unrealized Losses** |
| **(In millions)** | | | | | | |
| **Fixed maturity securities:** | | | | | | |
| **Corporate and other bonds** | **$ 3,217** | **$ 73** | **$ 152** | **$ 15** | **$ 3,369** | **$ 88** |
| **States, municipalities and political subdivisions** | **1,523** | **34** | **143** | **6** | **1,666** | **40** |
| **Asset-backed:** | | | | | | |
| **Residential mortgage-backed** | **451** | **6** | **167** | **9** | **618** | **15** |
| **Commercial mortgage-backed** | **557** | **9** | **61** | **3** | **618** | **12** |
| **Other asset-backed** | **135** | **1** | **18** | | **153** | **1** |
| **Total asset-backed** | **1,143** | **16** | **246** | **12** | **1,389** | **28** |
| **U.S. Treasury and obligations of government-sponsored enterprises** | **3** | | | | **3** | |
| **Foreign government** | **20** | **1** | **1** | | **21** | **1** |
| **Total fixed maturity securities** | **5,906** | **124** | **542** | **33** | **6,448** | **157** |
| **Common stock** | **21** | **2** | | | **21** | **2** |
| **Preferred stock** | **17** | **2** | | | **17** | **2** |
| **Total** | **$ 5,944** | **$ 128** | **$ 542** | **$ 33** | **$ 6,486** | **$ 161** |
| December 31, 2014 | | | | | | |
| (In millions) | | | | | | |
| Fixed maturity securities: | | | | | | |
| Corporate and other bonds | $ 1,330 | $ 46 | $ 277 | $ 15 | $ 1,607 | $ 61 |
| States, municipalities and political subdivisions | 335 | 5 | 127 | 3 | 462 | 8 |
| Asset-backed: | | | | | | |
| Residential mortgage-backed | 293 | 5 | 189 | 8 | 482 | 13 |
| Commercial mortgage-backed | 264 | 2 | 99 | 3 | 363 | 5 |
| Other asset-backed | 607 | 10 | 7 | | 614 | 10 |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total asset-backed | | 1,164 | | 17 | | 295 | | 11 | | 1,459 | | 28 |
| U.S. Treasury and obligations of government-sponsored enterprises | | 3 | | | | 4 | | | | 7 | | |
| Foreign government | | 3 | | | | 3 | | | | 6 | | |
| Redeemable preferred stock | | 3 | | | | | | | | 3 | | |
| Total fixed maturity securities | | 2,838 | | 68 | | 706 | | 29 | | 3,544 | | 97 |
| Preferred stock | | 17 | | 2 | | 1 | | | | 18 | | 2 |
| Total | $ | 2,855 | $ | 70 | $ | 707 | $ | 29 | $ | 3,562 | $ | 99 |

Based on current facts and circumstances, the Company believes the unrealized losses presented in the table above are not indicative of the ultimate collectibility of the current amortized cost of the securities, but rather are primarily attributable to changes in interest rates and credit spreads and other factors. The Company has no current intent to sell securities with unrealized losses, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost; accordingly, the Company has determined that there are no additional OTTI losses to be recorded as of June 30, 2015.

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The following table presents the activity related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held as of June 30, 2015 and 2014 for which a portion of an OTTI loss was recognized in Other comprehensive income.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **(In millions)** | | | | |
| Beginning balance of credit losses on fixed maturity securities | **$ 61** | $ 69 | **$ 62** | $ 74 |
| Reductions for securities sold during the period | **(2)** | (3) | **(3)** | (5) |
| Reductions for securities the Company intends to sell or more likely than not will be required to sell | | | | (3) |
| Ending balance of credit losses on fixed maturity securities | **$ 59** | $ 66 | **$ 59** | $ 66 |

**Contractual Maturity**

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

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | **Cost or Amortized Cost** | **Estimated Fair Value** | Cost or Amortized Cost | Estimated Fair Value |
| **(In millions)** | | | | |
| Due in one year or less | **$ 1,539** | **$ 1,559** | $ 2,479 | $ 2,511 |
| Due after one year through five years | **7,523** | **7,972** | 9,070 | 9,621 |
| Due after five years through ten years | **14,099** | **14,549** | 12,055 | 12,584 |
| Due after ten years | **14,039** | **15,770** | 13,728 | 16,049 |
| **Total** | **$ 37,200** | **$ 39,850** | $ 37,332 | $ 40,765 |

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**Derivative Financial Instruments**

A summary of the aggregate contractual or notional amounts and gross estimated fair values related to derivative financial instruments follows. The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and may not be representative of the potential for gain or loss on these instruments. Gross estimated fair values of derivative positions are currently presented in Equity securities, Receivables and Payable to brokers on the Consolidated Condensed Balance Sheets.

| | **June 30, 2015** | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | **Contractual/ Notional Amount** | **Estimated Fair Value Asset** | **(Liability)** | Contractual/ Notional Amount | Estimated Fair Value Asset | (Liability) |
| **(In millions)** | | | | | | |
| **With hedge designation:** | | | | | | |
| Foreign exchange: | | | | | | |
| Currency forwards short | **$ 3** | | | $ 70 | | $ (5) |
| **Without hedge designation:** | | | | | | |
| Equity markets: | | | | | | |
| Options purchased | **163** | **$ 9** | | 544 | $ 24 | |
| written | **397** | | **$ (11)** | 292 | | (21) |
| Equity swaps and warrants long | **10** | **2** | | 10 | 2 | |
| Futures long | **74** | | **(1)** | | | |
| Futures short | **208** | | | 130 | 2 | |
| Foreign exchange: | | | | | | |
| Currency forwards long | **110** | | **(1)** | 109 | | (3) |
| short | **78** | | | 88 | 2 | |
| Currency options long | **446** | **11** | | 151 | 7 | |
| short | **279** | | **(2)** | | | |
| Embedded derivative on funds withheld liability | **183** | **6** | | 184 | | (3) |

**Investment Commitments**

As of June 30, 2015, the Company had committed approximately $295 million to future capital calls from various third party limited partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in various privately placed debt securities, including bank loans, as part of its overall investment strategy and has committed to additional future purchases, sales and funding. As of June 30, 2015, the Company had commitments to purchase or fund additional amounts of $134 million and sell $79 million under the terms of such securities.

**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.

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

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

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

| June 30, 2015 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| (In millions) | | | | |
| Fixed maturity securities: | | | | |
| Corporate and other bonds | $ 28 | $ 17,959 | $ 141 | $ 18,128 |
| States, municipalities and political subdivisions | | 12,768 | 85 | 12,853 |
| Asset-backed: | | | | |
| Residential mortgage-backed | | 4,893 | 207 | 5,100 |
| Commercial mortgage-backed | | 2,164 | 87 | 2,251 |
| Other asset-backed | | 565 | 490 | 1,055 |
| Total asset-backed | | 7,622 | 784 | 8,406 |
| U.S. Treasury and obligations of government-sponsored enterprises | 28 | 1 | | 29 |
| Foreign government | 32 | 367 | | 399 |
| Redeemable preferred stock | 24 | 11 | | 35 |
| Fixed maturities available-for-sale | 112 | 38,728 | 1,010 | 39,850 |
| Fixed maturities trading | | 15 | 89 | 104 |
| Total fixed maturities | $ 112 | $ 38,743 | $ 1,099 | $ 39,954 |
| Equity securities available-for-sale | $ 139 | $ 61 | $ 16 | $ 216 |

| | | | | |
|---|---|---|---|---|
| **Equity securities trading** | **539** | | **1** | **540** |
| **Total equity securities** | **$ 678** | **$ 61** | **$ 17** | **$ 756** |
| | | | | |
| **Short term investments** | **$ 4,876** | **$ 900** | | **$ 5,776** |
| **Other invested assets** | **103** | **43** | | **146** |
| **Receivables** | | **11** | | **11** |
| **Life settlement contracts** | | | **$ 75** | **75** |
| **Payable to brokers** | **(521)** | **(5)** | | **(526)** |

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| December 31, 2014 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| (In millions) | | | | |
| Fixed maturity securities: | | | | |
| Corporate and other bonds | $ 32 | $ 18,692 | $ 162 | $ 18,886 |
| States, municipalities and political subdivisions | | 12,646 | 94 | 12,740 |
| Asset-backed: | | | | |
| Residential mortgage-backed | | 5,044 | 189 | 5,233 |
| Commercial mortgage-backed | | 2,061 | 83 | 2,144 |
| Other asset-backed | | 580 | 655 | 1,235 |
| Total asset-backed | | 7,685 | 927 | 8,612 |
| U.S. Treasury and obligations of government-sponsored enterprises | 28 | 3 | | 31 |
| Foreign government | 41 | 413 | | 454 |
| Redeemable preferred stock | 30 | 12 | | 42 |
| Fixed maturities available-for-sale | 131 | 39,451 | 1,183 | 40,765 |
| Fixed maturities trading | | 30 | 90 | 120 |
| Total fixed maturities | $ 131 | $ 39,481 | $ 1,273 | $ 40,885 |
| Equity securities available-for-sale | $ 145 | $ 61 | $ 16 | $ 222 |
| Equity securities trading | 505 | | 1 | 506 |
| Total equity securities | $ 650 | $ 61 | $ 17 | $ 728 |
| Short term investments | $ 4,989 | $ 963 | | $ 5,952 |
| Other invested assets | 102 | 41 | | 143 |
| Receivables | 2 | 7 | | 9 |
| Life settlement contracts | | | $ 82 | 82 |
| Payable to brokers | (546) | (6) | | (552) |

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The following tables present reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2015 and 2014:

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

| | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total equity securities** | **$** | **14** | **$** | **-** | **$** | **3** | **$** | **-** | **$** | **-** | **$** | **-** | **$** | **-** | **$** | **-** | **$** | **17** | **$** | **-** |
| **Life settlement contracts** | **$** | **79** | **$** | **4** | | | | | | | **$** | **(8)** | | | | | **$** | **75** | **$** | **(2)** |

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| | Balance, April 1 | Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income | Included in OCI | Purchases | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Balance, June 30 | R |
|---|---|---|---|---|---|---|---|---|---|---|
| | $ 189 | $ 1 | | $ 21 | $ (6) | $ (5) | $ 5 | $ (11) | $ 194 | |
| | 86 | 1 | $ 1 | 1 | (10) | | | | 79 | |
| ed | 359 | (24) | 47 | 22 | (174) | (19) | | (26) | 185 | |
| ed | 126 | 1 | 1 | | (60) | (1) | 12 | (20) | 59 | |
| | 439 | | 4 | 229 | (28) | (18) | | | 626 | $ |
| | 924 | (23) | 52 | 251 | (262) | (38) | 12 | (46) | 870 | |
| s le | 1,199 | (21) | 53 | 273 | (278) | (43) | 17 | (57) | 1,143 | |
| s | 85 | 6 | | | | | | | 91 | |
| | $ 1,284 | $ (15) | $ 53 | $ 273 | $ (278) | $ (43) | $ 17 | $ (57) | $ 1,234 | $ |
| es le | $ 2 | | | | | | | | $ 2 | |
| es | 2 | $ 1 | | $ 1 | | | | | 4 | $ |
| | $ 4 | $ 1 | $ - | $ 1 | $ - | $ - | $ - | $ - | $ 6 | $ |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $ | 87 | $ | 12 | | | $ (13) | | | $ | 86 | $ |
| t | | (4) | | 1 | $ | 1 | | $ | 2 | | - | |

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

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Equity securities trading** | | | | | | | | | | |
| **Total equity securities** | **$ 17** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ 17** | **$ -** |
| **Life settlement contracts** | **$ 82** | **$ 17** | | | | **$ (24)** | | | **$ 75** | **$ (1)** |

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| ons) | Balance, January 1 | Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income | Included in OCI | Purchases | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Balance, June 30 | Ur (l Reco I on As Li I J |
|---|---|---|---|---|---|---|---|---|---|---|
| aturity s: | | | | | | | | | | |
| e and nds | $ 204 | $ 2 | $ 1 | $ 26 | $ (10) | $ (10) | $ 8 | $ (27) | $ 194 | |
| alities ical ons | 71 | 1 | 2 | 1 | (10) | | 14 | | 79 | |
| cked: | | | | | | | | | | |
| ial e-backed | 331 | (23) | 62 | 47 | (174) | (40) | 21 | (39) | 185 | |
| cial e-backed | 151 | 2 | | | (60) | (2) | 12 | (44) | 59 | |
| cked | 446 | 1 | 4 | 377 | (111) | (90) | | (1) | 626 | $ |
| cked | 928 | (20) | 66 | 424 | (345) | (132) | 33 | (84) | 870 | |
| aturities e-for-sale | 1,203 | (17) | 69 | 451 | (365) | (142) | 55 | (111) | 1,143 | |
| aturities | 80 | 11 | | | | | | | 91 | |
| ed es | $ 1,283 | $ (6) | $ 69 | $ 451 | $ (365) | $ (142) | $ 55 | $ (111) | $ 1,234 | $ |
| ecurities e-for-sale | $ 11 | $ 3 | $ (4) | | $ (8) | | | | $ 2 | |
| | 8 | | | $ 2 | (6) | | | | 4 | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ecurities | | | | | | | | | | |
| uity<br>s | $ 19 | $ 3 | $ (4) | $ 2 | $ (14) | $ - | $ - | $ - | $ 6 | $ |
| ement<br>s | $ 88 | $ 22 | | | | $ (24) | | | $ 86 | $ |
| account | 1 | | | | | | | $ (1) | - | |
| ve<br>nts, net | (3) | 1 | | $ (2) | $ 2 | | | 2 | - | |

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

Securities may be transferred in or out of levels within the fair value hierarchy based on the availability of observable market information and quoted prices used to determine the fair value of the security. The availability of observable market information and quoted prices varies based on market conditions and trading volume. During the three and six months ended June 30, 2015 there were no transfers between Level 1 and Level 2. During the three months ended June 30, 2014 there were $1 million of transfers from Level 2 to Level 1 and no transfers from Level 1 to Level 2. During the six months ended June 30, 2014 there were $24 million of transfers from Level 2 to Level 1 and $1 million of transfers from Level 1 to Level 2. The Company s policy is to recognize transfers between levels at the beginning of quarterly reporting periods.

**Valuation Methodologies and Inputs**

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

*Fixed Maturity Securities*

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

*Equity Securities*

Level 1 equity securities include publicly traded securities valued using quoted market prices. Level 2 securities are primarily non-redeemable preferred stocks and common stocks valued using pricing for similar securities, recently executed transactions, broker/dealer quotes and other pricing models utilizing market 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 primarily include currency forwards valued using observable market forward rates. Over-the-counter derivatives, principally interest rate swaps, total return swaps, commodity swaps, equity warrants and options, are valued using inputs including broker/dealer quotes and are classified within Level 2 or Level 3 of the valuation hierarchy, depending on the amount of transparency as to whether these quotes are based on information that is observable in the marketplace.

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*Short Term Investments*

Securities that are actively traded or have quoted prices are classified as Level 1. These securities include money market funds and treasury bills. Level 2 primarily includes commercial paper, for which all inputs are market observable. Fixed maturity securities purchased within one year of maturity are classified consistent with fixed maturity securities discussed above. Short term investments as presented in the tables above differ from the amounts presented in the Consolidated Condensed Balance Sheets because certain short term investments, such as time deposits, are not measured at fair value.

*Other Invested Assets*

Level 1 securities include exchange traded open-end funds valued using quoted market prices. Level 2 securities include overseas deposits which can be redeemed at net asset value in 90 days or less.

*Life Settlement Contracts*

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

**Significant Unobservable Inputs**

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

| June 30, 2015 | Estimated Fair Value (In millions) | Valuation Techniques | Unobservable Inputs | Range (Weighted Average) |
|---|---|---|---|---|
| **Fixed maturity securities** | **$ 97** | **Discounted cash flow** | **Credit spread** | **2% 13% (3%)** |
| **Life settlement contracts** | **75** | **Discounted cash flow** | **Discount rate risk premium** | **9%** |
| | | | **Mortality assumption** | **55% 1,676% (165%)** |

December 31, 2014

| | | | | | |
|---|---|---|---|---|---|
| Fixed maturity securities | $ 101 | Discounted cash flow | Credit spread | 2% | 13% (3%) |
| Equity securities | 16 | Market approach | Private offering price | $12 | $4,391 per share ($600 per share) |
| Life settlement contracts | 82 | Discounted cash flow | Discount rate risk premium Mortality assumption | 55% | 9% 1,676% (163%) |

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

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

The carrying amount, estimated fair value and the level of the fair value hierarchy of the Company s financial assets and liabilities which are not measured at fair value on the Consolidated Condensed Balance Sheets are presented in the following tables. The carrying amounts and estimated fair values of short term debt and long term debt exclude capital lease obligations. The carrying amounts reported on the Consolidated Condensed Balance Sheets for cash and short term investments not carried at fair value and certain other assets and liabilities approximate fair value due to the short term nature of these items.

| | Carrying | | Estimated Fair Value | | |
|---|---|---|---|---|---|
| **June 30, 2015** | **Amount** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **(In millions)** | | | | | |
| **Assets:** | | | | | |
| Other invested assets, primarily mortgage loans | **$ 622** | | | **$ 640** | **$ 640** |
| **Liabilities:** | | | | | |
| Short term debt | **1,060** | | **$ 1,037** | **36** | **1,073** |
| Long term debt | **9,776** | | **9,492** | **470** | **9,962** |
| December 31, 2014 | | | | | |
| Assets: | | | | | |
| Other invested assets, primarily mortgage loans | $ 588 | | | $ 608 | $ 608 |
| Liabilities: | | | | | |
| Short term debt | 334 | | $ 255 | 84 | 339 |
| Long term debt | 10,320 | | 10,299 | 420 | 10,719 |

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

The fair values of mortgage loans, included in 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, adjusted for specific loan risk.

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

**4. Property, Plant and Equipment**

**Diamond Offshore**

*Asset Impairment*

In response to recently announced regulatory requirements in the U.S. Gulf of Mexico, as well as the continued deterioration of the market fundamentals in the oil and gas industry, including the dramatic decline in oil prices, significant cutbacks in customer capital spending plans and contract cancellations by customers, Diamond Offshore evaluated most of its mid-water semisubmersible rigs, one drillship and five jack-up rigs for impairment during the first quarter of 2015.

Diamond Offshore utilizes an undiscounted probability-weighted cash flow analysis in testing an asset for potential impairment. A matrix of assumptions is developed for each rig under evaluation using multiple utilization/dayrate scenarios, to each of which Diamond Offshore assigns a probability of occurrence. Diamond Offshore arrives at a projected probability weighted cash flow for each rig based on the respective matrix and compares such amount to the carrying value of the asset to assess recoverability.

The underlying assumptions and assigned probabilities of occurrence for utilization and dayrate scenarios are developed using a methodology that examines historical data for each rig, which considers the rig s age, rated water depth and other attributes and then assesses its future marketability in light of the current and projected market environment at the time of assessment. Other assumptions, such as operating, maintenance and inspection costs, are estimated using historical data adjusted for known developments and future events that are anticipated by management at the time of the assessment.

Based on this evaluation, Diamond Offshore determined that seven mid-water semisubmersibles and one drillship were impaired and an impairment loss was recognized aggregating $359 million ($158 million after tax and noncontrolling interests) for the six months ended June 30, 2015. The fair value of five of the impaired rigs was determined utilizing a market approach, which utilized the most recent contracted sales price for another of Diamond Offshore s previously impaired mid-water semisubmersible rigs. The fair value of Diamond Offshore s three remaining rigs (which were under contract with a customer at that time) was determined using an income approach, which utilized significant unobservable inputs, including assumptions related to estimated dayrate revenue, rig utilization and anticipated costs for the remainder of the current contract, as well as estimated proceeds that may be received on disposition of each rig, representative of a Level 3 fair value measurement.

Of the impaired rigs, three semisubmersible rigs were sold for scrap in the second quarter of 2015 and another three rigs are currently cold stacked or are expected to be cold stacked in the near term. Two of the remaining impaired rigs are currently under contract and are expected to be cold stacked or sold for scrap at the end of their respective contracts. During the second quarter of 2015, Diamond Offshore reviewed most of their mid-water semisubmersibles, which were not previously impaired, two ultra-deepwater semisubmersibles, one deepwater semisubmersible and five jack-up rigs for impairment. As of June 30, 2015, Diamond Offshore determined that further impairment had not occurred. The aggregate fair value of the impaired rigs was $4 million as of June 30, 2015 and is included in Property, plant and equipment on the Consolidated Condensed Balance Sheets.

**Loews Hotels**

In 2015, Loews Hotels has paid a total of approximately $330 million to acquire two hotels, funded with capital contributions from the Company.

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

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

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

Catastrophes are an inherent risk of the property and casualty insurance business and can contribute to material period-to-period fluctuations in CNA s results of operations and/or equity. CNA reported catastrophe losses, net of reinsurance, of $60 million and $56 million for the three months ended June 30, 2015 and 2014 and $89 million and $130 million for the six months ended June 30, 2015 and 2014. Catastrophe losses in 2015 related primarily to U.S. weather-related events.

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**Net Prior Year Development**

The following tables and discussion present net prior year development recorded for Specialty, Commercial and International segments.

| **Three Months Ended June 30, 2015** | **Specialty** | **Commercial** | **International** | **Total** |
|---|---|---|---|---|
| **(In millions)** | | | | |
| **Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development** | **$ (13)** | **$ 16** | **$ (8)** | **$ (5)** |
| **Pretax (favorable) unfavorable premium development** | **(2)** | **(11)** | **(2)** | **(15)** |
| **Total pretax (favorable) unfavorable net prior year development** | **$ (15)** | **$ 5** | **$ (10)** | **$ (20)** |
| Three Months Ended June 30, 2014 | | | | |
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | $ (41) | $ 90 | $ (25) | $ 24 |
| Pretax (favorable) unfavorable premium development | (2) | (6) | 6 | (2) |
| Total pretax (favorable) unfavorable net prior year development | $ (43) | $ 84 | $ (19) | $ 22 |
| **Six Months Ended June 30, 2015** | | | | |
| **Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development** | **$ (11)** | **$ 11** | **$ (12)** | **$ (12)** |
| **Pretax (favorable) unfavorable premium development** | **(8)** | **(12)** | **14** | **(6)** |
| **Total pretax (favorable) unfavorable net prior year development** | **$ (19)** | **$ (1)** | **$ 2** | **$ (18)** |
| Six Months Ended June 30, 2014 | | | | |
| Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | $ (44) | $ 108 | $ (15) | $ 49 |
| Pretax (favorable) unfavorable premium development | (8) | (24) | (1) | (33) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total pretax (favorable) unfavorable net prior year development | $ | (52) | $ | 84 | $ | (16) | $ | 16 |

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**Specialty**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **(In millions)** | | | | |
| Medical professional liability | **$ (6)** | $ 1 | **$ 8** | $ 1 |
| Other professional liability and management liability | **(1)** | (44) | **(4)** | (50) |
| Surety | | | **1** | 1 |
| Warranty | **1** | | **1** | |
| Other | **(7)** | 2 | **(17)** | 4 |
| Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | **$ (13)** | $ (41) | **$ (11)** | $ (44) |

***Three Months***

**2015**

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

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

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

**2014**

Favorable development for other professional liability and management liability was primarily related to favorable outcomes on individual large claims in accident years 2009 and prior, which contributed to a lower estimate of ultimate severity. Additionally, there was lower than expected severity in accident years 2008 through 2011.

***Six Months***

**2015**

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

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

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

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**2014**

Favorable development for other professional liability and management liability was primarily related to favorable outcomes on individual large claims in accident years 2009 and prior, which contributed to a lower estimate of ultimate severity. Additionally, there was lower than expected severity in accident years 2008 through 2011.

**Commercial**

The following table and discussion provide further detail of the development recorded for the Commercial segment. The majority of the 2014 unfavorable development relates to business classes which CNA has exited, but also includes Small Business where CNA has taken underwriting actions in an effort to improve profitability.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **(In millions)** | | | | |
| Commercial auto | **$ 7** | $ 19 | **$ 7** | $ 39 |
| General liability | **1** | 32 | **5** | 32 |
| Workers compensation | **24** | 39 | **23** | 50 |
| Property and other | **(16)** | | **(24)** | (13) |
| Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | **$ 16** | $ 90 | **$ 11** | $ 108 |

***Three Months***

**2015**

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

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

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

**2014**

Unfavorable development for commercial auto was primarily related to increased claim frequency of large losses in accident years 2010 through 2013.

Unfavorable development for general liability was primarily related to higher than expected severity in accident years 2009 through 2011. In addition, there was higher than expected severity in accident year 2013 related to Small Business.

Unfavorable development for workers   compensation was primarily due to higher than expected severity related to Defense Base Act contractors in accident years 2012 and 2013.

***Six Months***

**2015**

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

**2014**

Unfavorable development for commercial auto was primarily related to increased claim frequency of large losses in accident years 2010 through 2013. Additionally, unfavorable development was recorded for increased claim frequency in accident years 2012 and 2013 and higher than expected severity in accident years 2010 and 2011.

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Unfavorable development for general liability was primarily related to higher than expected severity in accident years 2009 through 2011. In addition, there was higher than expected severity in accident year 2013 related to Small Business.

Unfavorable development for workers compensation was primarily due to higher than expected severity related to Defense Base Act contractors in accident years 2012 and 2013 and the recognition of losses related to favorable premium development in accident year 2013.

Overall, favorable development for property and other coverages in accident years 2011 and prior primarily related to fewer claims than expected and favorable individual claim settlements. Additionally, there was favorable development due to better than expected loss emergence in catastrophe losses in accident year 2013. Unfavorable development was recorded in accident year 2012 primarily related to higher than expected loss emergence in catastrophe losses.

**International**

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

| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **(In millions)** | | | | |
| Medical professional liability | | | | $ 1 |
| Other professional liability | **$ (5)** | $ (14) | **$ (5)** | (15) |
| Liability | **(2)** | (4) | **(7)** | (6) |
| Property & marine | **(8)** | (7) | **(14)** | 1 |
| Other | **7** | | **14** | (6) |
| Commutations | | | | 10 |
| Total pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development | **$ (8)** | $ (25) | **$ (12)** | $ (15) |

***Three Months***

**2015**

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

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

**2014**

Favorable development for other professional liability was primarily related to lower than expected severity in accident years 2011 and prior.

***Six Months***

**2015**

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

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

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**2014**

Favorable development for other professional liability was primarily related to lower than expected severity in accident years 2011 and prior.

Reinsurance commutations in the first quarter of 2014 reduced ceded losses from prior years. Overall the commutations increased net operating income because of the release of the related allowance for doubtful accounts on reinsurance receivables.

**Asbestos and Environmental Pollution Reserves**

In 2010, Continental Casualty Company ( CCC ) together with several of CNA s insurance subsidiaries completed a transaction with National Indemnity Company ( NICO ), a subsidiary of Berkshire Hathaway Inc., under which substantially all of CNA s legacy asbestos and environmental pollution ( A&EP ) liabilities were ceded to NICO (loss portfolio transfer or LPT ). At the transaction effective date, CNA ceded approximately $1.6 billion of net A&EP claim and allocated claim adjustment expense reserves to NICO under a retroactive reinsurance agreement with an aggregate limit of $4.0 billion. The $1.6 billion of claim and allocated claim adjustment expense reserves ceded to NICO was net of $1.2 billion of ceded claim and allocated claim adjustment expense reserves under existing third party reinsurance contracts. The NICO aggregate reinsurance limit also covers credit risk on the existing third party reinsurance related to these liabilities. CNA paid NICO a reinsurance premium of $2.0 billion and transferred to NICO billed third party reinsurance receivables related to A&EP claims with a net book value of $215 million, resulting in total consideration of $2.2 billion.

Through December 31, 2013, CNA recorded $0.9 billion of additional amounts ceded under the LPT. As a result, the cumulative amounts ceded under the loss portfolio transfer exceeded the $2.2 billion consideration paid, resulting in a deferred retroactive reinsurance gain. This deferred gain is recognized in earnings in proportion to actual recoveries under the loss portfolio transfer. Over the life of the contract, there is no economic impact as long as any additional losses are within the limit under the contract. In a period in which the estimate of ceded losses is changed, the required change to the deferred gain is cumulatively recognized in earnings as if the revised estimate was available at the inception of the LPT.

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

| | **Three Months Ended June 30** | | **Six Months Ended June 30** | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **(In millions)** | | | | |
| Net A&EP adverse development before consideration of LPT | **$ 150** | | **$ 150** | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Provision for uncollectible third party reinsurance on A&EP | | | | | | | | |
| Additional amounts ceded under LPT | | **150** | | | | **150** | | |
| Retroactive reinsurance benefit recognized | | **(66)** | $ | (1) | | **(71)** | $ | (5) |
| Pretax impact of unrecognized deferred retroactive reinsurance benefit | **$** | **84** | $ | (1) | **$** | **79** | $ | (5) |

The fourth quarter of 2014 A&EP reserve review was not completed in 2014 because additional information and analysis on inuring third party reinsurance recoveries were needed to finalize the review. The review was finalized in the second quarter of 2015. Unfavorable development was due to a decrease in anticipated future reinsurance recoveries related to asbestos claims and higher than expected severity on pollution claims. The effect of the unrecognized deferred retroactive reinsurance benefit is recorded in Insurance claims and policyholders benefits in the Consolidated Condensed Statements of Income.

As of June 30, 2015 and December 31, 2014, the cumulative amounts ceded under the LPT were $2.6 billion and $2.5 billion. The unrecognized deferred retroactive reinsurance benefit was $255 million and $176 million as of June 30, 2015 and December 31, 2014.

NICO established a collateral trust account as security for its obligations to CNA. The fair value of the collateral trust account was $3.1 billion and $3.4 billion at June 30, 2015 and December 31, 2014. In addition, Berkshire Hathaway Inc. guaranteed the payment obligations of NICO up to the full aggregate reinsurance limit as well as certain of NICO s performance obligations under the trust agreement. NICO is responsible for claims handling and billing and collection from third party reinsurers related to CNA s A&EP claims.

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## 6. Debt

### Diamond Offshore

In the second quarter of 2015, Diamond Offshore issued $375 million in commercial paper supported by its existing $1.5 billion revolving credit facility. As of June 30, 2015, the commercial paper notes had a weighted average interest rate of 0.5% and a weighted average remaining term of eight days.

Diamond Offshore repaid $250 million aggregate principal amount of its 4.9% senior notes due July 1, 2015, primarily with funds obtained through the issuance of additional commercial paper.

### Boardwalk Pipeline

In the first quarter of 2015, Boardwalk Pipeline completed a public offering of an additional $250 million aggregate principal amount of its 5.0% senior notes due December 15, 2024. Boardwalk Pipeline originally issued $350 million aggregate principal amount of its 5.0% senior notes due December 15, 2024 in November of 2014. During 2015, Boardwalk Pipeline used the net proceeds from this offering to retire all of the outstanding $250 million aggregate principal amount of 4.6% notes that matured on June 1, 2015 and repaid at maturity the entire $275 million aggregate principal amount of its 5.1% senior notes.

During 2015, Boardwalk Pipeline repaid the $200 million of outstanding borrowings and terminated all related commitments of their variable-rate term loan.

In May of 2015, Boardwalk Pipeline entered into an amended revolving credit agreement having aggregate lending commitments of $1.5 billion and a maturity date of May 2020. As of June 30, 2015, Boardwalk Pipeline had $400 million of loans outstanding under its revolving credit facility with a weighted-average interest rate on the borrowings of 1.4%.

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**7. Shareholders Equity**

**Accumulated other comprehensive income**

The tables below display the changes in Accumulated other comprehensive income ( AOCI ) by component for the three and six months ended June 30, 2014 and 2015:

| (In millions) | OTTI Gains (Losses) | Unrealized Gains (Losses) on Investments | Discontinued Operations | Cash Flow Hedges | Pension Liability | Foreign Currency Translation | Total Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|---|---|---|---|
| Balance, April 1, 2014 | $ 29 | $ 820 | $ 21 | $ (2) | $ (432) | $ 127 | $ 563 |
| Other comprehensive income before reclassifications, after tax of $(1), $(140), $(4), $(2), $0 and $0 | 2 | 257 | 3 | 3 | | 42 | 307 |
| Reclassification of (gains) losses from accumulated other comprehensive income, after tax of $0, $(6), $(2), $1, $27 and $0 | | 13 | 7 | (3) | (53) | | (36) |
| Other comprehensive income (loss) | 2 | 270 | 10 | - | (53) | 42 | 271 |
| Amounts attributable to noncontrolling interests | (1) | (28) | (1) | (1) | 7 | (3) | (27) |
| Balance, June 30, 2014 | $ 30 | $ 1,062 | $ 30 | $ (3) | $ (478) | $ 166 | $ 807 |
| **Balance, April 1, 2015** | **$ 31** | **$ 944** | **$ -** | **$ (3)** | **$ (636)** | **$ (38)** | **$ 298** |
| **Other comprehensive income (loss) before reclassifications, after tax of $2, $186, $0, $0, $(18) and $0** | **(4)** | **(370)** | | | **37** | **49** | **(288)** |
| **Reclassification of (gains) losses from accumulated other** | | **7** | | **1** | **6** | | **14** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **comprehensive income, after tax of $0, $(5), $0, $0, $(4) and $0** | | | | | | | |
| **Other comprehensive income (loss)** | **(4)** | **(363)** | **-** | **1** | **43** | **49** | **(274)** |
| **Amounts attributable to noncontrolling interests** | **1** | **38** | | **(1)** | **(5)** | **(4)** | **29** |
| **Balance, June 30, 2015** | **$ 28** | **$ 619** | **$ -** | **$ (3)** | **$ (598)** | **$ 7** | **$ 53** |

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| | OTTI Gains (Losses) | Unrealized Gains (Losses) on Investments | Discontinued Operations | Cash Flow Hedges | Pension Liability | Foreign Currency Translation | Total Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|---|---|---|---|
| (In millions) | | | | | | | |
| Balance, January 1, 2014 | $ 23 | $ 622 | $ (3) | $ (4) | $ (432) | $ 133 | $ 339 |
| Transfer to net assets of discontinued operations | (5) | (15) | 20 | | | | - |
| Other comprehensive income before reclassifications, after tax of $(7), $(281), $(5), $(3), $0 and $0 | 14 | 521 | 5 | 5 | | 36 | 581 |
| Reclassification of (gains) losses from accumulated other comprehensive income, after tax of $0, $8, $(5), $1, $26 and $0 | | (14) | 10 | (2) | (54) | | (60) |
| Other comprehensive income (loss) | 14 | 507 | 15 | 3 | (54) | 36 | 521 |
| Amounts attributable to noncontrolling interests | (2) | (52) | (2) | (2) | 8 | (3) | (53) |
| Balance, June 30, 2014 | $ 30 | $ 1,062 | $ 30 | $ (3) | $ (478) | $ 166 | $ 807 |
| **Balance, January 1, 2015** | **$ 32** | **$ 846** | **$ -** | **$ (6)** | **$ (641)** | **$ 49** | **$ 280** |
| **Other comprehensive income (loss) before reclassifications, after tax of $2, $124, $0, $1, $(18) and $0** | **(5)** | **(251)** | | **(2)** | **37** | **(47)** | **(268)** |
| **Reclassification of (gains) losses from accumulated other comprehensive income, after tax of $0, $(5), $0, $(2), $(7) and $0** | | **(2)** | | **6** | **10** | | **14** |
| **Other comprehensive income (loss)** | **(5)** | **(253)** | **-** | **4** | **47** | **(47)** | **(254)** |
| | | | | | **1** | | **1** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Issuance of equity securities by subsidiary** | | | | | | | |
| **Amounts attributable to noncontrolling interests** | **1** | **26** | | **(1)** | **(5)** | **5** | **26** |
| **Balance, June 30, 2015** | **$ 28** | **$ 619** | **$ -** | **$ (3)** | **$ (598)** | **$ 7** | **$ 53** |

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

| Major Category of AOCI | Affected Line Item |
|---|---|
| OTTI gains (losses) | Investment gains (losses) |
| Unrealized gains (losses) on investments | Investment gains (losses) |
| Unrealized gains (losses) and cash flow hedges related to discontinued operations | Discontinued operations, net |
| Cash flow hedges | Other revenues and Contract drilling expenses |
| Pension liability | Other operating expenses |

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**Subsidiary Equity Transactions**

Loews purchased 0.9 million shares of Diamond Offshore common stock at an aggregate cost of $24 million during the six months ended June 30, 2015. The Company s percentage ownership interest in Diamond Offshore increased as a result of these transactions, from 52% to 53%. The Company s carrying value exceeded the purchase price of the shares, resulting in an increase to Additional paid-in capital ( APIC ) of $3 million.

During the six months ended June 30, 2015, Boardwalk Pipeline sold 7.1 million common units under an equity distribution agreement with certain broker-dealers and received net proceeds of $115 million, including a $2 million contribution from the Company to maintain its 2% general partner interest. The Company s percentage ownership interest in Boardwalk Pipeline declined as a result of this transaction, from 53% to 51%. The Company s carrying value exceeded the issuance price of the common units, resulting in a decrease to APIC of $2 million and an increase to AOCI of $1 million.

**Treasury Stock**

The Company repurchased 7.6 million and 4.5 million shares of Loews common stock at aggregate costs of $305 million and $195 million during the six months ended June 30, 2015 and 2014.

**8. Benefit Plans**

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

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

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

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

The components of net periodic benefit cost are as follows:

**Pension Benefits**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **(In millions)** | | | | |
| Service cost | **$ 4** | $ 3 | **$ 8** | $ 8 |
| Interest cost | **32** | 37 | **64** | 74 |
| Expected return on plan assets | **(49)** | (52) | **(97)** | (105) |
| Amortization of unrecognized net loss | **12** | 8 | **23** | 15 |
| Regulatory asset decrease | | 1 | | 1 |
| Net periodic benefit cost | **$ (1)** | $ (3) | **$ (2)** | $ (7) |

| | Other Postretirement Benefits | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| (In millions) | **2015** | 2014 | **2015** | 2014 |
| Interest cost | | $ 1 | **$ 1** | $ 2 |
| Expected return on plan assets | **$ (1)** | (1) | **(2)** | (2) |
| Amortization of unrecognized prior service benefit | **(3)** | (7) | **(5)** | (13) |
| Amortization of unrecognized net loss | **1** | | **1** | |
| Curtailment gain | | (86) | | (86) |
| Net periodic benefit cost | **$ (3)** | $ (93) | **$ (5)** | $ (99) |

In the second quarter of 2015, CNA eliminated future benefit accruals associated with the CNA Retirement Plan effective June 30, 2015. This amendment resulted in a $55 million curtailment which is a decrease in the plan benefit obligation liability and a reduction of the unrecognized actuarial losses included in AOCI. In connection with the curtailment, CNA remeasured the plan benefit obligation which resulted in an increase in the discount rate used to determine the benefit obligation from 3.9% to 4.0%.

In the second quarter of 2014, CNA eliminated certain postretirement medical benefits associated with the CNA Health and Group Benefits Program. This change is a negative plan amendment that resulted in an $86 million curtailment gain which is included in Other operating expenses in the Consolidated Condensed Statements of Income. In connection with the plan amendment, CNA remeasured the plan benefit obligation which resulted in a decrease to the discount rate used to determine the benefit obligation from 3.6% to 3.1%.

## 9. Business Segments

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

CNA s results are reported in four business segments: Specialty, Commercial, International and Other Non-Core. Specialty provides a broad array of professional, financial and specialty property and casualty products and services, through a network of independent agents, brokers and managing general underwriters. Commercial includes property and casualty coverages sold to small businesses and middle market entities and organizations primarily through an independent agency distribution system. Commercial also includes commercial insurance and risk management products sold to large corporations primarily through insurance brokers. International provides management and professional liability coverages as well as a broad range of other property and casualty insurance products and services abroad through a network of brokers, independent agencies and managing general underwriters, as well as the Lloyd s marketplace. Other Non-Core primarily includes the results of CNA s individual and group long term care businesses that are in run-off and also includes corporate expenses, including interest on corporate debt, and the results of certain property and casualty business in run-off, including CNA Re and A&EP.

Diamond Offshore owns and operates offshore drilling rigs that are chartered on a contract basis for fixed terms by companies engaged in exploration and production of hydrocarbons. Offshore rigs are mobile units that can be relocated based on market demand. Diamond Offshore s fleet consists of 35 drilling rigs, including one newbuild rig which is under construction. On June 30, 2015, Diamond Offshore s drilling rigs were located offshore seven countries in addition to the United States.

Boardwalk Pipeline is engaged in the interstate transportation and storage of natural gas and NGLs and gathering and processing of natural gas. This segment consists of 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, natural gas storage facilities in four states and NGL pipelines and storage facilities in Louisiana, with approximately 14,625 miles of pipeline.

Loews Hotels operates a chain of 23 hotels, 22 of which are in the United States and one of which is in Canada.

The Corporate and other segment consists primarily of corporate investment income, corporate interest expense and other unallocated expenses.

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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, 2014. In addition, CNA does not maintain a distinct investment portfolio for every insurance segment, and accordingly, allocation of assets to each segment is not performed. Therefore, a significant portion of net investment income and investment gains (losses) are allocated based on each segment s carried insurance reserves, as adjusted.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **(In millions)** | | | | |
| **Revenues (a):** | | | | |
| CNA Financial: | | | | |
| Property and Casualty: | | | | |
| Specialty | **$ 904** | $ 931 | **$ 1,821** | $ 1,846 |
| Commercial | **883** | 936 | **1,778** | 1,882 |
| International | **220** | 244 | **426** | 503 |
| Other Non-Core | **320** | 329 | **654** | 672 |
| Total CNA Financial | **2,327** | 2,440 | **4,679** | 4,903 |
| Diamond Offshore | **632** | 701 | **1,259** | 1,411 |
| Boardwalk Pipeline | **299** | 295 | **629** | 652 |
| Loews Hotels | **167** | 112 | **306** | 217 |
| Corporate and other | **10** | 45 | **40** | 98 |
| Total | **$ 3,435** | $ 3,593 | **$ 6,913** | $ 7,281 |
| **Income (loss) before income tax and noncontrolling interests (a):** | | | | |
| CNA Financial: | | | | |
| Property and Casualty: | | | | |
| Specialty | **$ 206** | $ 246 | **$ 413** | $ 449 |
| Commercial | **122** | 65 | **308** | 184 |
| International | **35** | 31 | **48** | 58 |
| Other Non-Core | **(198)** | 23 | **(290)** | (25) |
| Total CNA Financial | **165** | 365 | **479** | 666 |
| Diamond Offshore | **106** | 112 | **(181)** | 280 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Boardwalk Pipeline (b) | | **38** | | 54 | | **115** | | 77 |
| Loews Hotels | | **14** | | 9 | | **24** | | 14 |
| Corporate and other | | **(28)** | | 6 | | **(37)** | | 23 |
| Total | **$** | **295** | $ | 546 | **$** | **400** | $ | 1,060 |
| **Net income (loss) (a):** | | | | | | | | |
| CNA Financial: | | | | | | | | |
| Property and Casualty: | | | | | | | | |
| Specialty | **$** | **124** | $ | 146 | **$** | **247** | $ | 269 |
| Commercial | | **72** | | 39 | | **182** | | 112 |
| International | | **19** | | 18 | | **28** | | 33 |
| Other Non-Core | | **(91)** | | 32 | | **(123)** | | 21 |
| Total CNA Financial | | **124** | | 235 | | **334** | | 435 |
| Diamond Offshore | | **45** | | 42 | | **(81)** | | 111 |
| Boardwalk Pipeline (b) | | **12** | | 17 | | **37** | | (1) |
| Loews Hotels | | **8** | | 5 | | **13** | | 8 |
| Corporate and other | | **(19)** | | 4 | | **(24)** | | 15 |
| Income from continuing operations | | **170** | | 303 | | **279** | | 568 |
| Discontinued operations, net | | | | (187) | | | | (393) |
| Total | **$** | **170** | $ | 116 | **$** | **279** | $ | 175 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **Revenues and Income (loss) before income tax and noncontrolling interests:** | | | | |
| CNA Financial: | | | | |
| Property and Casualty: | | | | |
| Specialty | | $ (5) | **$ 4** | $ 6 |
| Commercial | **$ 2** | (5) | **6** | 5 |
| International | **1** | (3) | **2** | |
| Other Non-Core | **(5)** | (1) | **(4)** | 17 |
| Total | **$ (2)** | $ (14) | **$ 8** | $ 28 |
| **Net income (loss):** | | | | |
| CNA Financial: | | | | |
| Property and Casualty: | | | | |
| Specialty | **$ 1** | $ (4) | **$ 3** | $ 3 |
| Commercial | | (6) | **3** | 1 |
| International | | 1 | **1** | 1 |
| Other Non-Core | **2** | | **4** | 10 |
| Total | **$ 3** | $ (9) | **$ 11** | $ 15 |

(b) As discussed in Note 2 of the Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, a charge of $94 million ($55 million after tax and noncontrolling interests) was recorded in the first quarter of 2014 related to the Bluegrass Project.

**10. Legal Proceedings**

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

**11. Commitments and Contingencies**

**CNA Financial**

In the course of selling business entities and assets to third parties, CNA agreed to guarantee the performance of certain obligations of a previously owned subsidiary and to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such guarantee and indemnification agreements in effect for sales of business entities, assets and third party loans may include provisions that survive indefinitely. As of June 30, 2015, the aggregate amount related to quantifiable guarantees was $375 million and the aggregate amount related to indemnification agreements was $260 million. Should CNA be required to make payments under the guarantee, it would have the right to seek reimbursement in certain cases from an affiliate of a previously owned subsidiary.

In addition, CNA has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of June 30, 2015, CNA had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser s ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. Certain provisions of the indemnification agreements survive indefinitely while others survive until the applicable statutes of limitation expire, or until the agreed upon contract terms expire.

In the normal course of business, CNA also provided guarantees, if the primary obligor fails to perform, to holders of structured settlement annuities provided by a previously owned subsidiary, which are estimated to mature through 2120. The potential amount of future payments CNA could be required to pay under these guarantees was approximately $2.0 billion as of June 30, 2015. CNA does not believe a payable is likely under these guarantees, as CNA is the beneficiary of a trust that must be maintained at a level that approximates the discounted reserves for these annuities.

**Diamond Offshore**

Diamond Offshore is financially obligated under a contract with Hyundai Heavy Industries, Co. Ltd. for the construction of a dynamically positioned, harsh environment semisubmersible drilling rig, with expected delivery in the second quarter of 2016. The total cost of the rig including shipyard costs, capital spares, commissioning, project management and shipyard supervision is estimated to be $764 million. The remaining contractual payment of $440 million is due upon delivery of the rig.

In July of 2014, Diamond Offshore was notified by Petróleo Brasileiro S.A., ( Petrobras ) that it is challenging assessments by Brazilian tax authorities of withholding taxes associated with the provision of drilling rigs for its operations in Brazil during the years 2008 and 2009. If Petrobras is ultimately assessed such withholding taxes, it will seek reimbursement from Diamond Offshore for the portion allocable to its drilling rigs. Diamond Offshore disputes any basis for Petrobras to obtain such reimbursement and has notified Petrobras of its position and intends to pursue all legal remedies available to defend any reimbursement claims against it vigorously. Diamond Offshore is currently unable to estimate the range of loss, if any, that it would incur if Petrobras is ultimately assessed such taxes and if it is determined that Petrobras is entitled to obtain reimbursement from Diamond Offshore. However, if Diamond Offshore s position is not sustained, the amount of such reimbursement could have a material adverse effect on its financial condition and the Company s results of operations and cash flows.

**12. Discontinued Operations**

The Consolidated Condensed Statements of Income include discontinued operations of HighMount as follows:

| | Three Months Ended June 30, 2014 | Six Months Ended June 30, 2014 |
|---|---|---|
| (In millions) | | |
| Revenues: | | |
| Other revenue, primarily operating | $ 46 | $ 101 |
| Total | 46 | 101 |
| Expenses: | | |
| Other operating expenses | | |
| Impairment of natural gas and oil properties | | 29 |
| Operating | 56 | 111 |
| Interest | 3 | 5 |
| Total | 59 | 145 |
| Loss before income tax | (13) | (44) |

| | | | | |
|---|---|---|---|---|
| Income tax expense | | (12) | | (1) |
| Results of discontinued operations, net of income tax | | (25) | | (45) |
| Impairment loss, net of tax benefit of $92 | | (167) | | (167) |
| Loss from discontinued operations | $ | (192) | $ | (212) |

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The Consolidated Condensed Statements of Income include discontinued operations of the CAC business as follows:

| | Three Months Ended June 30, 2014 | Six Months Ended June 30, 2014 |
|---|---|---|
| (In millions) | | |
| Revenues: | | |
| Net investment income | $ 39 | $ 80 |
| Investment gains | 1 | 2 |
| Total | 40 | 82 |
| Expenses: | | |
| Insurance claims and policyholders benefits | 32 | 63 |
| Other operating expenses | 1 | 2 |
| Total | 33 | 65 |
| Income before income tax | 7 | 17 |
| Income tax expense | (1) | (4) |
| Results of discontinued operations, net of income tax | 6 | 13 |
| Impairment loss, net of tax benefit of $41 | | (214) |
| Amounts attributable to noncontrolling interests | (1) | 20 |
| Income (loss) from discontinued operations | $ 5 | $ (181) |

**13. Consolidating Financial Information**

The following schedules present the Company s consolidating balance sheet information at June 30, 2015 and December 31, 2014, and consolidating statements of income information for the six months ended June 30, 2015 and 2014. 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, 2015 | CNA Financial | Diamond Offshore | Boardwalk Pipeline | Loews Hotels | Corporate and Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| (In millions) | | | | | | | |
| **Assets:** | | | | | | | |
| Investments | $ 45,332 | $ 102 | | $ 100 | $ 5,514 | | $ 51,048 |
| Cash | 145 | 10 | $ 20 | 11 | 63 | | 249 |
| Receivables | 7,365 | 537 | 123 | 45 | 121 | $ (94) | 8,097 |
| Property, plant and equipment | 304 | 6,934 | 7,633 | 997 | 49 | | 15,917 |
| Deferred income taxes | 283 | | | 2 | 146 | (431) | - |
| Goodwill | 116 | 20 | 237 | | | | 373 |
| Investments in capital stocks of subsidiaries | | | | | 15,756 | (15,756) | - |
| Other assets | 835 | 268 | 324 | 261 | 10 | 12 | 1,710 |
| Deferred acquisition costs of insurance subsidiaries | 621 | | | | | | 621 |
| Total assets | $ 55,001 | $ 7,871 | $ 8,337 | $ 1,416 | $ 21,659 | $ (16,269) | $ 78,015 |
| **Liabilities and Equity:** | | | | | | | |
| Insurance reserves | $ 36,368 | | | | | | $ 36,368 |
| Payable to brokers | 196 | | | | $ 545 | | 741 |
| Short term debt | 1 | $ 625 | | $ 35 | 400 | | 1,061 |
| Long term debt | 2,564 | 1,982 | $ 3,493 | 471 | 1,281 | | 9,791 |
| Deferred income taxes | 8 | 393 | 755 | 36 | | $ (419) | 773 |
| Other liabilities | 3,660 | 591 | 425 | 66 | 301 | (94) | 4,949 |
| Total liabilities | 42,797 | 3,591 | 4,673 | 608 | 2,527 | (513) | 53,683 |
| Total shareholders equity | 10,944 | 2,285 | 1,571 | 806 | 19,132 | (15,756) | 18,982 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Noncontrolling interests** | **1,260** | **1,995** | **2,093** | **2** | | | **5,350** |
| **Total equity** | **12,204** | **4,280** | **3,664** | **808** | **19,132** | **(15,756)** | **24,332** |
| **Total liabilities and equity** | **$ 55,001** | **$ 7,871** | **$ 8,337** | **$ 1,416** | **$ 21,659** | **$ (16,269)** | **$ 78,015** |

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Loews Corporation

Consolidating Balance Sheet Information

| December 31, 2014 | CNA Financial | Diamond Offshore | Boardwalk Pipeline | Loews Hotels | Corporate and Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| (In millions) | | | | | | | |
| Assets: | | | | | | | |
| Investments | $ 46,262 | $ 234 | | $ 75 | $ 5,461 | | $ 52,032 |
| Cash | 190 | 16 | $ 8 | 9 | 141 | | 364 |
| Receivables | 7,097 | 490 | 128 | 29 | 82 | $ (56) | 7,770 |
| Property, plant and equipment | 280 | 6,949 | 7,649 | 671 | 62 | | 15,611 |
| Deferred income taxes | 222 | | | 2 | 374 | (598) | - |
| Goodwill | 117 | 20 | 237 | | | | 374 |
| Investments in capital stocks of subsidiaries | | | | | 15,974 | (15,974) | - |
| Other assets | 778 | 307 | 304 | 206 | 7 | 14 | 1,616 |
| Deferred acquisition costs of insurance subsidiaries | 600 | | | | | | 600 |
| Total assets | $ 55,546 | $ 8,016 | $ 8,326 | $ 992 | $ 22,101 | $ (16,614) | $ 78,367 |
| Liabilities and Equity: | | | | | | | |
| Insurance reserves | $ 36,380 | | | | | | $ 36,380 |
| Payable to brokers | 117 | $ 5 | | | $ 551 | | 673 |
| Short term debt | | 250 | | $ 85 | | | 335 |
| Long term debt | 2,561 | 1,981 | $ 3,690 | 421 | 1,680 | | 10,333 |
| Deferred income taxes | 11 | 514 | 732 | 36 | | $ (400) | 893 |
| Other liabilities | 3,713 | 792 | 400 | 17 | 421 | (240) | 5,103 |
| Total liabilities | 42,782 | 3,542 | 4,822 | 559 | 2,652 | (640) | 53,717 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total shareholders equity | 11,457 | 2,359 | 1,558 | 431 | 19,449 | (15,974) | 19,280 |
| Noncontrolling interests | 1,307 | 2,115 | 1,946 | 2 | | | 5,370 |
| Total equity | 12,764 | 4,474 | 3,504 | 433 | 19,449 | (15,974) | 24,650 |
| Total liabilities and equity | $ 55,546 | $ 8,016 | $ 8,326 | $ 992 | $ 22,101 | $ (16,614) | $ 78,367 |

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Loews Corporation

Consolidating Statement of Income Information

| Six Months Ended June 30, 2015 | CNA Financial | Diamond Offshore | Boardwalk Pipeline | Loews Hotels | Corporate and Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| (In millions) | | | | | | | |
| **Revenues:** | | | | | | | |
| Insurance premiums | $ 3,422 | | | | | | $ 3,422 |
| Net investment income | 1,058 | $ 1 | | | $ 39 | | 1,098 |
| Intercompany interest and dividends | | | | | 650 | $ (650) | - |
| Investment gains | 8 | | | | | | 8 |
| Contract drilling revenues | | 1,217 | | | | | 1,217 |
| Other revenues | 191 | 41 | $ 629 | $ 306 | 1 | | 1,168 |
| Total | 4,679 | 1,259 | 629 | 306 | 690 | (650) | 6,913 |
| **Expenses:** | | | | | | | |
| Insurance claims and policyholders benefits | 2,808 | | | | | | 2,808 |
| Amortization of deferred acquisition costs | 617 | | | | | | 617 |
| Contract drilling expenses | | 695 | | | | | 695 |
| Other operating expenses | 697 | 696 | 423 | 272 | 40 | | 2,128 |
| Interest | 78 | 49 | 91 | 10 | 37 | | 265 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Total** | **4,200** | **1,440** | **514** | **282** | **77** | **-** | **6,513** |
| **Income (loss) before income tax** | **479** | **(181)** | **115** | **24** | **613** | **(650)** | **400** |
| **Income tax (expense) benefit** | **(107)** | **22** | **(21)** | **(11)** | **13** | | **(104)** |
| **Net income (loss)** | **372** | **(159)** | **94** | **13** | **626** | **(650)** | **296** |
| **Amounts attributable to noncontrolling interests** | **(38)** | **78** | **(57)** | | | | **(17)** |
| **Net income (loss) attributable to Loews Corporation** | **$ 334** | **$ (81)** | **$ 37** | **$ 13** | **$ 626** | **$ (650)** | **$ 279** |

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Loews Corporation

Consolidating Statement of Income Information

| Six Months Ended June 30, 2014 | CNA Financial | Diamond Offshore | Boardwalk Pipeline | Loews Hotels | Corporate and Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| (In millions) | | | | | | | |
| Revenues: | | | | | | | |
| Insurance premiums | $ 3,617 | | | | | | $ 3,617 |
| Net investment income | 1,076 | $ 1 | | | $ 97 | | 1,174 |
| Intercompany interest and dividends | | | | | 512 | $ (512) | - |
| Investment gains | 28 | | | | | | 28 |
| Contract drilling revenues | | 1,335 | | | | | 1,335 |
| Other revenues | 182 | 75 | $ 652 | $ 217 | 1 | | 1,127 |
| Total | 4,903 | 1,411 | 652 | 217 | 610 | (512) | 7,281 |
| Expenses: | | | | | | | |
| Insurance claims and policyholders benefits | 2,887 | | | | | | 2,887 |
| Amortization of deferred acquisition costs | 664 | | | | | | 664 |
| Contract drilling expenses | | 765 | | | | | 765 |
| Other operating expenses | 596 | 329 | 494 | 200 | 38 | | 1,657 |
| Interest | 90 | 37 | 81 | 3 | 37 | | 248 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total | 4,237 | 1,131 | 575 | 203 | 75 | - | 6,221 |
| Income before income tax | 666 | 280 | 77 | 14 | 535 | (512) | 1,060 |
| Income tax (expense) benefit | (182) | (53) | 1 | (6) | (8) | | (248) |
| Income from continuing operations | 484 | 227 | 78 | 8 | 527 | (512) | 812 |
| Discontinued operations, net | (201) | | | | (212) | | (413) |
| Net income | 283 | 227 | 78 | 8 | 315 | (512) | 399 |
| Amounts attributable to noncontrolling interests | (29) | (116) | (79) | | | | (224) |
| Net income (loss) attributable to Loews Corporation | $ 254 | $ 111 | $ (1) | $ 8 | $ 315 | $ (512) | $ 175 |

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**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, 2014. This MD&A is comprised of the following sections:



**OVERVIEW**

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

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

- operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. ( Diamond Offshore ), a 53% owned subsidiary);

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

operation of a chain of hotels (Loews Hotels Holding Corporation ( Loews Hotels ), a wholly owned subsidiary). See below for a discussion of discontinued operations.

Unless the context otherwise requires, references in this Report to Loews Corporation, the Company, Parent Company, we, our, us or like terms refer to the business of Loews Corporation excluding its subsidiaries.

**Consolidated Financial Results**

Net income for the three months ended June 30, 2015 was $170 million, or $0.46 per share, compared to $116 million, or $0.30 per share, in the prior year period. Net income for the six months ended June 30, 2015 was $279 million, or $0.75 per share, compared to $175 million, or $0.45 per share, in the prior year period. Net income for the three and six month periods in 2014 included losses from discontinued operations of $187 million and $393 million reflecting the disposition by Loews of HighMount Exploration & Production, LLC ( HighMount ) and by CNA of its annuity and pension deposit business.

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Income from continuing operations for the three months ended June 30, 2015 was $170 million, or $0.46 per share, compared to $303 million, or $0.79 per share, in the 2014 second quarter. Income from continuing operations decreased primarily due to lower earnings at CNA and less favorable performance of the parent company trading portfolio as a result of lower returns on equities and limited partnership investments.

CNA s earnings decreased primarily due to an $84 million ($49 million after tax and noncontrolling interests) charge related to a retroactive reinsurance agreement to cede its legacy asbestos and environmental pollution liabilities ( LPT ). Under retroactive reinsurance accounting, amounts ceded through the LPT in excess of the consideration paid result in a deferred benefit that is recognized in income in proportion to paid recoveries over future periods. The year-over-year earnings comparison was also impacted by a gain of $86 million ($50 million after tax and noncontrolling interests) in 2014 from a postretirement plan curtailment. The decline in the second quarter of 2015 as compared to the prior year was partially offset by an improvement in net prior year development in CNA s commercial business segment.

Diamond Offshore s earnings were relatively flat as lower rig utilization and increased depreciation and interest expense were offset by significantly reduced contract drilling expenses.

Boardwalk Pipeline s earnings decreased primarily as a result of lower parking and lending revenue and increased depreciation and interest costs. Boardwalk Pipeline recorded $12 million of higher transportation revenue due to business interruption insurance proceeds received and new rates taking effect as a result of the Gulf South rate case.

Loews Hotels earnings increased primarily due to higher income from joint venture properties.

Discontinued operations in 2014 included an impairment charge related to the divested HighMount business.

Income from continuing operations for the six months ended June 30, 2015 was $279 million, or $0.75 per share, compared to $568 million, or $1.47 per share, in the prior year period. Income from continuing operations decreased primarily due to lower earnings at CNA and Diamond Offshore.

CNA s earnings decreased primarily due to the reasons discussed above.

Diamond Offshore s earnings decreased primarily due to a $158 million (after tax and noncontrolling interests) asset impairment charge taken in the first quarter of 2015 related to the carrying value of eight drilling rigs as well as lower rig utilization and increased depreciation and interest expense.

Boardwalk Pipeline s earnings increase stemmed from the impact in 2014 of a $55 million charge (after tax and noncontrolling interests) related to the write off of all capitalized costs associated with the terminated Bluegrass project. Absent this charge, earnings decreased primarily due to the unusually cold and sustained winter of 2014 as compared to the relatively normal 2015 winter season and lower natural gas storage revenues.

Loews Hotels earnings increased primarily due to higher income from joint venture properties partially offset by higher interest expense.

Discontinued operations in 2014 included impairment charges related to the sale of both CNA s annuity and pension deposit business and HighMount.

Book value per share increased to $51.91 at June 30, 2015 from $51.70 at December 31, 2014 and $51.85 at June 30, 2014. Book value per share excluding accumulated other comprehensive income ( AOCI ) increased to $51.77 at June 30, 2015 from $50.95 at December 31, 2014 and $49.74 at June 30, 2014.

**Discontinued Operations**

On August 1, 2014, CNA completed the sale of Continental Assurance Company ( CAC ), its former life insurance subsidiary and on September 30, 2014, the Company sold HighMount, its natural gas and oil exploration and production subsidiary. The results of these sold businesses are reported as discontinued operations in the Consolidated Condensed Statements of Income.

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**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. 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.

- Insurance Reserves
- Reinsurance and Other Receivables
- Valuation of Investments and Impairment of Securities
- Long Term Care Policies
- Pension and Postretirement Benefit Obligations
- 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 Annual Report on Form 10-K for the year ended December 31, 2014 for further information.

## RESULTS OF OPERATIONS BY BUSINESS SEGMENT

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

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**CNA Financial**

The following table summarizes the results of operations for CNA for the three and six months ended June 30, 2015 and 2014 as presented in Note 13 of the Notes to Consolidated Condensed Financial Statements included in Item 1 of this Report:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| **(In millions)** | | | | |
| Revenues: | | | | |
| Insurance premiums | **$ 1,735** | $ 1,811 | **$ 3,422** | $ 3,617 |
| Net investment income | **500** | 550 | **1,058** | 1,076 |
| Investment gains (losses) | **(2)** | (14) | **8** | 28 |
| Other revenues | **94** | 93 | **191** | 182 |
| Total | **2,327** | 2,440 | **4,679** | 4,903 |
| Expenses: | | | | |
| Insurance claims and policyholders benefits | **1,469** | 1,441 | **2,808** | 2,887 |
| Amortization of deferred acquisition costs | **314** | 335 | **617** | 664 |
| Other operating expenses | **340** | 253 | **697** | 596 |
| Interest | **39** | 46 | **78** | 90 |
| Total | **2,162** | 2,075 | **4,200** | 4,237 |
| Income before income tax | **165** | 365 | **479** | 666 |
| Income tax expense | **(27)** | (103) | **(107)** | (182) |
| Income from continuing operations | **138** | 262 | **372** | 484 |
| Discontinued operations, net | | 6 | | (201) |
| Net income | **138** | 268 | **372** | 283 |
| Amounts attributable to noncontrolling interests | **(14)** | (28) | **(38)** | (29) |
| Net income attributable to Loews Corporation | **$ 124** | $ 240 | **$ 334** | $ 254 |

***Three Months Ended June 30, 2015 Compared to 2014***

Income from continuing operations decreased $124 million for the three months ended June 30, 2015 as compared with the same period in 2014. Results in 2015 were negatively impacted by a $49 million (after tax and noncontrolling interests) charge related to the application of retroactive reinsurance accounting to adverse reserve development ceded under the 2010 asbestos and environmental pollution ( A&EP ) loss portfolio transfer, as further discussed in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1. Results in 2014 benefited from a $50 million (after tax and noncontrolling interests) curtailment gain related to a change in postretirement benefits, as further discussed in Note 8 of the Notes to Consolidated Condensed Financial Statements included under Item 1. In addition, results in 2015 included lower net investment income and decreased results in the long term care business, partially offset by improved underwriting results. See the Investments section of this MD&A for further discussion of net realized investment results and net investment income. Further information on net prior year development is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

***Six Months Ended June 30, 2015 Compared to 2014***

Income from continuing operations decreased $112 million for the six months ended June 30, 2015 as compared with the same period in 2014, primarily due to the same reasons as discussed above in the three month comparison.

**CNA Property and Casualty Insurance Operations**

CNA s property and casualty insurance operations consist of professional, financial, specialty property and casualty products and services and commercial insurance and risk management products.

In the evaluation of the results of the property and casualty businesses, CNA utilizes the loss ratio, the expense ratio, the dividend ratio and the combined ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of insurance underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of policyholders dividends incurred to net earned premiums. The combined ratio is the sum of the loss, expense and dividend ratios.

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The following tables summarize the results of CNA s property and casualty operations for the three and six months ended June 30, 2015 and 2014:

| **Three Months Ended June 30, 2015** | **Specialty** | **Commercial** | **International** | **Total** |
|---|---|---|---|---|
| **(In millions, except %)** | | | | |
| **Net written premiums** | **$ 672** | **$ 717** | **$ 249** | **$ 1,638** |
| **Net earned premiums** | **689** | **703** | **207** | **1,599** |
| **Net investment income** | **134** | **169** | **13** | **316** |
| **Net operating income** | **123** | **72** | **19** | **214** |
| **Net realized investment gains** | **1** | | | **1** |
| **Net income** | **124** | **72** | **19** | **215** |
| **Ratios:** | | | | |
| **Loss and loss adjustment expense** | **60.3%** | **72.1%** | **55.0%** | **64.8%** |
| **Expense** | **30.7** | **34.9** | **37.2** | **33.4** |
| **Dividend** | **0.2** | **0.2** | | **0.2** |
| **Combined** | **91.2%** | **107.2%** | **92.2%** | **98.4%** |

| Three Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|
| Net written premiums | $ 701 | $ 692 | $ 261 | $ 1,654 |
| Net earned premiums | 709 | 732 | 231 | 1,672 |
| Net investment income | 153 | 201 | 16 | 370 |
| Net operating income | 150 | 45 | 17 | 212 |
| Net realized investment gains (losses) | (4) | (6) | 1 | (9) |
| Net income | 146 | 39 | 18 | 203 |
| Ratios: | | | | |
| Loss and loss adjustment expense | 57.0% | 83.7% | 50.8% | 67.8% |
| Expense | 30.3 | 34.1 | 39.1 | 33.3 |
| Dividend | 0.2 | 0.3 | | 0.2 |
| Combined | 87.5% | 118.1% | 89.9% | 101.3% |

| **Six Months Ended June 30, 2015** | | | | |
|---|---|---|---|---|
| **Net written premiums** | **$ 1,370** | **$ 1,476** | **$ 461** | **$ 3,307** |
| **Net earned premiums** | **1,369** | **1,381** | **398** | **3,148** |
| **Net investment income** | **289** | **373** | **27** | **689** |

| | | | | |
|---|---|---|---|---|
| **Net operating income** | **244** | **179** | **27** | **450** |
| **Net realized investment gains** | **3** | **3** | **1** | **7** |
| **Net income** | **247** | **182** | **28** | **457** |
| | | | | |
| **Ratios:** | | | | |
| **Loss and loss adjustment expense** | **61.7%** | **69.6%** | **57.7%** | **64.7%** |
| **Expense** | **31.0** | **35.4** | **37.4** | **33.7** |
| **Dividend** | **0.2** | **0.3** | | **0.2** |
| | | | | |
| **Combined** | **92.9%** | **105.3%** | **95.1%** | **98.6%** |

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| Six Months Ended June 30, 2014 | Specialty | Commercial | International | Total |
|---|---|---|---|---|
| (In millions, except %) | | | | |
| Net written premiums | $ 1,414 | $ 1,499 | $ 508 | $ 3,421 |
| Net earned premiums | 1,401 | 1,467 | 472 | 3,340 |
| Net investment income | 297 | 392 | 31 | 720 |
| Net operating income | 266 | 111 | 32 | 409 |
| Net realized investment gains | 3 | 1 | 1 | 5 |
| Net income | 269 | 112 | 33 | 414 |
| Ratios: | | | | |
| Loss and loss adjustment expense | 60.4% | 80.4% | 52.5% | 68.0% |
| Expense | 30.2 | 34.0 | 39.2 | 33.2 |
| Dividend | 0.2 | 0.3 | | 0.2 |
| Combined | 90.8% | 114.7% | 91.7% | 101.4% |

***Three Months Ended June 30, 2015 Compared to 2014***

Net written premiums decreased $16 million for the three months ended June 30, 2015 as compared with the same period in 2014. This decrease was primarily driven by lower retention and new business in Specialty, underwriting actions taken in certain business classes in Commercial and the unfavorable effect of foreign currency exchange rates for International, partially offset by higher retention and new business in Commercial. Net earned premiums decreased $73 million for the three months ended June 30, 2015 as compared with the same period in 2014, consistent with the trend in net written premiums.

Specialty s average rate increased 1% for the three months ended June 30, 2015 as compared with an increase of 3% for the three months ended June 30, 2014, for the policies that renewed in each period. Retention of 85% and 87% was achieved in each period. Commercial s average rate increased 2% for the three months ended June 30, 2015 as compared with an increase of 5% for the three months ended June 30, 2014, for the policies that renewed in each period. Retention of 79% and 69% was achieved in each period. International s average rate decreased 1% for the three months ended June 30, 2015 as compared with a decrease of 3% for the three months ended June 30, 2014, for the policies that renewed in each period. Retention of 71% and 74% was achieved in each period.

Net operating income increased $2 million for the three months ended June 30, 2015 as compared with the same period in 2014. The increase in net operating income was primarily due to improved underwriting results in Commercial, partially offset by less favorable net prior year development in Specialty and lower net investment income. Catastrophe losses were $35 million (after tax and noncontrolling interests) for the three months ended June 30, 2015 as compared to catastrophe losses of $33 million (after tax and noncontrolling interests) for the same period in 2014.

Favorable net prior year development of $20 million and unfavorable net prior year development of $22 million was recorded for the three months ended June 30, 2015 and 2014. The majority of the 2014 unfavorable development relates to business classes in Commercial which CNA has exited, but also includes Small Business where CNA has taken underwriting actions in an effort to improve profitability. Further information on net prior year development is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

Specialty s combined ratio increased 3.7 points for the three months ended June 30, 2015 as compared with the same period in 2014. The loss ratio increased 3.3 points due to less favorable net prior year development, which more than offset an improved current accident year loss ratio. The expense ratio increased 0.4 points for the three months ended June 30, 2015 as compared to the same period in 2014, due to the unfavorable effect of lower net earned premiums.

Commercial s combined ratio improved 10.9 points for the three months ended June 30, 2015 as compared with the same period in 2014. The loss ratio improved 11.6 points, due to less unfavorable net prior year development coupled with an improved current accident year loss ratio. The expense ratio increased 0.8 points for the three months ended June 30, 2015 as compared with the same period in 2014, driven by the unfavorable effect of lower net earned premiums.

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International s combined ratio increased 2.3 points for the three months ended June 30, 2015 as compared with the same period in 2014. The loss ratio increased 4.2 points, primarily due to less favorable net prior year development. The expense ratio improved 1.9 points due to decreased expenses, partially offset by the unfavorable effect of lower net earned premiums.

***Six Months Ended June 30, 2015 Compared to 2014***

Net written premiums decreased $114 million for the six months ended June 30, 2015 as compared with the same period in 2014. This decrease was driven by the unfavorable effect of foreign currency exchange rates, unfavorable premium development at Hardy and the 2014 termination of an underwriter in Canada, for International, lower retention and new business in Specialty and underwriting actions taken in certain business classes, partially offset by positive rate and higher retention in Commercial. Net earned premiums decreased $192 million for the six months ended June 30, 2015 as compared with the same period in 2014, consistent with the trend in net written premiums.

Specialty s average rate increased 1% for the six months ended June 30, 2015 as compared with an increase of 3% for the six months ended June 30, 2014, for the policies that renewed in each period. Retention of 86% and 87% was achieved in each period. Commercial s average rate increased 2% for the six months ended June 30, 2015 as compared with an increase of 5% for the six months ended June 30, 2014, for the policies that renewed in each period. Retention of 77% and 72% was achieved in each period. International s average rate decreased 1% for the six months ended June 30, 2015 and June 30, 2014, for the policies that renewed in each period. Retention of 74% and 78% was achieved in each period.

Net operating income increased $41 million for the six months ended June 30, 2015 as compared with the same period in 2014. The increase in net operating income was due to improved underwriting results in Commercial, partially offset by less favorable net prior year development in Specialty and lower net investment income. Catastrophe losses were $52 million (after tax and noncontrolling interests) for the six months ended June 30, 2015 as compared to catastrophe losses of $76 million (after tax and noncontrolling interests) for the same period in 2014.

Favorable net prior year development of $18 million and unfavorable net prior year development of $16 million was recorded for the six months ended June 30, 2015 and 2014. Further information on net prior year development is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

Specialty s combined ratio increased 2.1 points for the six months ended June 30, 2015 as compared with the same period in 2014. The loss ratio increased 1.3 points due to less favorable net prior year development, partially offset by an improved current accident year loss ratio. The expense ratio increased 0.8 points for the six months ended June 30, 2015 as compared with the same period in 2014, primarily driven by increased underwriting expenses and the unfavorable effect of lower net earned premiums.

Commercial s combined ratio improved 9.4 points for the six months ended June 30, 2015 as compared with the same period in 2014. The loss ratio improved 10.8 points, primarily due to the absence of unfavorable net prior year development and an improved current accident year loss ratio. The expense ratio increased 1.4 points for the six months ended June 30, 2015 as compared with the same period in 2014, primarily due to the unfavorable effect of lower net earned premiums.

International s combined ratio increased 3.4 points for the six months ended June 30, 2015 as compared with the same period in 2014. The loss ratio increased 5.2 points, due to the unfavorable effect of net prior year development. The expense ratio improved 1.8 points due to decreased expenses, partially offset by the unfavorable effect of lower net earned premiums.

**Other Non-Core Operations**

Other Non-Core primarily includes the results of CNA s individual and group long term care businesses, which are in run-off and also includes certain CNA corporate expenses, including interest on corporate debt and the results of certain property and casualty business in run-off, including CNA Re and A&EP. CNA s group long term care business, while considered non-core, currently continues to accept new employees in existing groups.

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The following tables summarize the results of CNA s Other Non-Core operations for the three and six months ended June 30, 2015 and 2014:

| **Three Months Ended June 30, 2015** | **Life & Group Non-Core** | **Other** | **Other Non-Core** |
|---|---|---|---|
| **(In millions)** | | | |
| **Net earned premiums** | **$ 137** | | **$ 137** |
| **Net investment income** | **179** | **$ 5** | **184** |
| **Net operating loss** | **(22)** | **(71)** | **(93)** |
| **Net realized investment gains** | **2** | | **2** |
| **Net loss from continuing operations** | **(20)** | **(71)** | **(91)** |

| Three Months Ended June 30, 2014 | | | |
|---|---|---|---|
| Net earned premiums | $ 139 | | $ 139 |
| Net investment income | 173 | $ 7 | 180 |
| Net operating income | 9 | 23 | 32 |
| Net realized investment gains (losses) | (3) | 3 | - |
| Net income from continuing operations | 6 | 26 | 32 |

| **Six Months Ended June 30, 2015** | | | |
|---|---|---|---|
| **Net earned premiums** | **$ 275** | | **$ 275** |
| **Net investment income** | **358** | **$ 11** | **369** |
| **Net operating loss** | **(37)** | **(90)** | **(127)** |
| **Net realized investment gains** | **4** | | **4** |
| **Net loss from continuing operations** | **(33)** | **(90)** | **(123)** |

| Six Months Ended June 30, 2014 | | | |
|---|---|---|---|
| Net earned premiums | $ 278 | | $ 278 |
| Net investment income | 344 | $ 12 | 356 |
| Net operating income | 7 | 4 | 11 |
| Net realized investment gains | 6 | 4 | 10 |
| Net income from continuing operations | 13 | 8 | 21 |

***Three Months Ended June 30, 2015 Compared to 2014***

Net results from continuing operations decreased $123 million for the three months ended June 30, 2015 as compared with the same period in 2014. Results in 2015 were negatively impacted by the $49 million charge (after tax and noncontrolling interests) related to the application of retroactive reinsurance accounting to adverse reserve development ceded under the 2010 A&EP loss portfolio transfer, as further discussed in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1. Results in 2014 benefited from a $50 million (after tax and noncontrolling interests) curtailment gain related to a change in postretirement benefits, as further discussed in Note 8 of the Notes to Consolidated Condensed Financial Statements included under Item 1. Results in 2014 also benefited from unusually favorable morbidity and persistency experience in the long term care business as compared to modestly unfavorable morbidity experience in the current year period. Results in 2015 benefited from lower interest expense due to the maturity of higher interest rate debt in the fourth quarter of 2014.

***Six Months Ended June 30, 2015 Compared to 2014***

Net results from continuing operations decreased $144 million for the six months ended June 30, 2015 as compared with the same period in 2014, primarily due to the same reasons discussed above in the three month comparison.

## Diamond Offshore

### Market Overview

Diamond Offshore provides contract drilling services to the energy industry around the world with a fleet of 35 offshore drilling rigs. Diamond Offshore s current fleet consists of eight ultra-deepwater, seven deepwater and nine mid-water semisubmersibles, five dynamically-positioned ultra-deepwater drillships and six jack-ups. Construction of Diamond Offshore s fourth newbuild ultra-deepwater drillship, the *Ocean BlackLion,* was completed in the second quarter of 2015, and the rig is currently in the Canary Islands, where Diamond Offshore is preparing the rig for commencement of its engagement in the U.S. Gulf of Mexico ( GOM ) later this year. One of Diamond Offshore s eight ultra-deepwater semisubmersibles, the *Ocean GreatWhite*, is currently under construction and is expected to be delivered in the second quarter of 2016. The *Ocean GreatWhite* is expected to commence a three-year drilling contract offshore Australia in late 2016.

Of Diamond Offshore s current fleet, one deepwater and four mid-water semisubmersible rigs and four jack-up rigs are cold stacked. Diamond Offshore expects to cold stack an additional two floaters (one ultra-deepwater and one mid-water semisubmersible) in the near term. Since the beginning of 2015, seven of Diamond Offshore s older mid-water semisubmersible rigs have been sold for scrap.

Current crude oil prices have declined significantly since the summer of 2014, and oil markets remain volatile and unpredictable due to a number of geopolitical and economic factors, including the proposed Iranian accord, which would result in the lifting of international sanctions. In reaction to the depressed fundamentals in the oil and gas industry, independent and national oil companies and exploration and production companies have announced significant reductions to their 2016 capital spending plans, on top of their already-reduced 2015 capital spending plans. Thus far in 2015, rig tenders have been infrequent and have generally been limited to short term or well-to-well work. Competition for the limited number of drilling jobs continues to be intense, with numerous offshore drillers vying for the same opportunities, including some contractors bidding multiple rigs on the same bid, and in some cases bidding rigs of both high and lower specifications on the same bid. Operators are continuing to attempt to sublet previously contracted rigs for which capital spending programs have been delayed or canceled. In addition, newbuild floaters continue to enter the market, many of which are not contracted, adding to the oversupply of rigs. With the shortage of work and an oversupply of rigs available for work, price competition remains intense, and some industry analysts are predicting further weakening in dayrates across the floater markets.

In addition, as a result of the depressed market conditions and continued pessimistic outlook for the near term, certain of Diamond Offshore s customers, as well as competitors, have attempted to renegotiate or terminate existing drilling contracts. Such renegotiations could include requests to lower the contract dayrate, lowering of a dayrate in exchange for additional contract term, shortening the term on one contracted rig in exchange for additional term on another rig, early termination of a contract in exchange for a lump sum margin payout and many other possibilities. In addition to the potential for renegotiations, some of Diamond Offshore s drilling contracts permit the customer to terminate the contract early after specified notice periods or permit the customer to terminate the contract early in the event of excessive downtime, sometimes resulting in no payment to Diamond Offshore or sometimes resulting in a contractually specified termination amount, which often does not fully compensate Diamond Offshore for the loss of the contract. During depressed market conditions, certain customers have utilized such contract clauses to seek to renegotiate or terminate a drilling contract or claim that Diamond Offshore has breached provisions of its drilling contracts in order to avoid their obligations under circumstances where Diamond Offshore believes they are in compliance with the contracts. The early termination of a contract may result in a rig being idle for an extended period of time, which could adversely affect Diamond Offshore s business. When a customer terminates a contract prior to the contract s scheduled expiration, Diamond Offshore s contract backlog is also adversely impacted.

As previously disclosed, on February 20, 2015, a representative of PEMEX Exploración y Producción ( PEMEX ), verbally informed Diamond Offshore of PEMEX s intention to exercise its contractual right to terminate its drilling contracts on the *Ocean Ambassador*, the *Ocean Nugget* and the *Ocean Summit,* and to cancel its drilling contract on the *Ocean Lexington*, which contract was scheduled to commence in September of 2015. During the second quarter of 2015, PEMEX terminated the contract for the *Ocean Nugget,* and delivered to Diamond Offshore a notice of termination of the contract on the *Ocean Summit*. During the second quarter of 2015, PEMEX rescinded its termination of the *Ocean Summit* contract, and Diamond Offshore and PEMEX renegotiated the contracts for the *Ocean Ambassador,* the *Ocean Summit* and the *Ocean Scepter* at lower dayrates. In July of 2015, PEMEX delivered a notice to Diamond Offshore to initiate the rescission of the *Ocean Lexington* contract, which process is currently underway.

Also as previously disclosed during the first quarter of 2015, Petróleo Brasileiro S.A. ( Petrobras ) notified Diamond Offshore of its right to terminate the drilling contract on the *Ocean Baroness* and verbally informed Diamond Offshore that it did not intend to continue to use the rig. During the second quarter of 2015, Diamond Offshore received written notification from Petrobras to terminate the drilling contract on the *Ocean Baroness,* which became effective on May 31, 2015. The *Ocean Baroness* is currently demobilizing to the GOM, where the rig is expected to be cold stacked until market conditions improve.

Current depressed market conditions in the offshore drilling industry have materially impacted Diamond Offshore s results of operations and cash flows in the second quarter and first half of 2015. Diamond Offshore currently expects that these adverse market conditions will continue for the foreseeable future. The continuation of these conditions could result in more rigs being without contracts and/or cold stacked or scrapped and could further materially and adversely affect Diamond Offshore s business. When Diamond Offshore cold stacks a rig, they evaluate the rig for impairment. During the six months ended June 30, 2015, Diamond Offshore recorded an impairment loss of $359 million ($158 million after tax and noncontrolling interests) related to eight rigs for which the carrying values were determined to be impaired.

As of July 20, 2015, 14 of Diamond Offshore s rigs were not subject to a drilling contract with a customer, including 11 rigs that have been cold stacked or are in the process of being cold stacked.

Globally, the ultra-deepwater and deepwater floater markets continue to be depressed. The continuing oversupply of rigs and diminished demand has resulted in further declines in dayrates and the stacking, and in some cases scrapping, of rigs in all asset classes, and industry analysts expect offshore drillers to continue to scrap older, lower specification rigs.

Newbuild rig deliveries and established rigs coming off contract continue to fuel an oversupply of floaters in both the ultra-deepwater and deepwater markets. In an effort to manage the oversupply of rigs and potentially avoid the cost of cold stacking newly-built rigs, which, in the case of dynamically-positioned rigs, can be significant, certain drilling contractors have recently exercised options to delay the delivery of certain rigs by the shipyard. Based on industry data, there are approximately 52 competitive, or non-owner-operated, newbuild floaters on order. Based on industry reports, half of the 10 newbuilds scheduled for delivery in the second half of 2015, as well as 18 of the 27 newbuilds scheduled for delivery in 2016 and eight of the nine newbuilds scheduled for delivery in 2017 are not contracted for future work. There are currently six newbuilds on order for delivery between 2018 and 2020, only one of which has been contracted for future work. In addition, industry reports indicate that Petrobras, Diamond Offshore s largest single customer based on 2014 annual consolidated revenues, currently has 13-17 rigs under construction with two scheduled for delivery in 2015. The influx of newbuilds into the market, combined with established rigs coming off contract during 2015, is expected to contribute to further weakening of the ultra-deepwater and deepwater floater markets.

While conditions in the mid-water market vary slightly by region, mid-water rigs have generally been adversely impacted by (i) lower demand, (ii) declining dayrates, (iii) increased regulatory requirements, including more stringent design requirements for well control equipment, which could significantly increase the capital needed to comply with design requirements that would permit such rigs to work in U.S. waters, (iv) the challenges experienced by lower specification rigs in this segment as a result of more complex customer specifications and (v) the intensified competition resulting from the migration of some deepwater and ultra-deepwater rigs to compete against mid-water rigs. To date the mid-water market has seen the highest number of cold stacked and scrapped rigs. Additionally, as market conditions remain challenging, higher specification rigs may continue to take the place of lower specification rigs, leading to additional lower specification rigs being cold stacked or ultimately scrapped.

**Impact of changes in tax laws or their interpretation**

Diamond Offshore operates through various subsidiaries in a number of countries throughout the world. As a result, it is subject to highly complex tax laws, treaties and regulations in the jurisdictions in which it operates, which may change and are subject to interpretation. Changes in laws, treaties and regulations and the interpretation of such laws, treaties and regulations may put Diamond Offshore at risk for future tax assessments and liabilities which could be substantial and could have a material adverse effect on its financial condition and our results of operations and cash flows. Refer to Note 11 of the Notes to Consolidated Condensed Financial Statements included under Item 1 for additional information.

**Contract Drilling Backlog**

The following table reflects Diamond Offshore s contract drilling backlog as of July 1, 2015 and February 9, 2015 (the date reported in our Annual Report on Form 10-K for the year ended December 31, 2014). Contract drilling backlog as presented below includes only firm commitments (typically represented by signed contracts, except as indicated in the footnotes to the tables below) and 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

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days); however, the amount of actual revenue earned and the actual periods during which revenues are earned will be different than the amounts and periods shown in the tables below due to various factors. Utilization rates, which generally approach 92% - 98% during contracted periods, can be adversely impacted by downtime due to various operating factors including, but not limited to, weather conditions and unscheduled repairs and maintenance. Contract drilling backlog excludes revenues for mobilization, demobilization, contract preparation and customer reimbursables. No revenue is generally earned during periods of downtime for regulatory surveys. Changes in Diamond Offshore s contract drilling backlog between periods are generally a function of the performance of work on term contracts, as well as the extension or modification of existing term contracts and the execution of additional contracts.

| (In millions) | **July 1, 2015** | February 9, 2015 |
|---|---|---|
| Floaters: | | |
| Ultra-Deepwater (a) | **$ 4,902** | $ 5,390 |
| Deepwater (b) | **621** | 748 |
| Mid-Water | **378** | 611 |
| Total Floaters | **5,901** | 6,749 |
| Jack-ups | **33** | 91 |
| Total | **$ 5,934** | $ 6,840 |

(a) As of July 1, 2015, ultra-deepwater floaters includes (i) $1.1 billion attributable to contracted operations offshore Brazil for the years 2015 to 2018 and (ii) $641 million for the years 2016 to 2019 attributable to future work for the semisubmersible *Ocean GreatWhite,* which is under construction.

(b) As of July 1, 2015, deepwater floaters includes $120 million attributable to contracted operations offshore Brazil for the years 2015 to 2016.

The following table reflects the amount of Diamond Offshore s contract drilling backlog by year as of July 1, 2015:

| **Year Ended December 31** <br> **(In millions)** | **Total** | **2015 (a)** | **2016** | **2017** | **2018 - 2020** |
|---|---|---|---|---|---|
| **Floaters:** | | | | | |
| **Ultra-Deepwater (b)** | **$ 4,902** | **$ 740** | **$ 1,227** | **$ 1,202** | **$ 1,733** |
| **Deepwater (c)** | **621** | **212** | **273** | **136** | |
| **Mid-Water** | **378** | **104** | **153** | **121** | |
| **Total Floaters** | **5,901** | **1,056** | **1,653** | **1,459** | **1,733** |

| | | | | | |
|---|---|---|---|---|---|
| **Jack-ups** | **33** | **25** | **8** | | |
| **Total** | **$ 5,934** | **$ 1,081** | **$ 1,661** | **$ 1,459** | **$ 1,733** |

(a) Represents a six month period beginning July 1, 2015.

(b) As of July 1, 2015, ultra-deepwater floaters includes (i) $228 million, $333 million, $332 million and $158 million for the years 2015, 2016, 2017 and 2018, attributable to contracted operations offshore Brazil and (ii) $90 million for the year 2016, $214 million for the year 2017 and $337 million in the aggregate for the years 2018 to 2019 attributable to future work for the *Ocean GreatWhite*, which is under construction.

(c) As of July 1, 2015, deepwater floaters includes $62 million and $58 million for the years 2015 and 2016, attributable to contracted operations offshore Brazil.

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The following table reflects the percentage of rig days committed by year as of July 1, 2015. The percentage of rig days committed is calculated as the ratio of total days committed under contracts, as well as scheduled shipyard, survey and mobilization days for all rigs in Diamond Offshore s fleet, to total available days (number of rigs, including cold stacked rigs, multiplied by the number of days in a particular year). Total available days have been calculated based on the expected final commissioning date for the rig under construction.

| Year Ended December 31 | 2015 (a) (b) | 2016 (b) | 2017 | 2018 2020 |
|---|---|---|---|---|
| **Floaters:** | | | | |
| **Ultra-Deepwater** | **85%** | **65%** | **54%** | **26%** |
| **Deepwater** | **49%** | **31%** | **17%** | |
| **Mid-Water** | **30%** | **13%** | **9%** | |
| **Total Floaters** | **58%** | **40%** | **31%** | **12%** |
| **Jack-ups** | **22%** | **3%** | | |

(a) Represents a six month period beginning July 1, 2015.

(b) As of July 1, 2015, includes approximately 290 and 314 currently known, scheduled shipyard days for rig commissioning, contract preparation, surveys and extended maintenance projects, as well as rig mobilization days for the remainder of 2015 and for the year 2016.

**Dayrate and Utilization Statistics**

| | Three Months Ended June 30, | Six Months Ended June 30, |
|---|---|---|