LOEWS CORP
Form 10-Q
May 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

OR

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

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From ___________ to ___________

Commission File Number 1-6541

LOEWS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

(212) 521-2000

(Registrant s telephone number, including area code)

NOT APPLICABLE

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

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

Yes ___X___ No ________

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

Yes ___X___ No ________ Not Applicable ________

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

Large accelerated filer __X__ Accelerated filer _____ Non-accelerated filer _____ Smaller reporting company ______

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

Yes ________ No ___X___

Class	Outstanding at April 28, 2010
Common stock, $0.01 par value	418,496,799 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(Dollar amounts in millions, except per share data)	March 31, 2010	December 31, 2009
Assets:		
Investments:		
Fixed maturities, amortized cost of $37,591 and $35,824	$ 38,104	$ 35,816
Equity securities, cost of $938 and $943	1,047	1,007
Limited partnership investments	2,164	1,996
Short term investments	6,187	7,215
Total investments	47,502	46,034
Cash	135	190
Receivables	10,000	10,212
Property, plant and equipment	13,249	13,274
Deferred income taxes	869	627
Goodwill	856	856
Other assets	1,693	1,346
Deferred acquisition costs of insurance subsidiaries	1,109	1,108
Separate account business	442	423
Total assets	$ 75,855	$ 74,070
Liabilities and Equity:		

Insurance reserves:		
Claim and claim adjustment expense	**$ 26,559**	$ 26,816
Future policy benefits	**8,090**	7,981
Unearned premiums	**3,283**	3,274
Policyholders funds	**177**	192
Total insurance reserves	**38,109**	38,263
Payable to brokers	**662**	540
Short term debt	**62**	10
Long term debt	**9,549**	9,475
Other liabilities	**5,038**	4,274
Separate account business	**442**	423
Total liabilities	**53,862**	52,985
Preferred stock, $0.10 par value:		
Authorized 100,000,000 shares		
Common stock, $0.01 par value:		
Authorized 1,800,000,000 shares		
Issued 425,547,829 and 425,497,522 shares	**4**	4
Additional paid-in capital	**3,745**	3,637
Retained earnings	**14,085**	13,693
Accumulated other comprehensive loss	**(75)**	(419)
	17,759	16,915
Less treasury stock, at cost (5,814,800 and 427,200 shares)	**(213)**	(16)
Total shareholders equity	**17,546**	16,899
Noncontrolling interests	**4,447**	4,186
Total equity	**21,993**	21,085
Total liabilities and equity	**$ 75,855**	$ 74,070

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

Three Months Ended March 31 **(In millions, except per share data)**	**2010**	2009
Revenues:		
Insurance premiums	**$ 1,615**	$ 1,672
Net investment income	**617**	447
Investment gains (losses):		
Other-than-temporary impairment losses	**(90)**	(614)
Portion of other-than-temporary impairment losses recognized in Other comprehensive income	**30**	
Net impairment losses recognized in earnings	**(60)**	(614)
Other net investment gains	**81**	83
Total investment gains (losses)	**21**	(531)
Contract drilling revenues	**844**	856
Other	**616**	579
Total	**3,713**	3,023
Expenses:		
Insurance claims and policyholders benefits	**1,308**	1,342
Amortization of deferred acquisition costs	**342**	349
Contract drilling expenses	**305**	294
Impairment of natural gas and oil properties		1,036
Other operating expenses	**732**	776
Interest	**130**	94
Total	**2,817**	3,891
Income (loss) before income tax	**896**	(868)
Income tax (expense) benefit	**(273)**	395
Net income (loss)	**623**	(473)
Amounts attributable to noncontrolling interests	**(203)**	(174)
Net income (loss) attributable to Loews Corporation	**$ 420**	$ (647)
Basic and diluted net income (loss) per share	**$ 0.99**	$ (1.49)
Dividends per share	**$ 0.0625**	$ 0.0625
Weighted-average shares outstanding:		
Shares of common stock	**422.77**	435.12

Dilutive potential shares of common stock	**0.87**	
Total weighted-average shares outstanding assuming dilution	**423.64**	435.12

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 March 31 **(In millions)**	**2010**	2009
Net income (loss)	**$ 623**	$ (473)
Other comprehensive income (loss)		
Changes in:		
Net unrealized gains on investments with other-than-temporary impairments	**25**	
Net other unrealized gains on investments	**307**	399
Total unrealized gains on available-for-sale investments	**332**	399
Unrealized gains on cash flow hedges	**61**	15
Foreign currency	**(10)**	(7)
Pension liability	**2**	(1)
Other comprehensive income	**385**	406
Comprehensive income (loss)	**1,008**	(67)
Amounts attributable to noncontrolling interests	**(245)**	(223)
Total comprehensive income (loss) attributable to Loews Corporation	**$ 763**	$ (290)

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENT OF EQUITY

(Unaudited)

		Loews Corporation Shareholders					
(In millions)	Total	Loews Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock Held in Treasury	Noncontrolling Interests
Balance, January 1, 2010	$ 21,085	$ 4	$ 3,637	$ 13,693	$ (419)	$ (16)	$ 4,186
Sale of subsidiary common units	279		83		1		195
Net income	623			420			203
Other comprehensive income	385				343		42
Dividends paid	(192)			(26)			(166)
Purchase of Loews treasury stock	(197)					(197)	
Issuance of Loews common stock	1		1				
Stock-based compensation	6		5				1
Other	3		19	(2)			(14)
Balance, March 31, 2010	$ 21,993	$ 4	$ 3,745	$ 14,085	$ (75)	$ (213)	$ 4,447

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

Three Months Ended March 31	**2010**	2009
(In millions)		
Operating Activities:		
Net income (loss)	**$ 623**	$ (473)
Adjustments to reconcile net income (loss) to net cash provided by operating activities, net	**175**	1,360
Changes in operating assets and liabilities, net:		
Reinsurance receivables	**254**	16
Other receivables	**(4)**	76
Deferred acquisition costs	**(1)**	(7)
Insurance reserves	**(135)**	(139)
Other liabilities	**(42)**	(133)
Trading securities	**(584)**	457
Other, net	**8**	(19)
Net cash flow operating activities	**294**	1,138
Investing Activities:		
Purchases of fixed maturities	**(5,351)**	(7,079)
Proceeds from sales of fixed maturities	**2,737**	7,046
Proceeds from maturities of fixed maturities	**846**	827
Purchases of equity securities	**(42)**	(134)
Proceeds from sales of equity securities	**25**	146
Purchases of property, plant and equipment	**(212)**	(567)
Change in collateral on loaned securities and derivatives	**1**	45
Change in short term investments	**1,628**	(1,457)
Other, net	**(43)**	65
Net cash flow investing activities	**$ (411)**	$ (1,108)

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

Three Months Ended March 31	**2010**	2009
(In millions)		
Financing Activities:		
Dividends paid	**$ (26)**	$ (27)
Dividends paid to noncontrolling interests	**(166)**	(161)
Purchases of treasury shares	**(188)**	
Issuance of common stock	**1**	1
Proceeds from sale of subsidiary stock	**333**	
Principal payments on debt	**(1)**	(10)
Issuance of debt	**125**	171
Policyholders investment contract net deposits (withdrawals)	**(2)**	(7)
Other, net	**(12)**	12
Net cash flow financing activities	**64**	(21)
Effect of foreign exchange rate on cash	**(2)**	(2)
Net change in cash	**(55)**	7
Cash, beginning of period	**190**	131
Cash, end of period	**$ 135**	$ 138

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: commercial property and casualty insurance (CNA Financial Corporation (CNA), a 90% owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. (Diamond Offshore), a 50.4% owned subsidiary); exploration, production and marketing of natural gas and natural gas liquids (HighMount Exploration & Production LLC (HighMount), a wholly owned subsidiary); the operation of interstate natural gas pipeline systems (Boardwalk Pipeline Partners, LP (Boardwalk Pipeline), a 66% owned subsidiary); and the operation of hotels (Loews Hotels Holding Corporation (Loews Hotels), a wholly owned subsidiary). In the first quarter of 2010 the Company sold 11.5 million common units of its subsidiary, Boardwalk Pipeline, for $333 million, reducing the Company s ownership interest from 72% to 66%. Unless the context otherwise requires, the terms Company, Loews and Registrant as used herein mean Loews Corporation excluding its subsidiaries and the term Net income (loss) Loews as used herein means Net income (loss) attributable to Loews Corporation.

In the opinion of management, the accompanying unaudited Consolidated Condensed Financial Statements reflect all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of March 31, 2010 and December 31, 2009 and the results of operations, comprehensive income (loss) and changes in cash flows for the three months ended March 31, 2010 and 2009.

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

Reference is made to the Notes to Consolidated Financial Statements in the 2009 Annual Report on Form 10-K which should be read in conjunction with these Consolidated Condensed Financial Statements.

The Company presents basic and diluted earnings per share on the Consolidated Condensed Statements of Operations. Basic earnings per share excludes dilution and is computed by dividing net income (loss) attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Stock options and stock appreciation rights (SARs) of 2.4 million shares were not included in the diluted weighted average shares amount for the three months ended March 31, 2010 due to the exercise price being greater than the average stock price. For the three months ended March 31, 2009, 5.6 million of common equivalent shares, consisting solely of stock options and SARs, are not included in the diluted weighted average shares amount as their effects are antidilutive.

Accounting changes In June of 2009, the Financial Accounting Standards Board (FASB) issued updated accounting guidance which amended the requirements for determination of the primary beneficiary of a variable interest entity, required an ongoing assessment of whether an entity is the primary beneficiary and required enhanced interim and annual disclosures. The updated accounting guidance became effective for quarterly and annual reporting periods beginning after November 15, 2009, except for investment company type entities for which the requirements under this guidance have been deferred indefinitely. The adoption of this updated accounting guidance as of January 1, 2010 had no impact on the Company s financial condition or results of operations.

New accounting pronouncements not yet adopted In March of 2009, the FASB issued updated accounting guidance which amends the accounting and reporting requirements related to derivatives to provide clarifying language regarding when embedded credit derivative features, including those in collateralized debt obligations (CDOs) and synthetic CDOs, are considered embedded derivatives subject to potential bifurcation. The updated accounting guidance is effective for the first quarter beginning after June 15, 2010. The Company is currently assessing the impact this updated accounting guidance will have on its financial condition and results of operations.

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2. Investments

Three Months Ended March 31 (In millions)	2010	2009
Net investment income consisted of:		
Fixed maturity securities	$ 510	$ 475
Short term investments	7	11
Limited partnerships	80	(70)
Equity securities	10	14
Income from trading portfolio	21	26
Other	3	3
Total investment income	631	459
Investment expenses	(14)	(12)
Net investment income	$ 617	$ 447
Investment gains (losses) are as follows:		
Fixed maturity securities	$ 27	$ (358)
Equity securities	3	(216)
Derivative instruments	(13)	31
Short term investments	3	14
Other	1	(2)
Investment gains (losses) (a)	$ 21	$ (531)

(a) Includes gross realized gains of $102 and $108 and gross realized losses of $72 and $682 on available-for-sale securities for the three months ended March 31, 2010 and 2009.

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

Three Months Ended March 31 (In millions)	2010	2009
Fixed maturity securities available-for-sale:		
Asset-backed securities:		
Residential mortgage-backed securities	$ 26	$ 149
Commercial mortgage-backed securities	2	16
Other asset-backed securities		31
Total asset-backed securities	28	196
States, municipalities and political subdivisions-tax-exempt securities	14	
Corporate and other taxable bonds	18	190
Redeemable preferred stock		9
Total fixed maturities available-for-sale	60	395

Equity securities available-for-sale:		
Common stock		3
Preferred stock		216
Total equity securities available-for-sale	**-**	219
Net OTTI losses recognized in earnings	**$ 60**	$ 614

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

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

The Impairment Committee s assessment of whether an OTTI loss has occurred incorporates both quantitative and qualitative information. Fixed maturity securities that CNA intends to sell, or it more likely than not will be required to sell before recovery of amortized cost, are considered to be other-than-temporarily impaired and the entire difference between the amortized cost basis and fair value of the security is recognized as an OTTI loss in earnings. The remaining fixed maturity securities in an unrealized loss position are evaluated to determine if a credit loss exists. In order to determine if a credit loss exists, the factors considered by the Impairment Committee include (i) the financial condition and near term prospects of the issuer, (ii) whether the debtor is current on interest and principal payments, (iii) credit ratings of the securities and (iv) general market conditions and industry or sector specific outlook. CNA also considers results and analysis of cash flow modeling for asset-backed securities, and when appropriate, other fixed maturity securities. The focus of the analysis for asset-backed securities is on assessing the sufficiency and quality of underlying collateral and timing of cash flows based on scenario tests. If the present value of the modeled expected cash flows equals or exceeds the amortized cost of a security, no credit loss is judged to exist and the asset-backed security is deemed to be temporarily impaired. If the present value of the expected cash flows is less than amortized cost, the security is judged to be other-than-temporarily impaired for credit reasons and that shortfall, referred to as the credit component, is recognized as an OTTI loss in earnings. The difference between the adjusted amortized cost basis and fair value, referred to as the non-credit component, is recognized as an OTTI loss in Other comprehensive income.

CNA performs the discounted cash flow analysis using stressed scenarios to determine future expectations regarding recoverability. For asset-backed securities, significant assumptions enter into these cash flow projections including delinquency rates, probable risk of default, loss severity upon a default, over collateralization and interest coverage triggers, credit support from lower level tranches and impacts of rating agency downgrades. The discount rate utilized is either the yield at acquisition or, for lower rated structured securities, the current yield.

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

Prior to adoption of the updated accounting guidance related to OTTI in the second quarter of 2009, OTTI losses were not bifurcated between credit and non-credit components. The difference between fair value and amortized cost was recognized in earnings for all securities for which the Company did not expect to recover the amortized cost basis, or for which the Company did not have the ability and intent to hold until recovery of fair value to amortized cost.

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

March 31, 2010	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less Than 12 Months	Gross Unrealized Losses 12 Months or Greater	Estimated Fair Value	Unrealized OTTI Losses
(In millions)						
Fixed maturity securities:						
U.S. Treasury securities and obligations of government agencies	**$ 165**	**$ 16**	**$ 1**		**$ 180**	
Asset-backed securities:						
Residential mortgage-backed securities	**7,304**	**83**	**43**	**$ 406**	**6,938**	**$ 265**
Commercial mortgage-backed securities	**820**	**13**	**3**	**101**	**729**	
Other asset-backed securities	**811**	**17**	**1**	**18**	**809**	
Total asset-backed securities	**8,935**	**113**	**47**	**525**	**8,476**	**265**
States, municipalities and political subdivisions-tax-exempt securities	**6,458**	**191**	**24**	**316**	**6,309**	
Corporate and other taxable bonds	**21,518**	**1,276**	**35**	**131**	**22,628**	**26**
Redeemable preferred stock	**51**	**9**			**60**	
Fixed maturities available- for-sale	**37,127**	**1,605**	**107**	**972**	**37,653**	**291**
Fixed maturities, trading	**464**	**2**		**15**	**451**	
Total fixed maturities	**37,591**	**1,607**	**107**	**987**	**38,104**	**291**
Equity securities:						
Common stock	**79**	**15**		**2**	**92**	
Preferred stock	**572**	**49**		**32**	**589**	
Equity securities available-for-sale	**651**	**64**	**-**	**34**	**681**	**-**
Equity securities, trading	**287**	**114**	**9**	**26**	**366**	
Total equity securities	**938**	**178**	**9**	**60**	**1,047**	**-**
Total	**$ 38,529**	**$ 1,785**	**$ 116**	**$ 1,047**	**$ 39,151**	**$ 291**
December 31, 2009						
Fixed maturity securities:						
U.S. Treasury securities and obligations of government agencies	$ 184	$ 16	$ 1		$ 199	
Asset-backed securities:						
Residential mortgage-backed securities	7,470	72	43	$ 561	6,938	$ 246
Commercial mortgage-backed securities	709	10	1	134	584	3
Other asset-backed securities	858	14	1	39	832	
Total asset-backed securities	9,037	96	45	734	8,354	249
States, municipalities and political subdivisions-tax-exempt securities	7,142	201	25	325	6,993	

Corporate and other taxable bonds	19,015	1,123	50	249	19,839	26
Redeemable preferred stock	51	4		1	54	
Fixed maturities available-for-sale	35,429	1,440	121	1,309	35,439	275
Fixed maturities, trading	395	3		21	377	
Total fixed maturities	35,824	1,443	121	1,330	35,816	275
Equity securities:						
Common stock	61	14	1	1	73	
Preferred stock	572	40		41	571	
Equity securities available-for-sale	633	54	1	42	644	-
Equity securities, trading	310	109	10	46	363	
Total equity securities	943	163	11	88	1,007	-
Total	$ 36,767	$ 1,606	$ 132	$ 1,418	$ 36,823	$ 275

The amount of pretax net unrealized gains on available-for-sale securities reclassified out of Accumulated other comprehensive income (AOCI) into earnings was $32 million for the three months ended March 31, 2010.

Activity for the three months ended March 31, 2010 related to the pretax fixed maturity credit loss component reflected within Retained earnings for securities still held at March 31, 2010 was as follows:

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(In millions)		Three Months Ended March 31, 2010
Beginning balance of credit losses on fixed maturity securities	$	164
Additional credit losses for which an OTTI loss was previously recognized		11
Additional credit losses for which an OTTI loss was not previously recognized		5
Reductions for securities sold during the period		(9)
Ending balance of credit losses on fixed maturity securities	$	171

Based on current facts and circumstances, the Company has determined that no additional OTTI losses related to the securities in an unrealized loss position presented in the March 31, 2010 summary of fixed maturity and equity securities table above are required to be recorded. A discussion of some of the factors reviewed in making that determination is presented below.

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

Asset-Backed Securities

The fair value of total asset-backed holdings at March 31, 2010 was $8,476 million which was comprised of 2,142 different asset-backed structured securities. The fair value of these securities does not tend to be influenced by the credit of the issuer but rather the characteristics and projected cash flows of the underlying collateral. Each security has deal-specific tranche structures, credit support that results from the unique deal structure, particular collateral characteristics and other distinct security terms. As a result, seemingly common factors such as delinquency rates and collateral performance affect each security differently. Of these securities, 202 have underlying collateral that is either considered sub-prime or Alt-A in nature. The exposure to sub-prime residential mortgage collateral and Alternative A residential mortgages that have lower than normal standards of loan documentation collateral is measured by the original deal structure.

Residential mortgage-backed securities include 270 structured securities in a gross unrealized loss position. In addition, there were 60 agency mortgage-backed pass-through securities which are guaranteed by agencies of the U.S. Government in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 8.8% of amortized cost.

Commercial mortgage-backed securities include 35 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 16.4% of amortized cost. Other asset-backed securities include 40 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized loss was approximately 6.5% of amortized cost.

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

March 31, 2010 (In millions)	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
U.S. Government Agencies	$ 1,568	$ 1,549	$ 19
AAA	1,933	1,752	181
AA	485	420	65
A	302	243	59
BBB	436	392	44
Non-investment grade and equity tranches	1,330	1,126	204
Total	$ 6,054	$ 5,482	$ 572

The Company believes the unrealized losses are primarily attributable to broader economic conditions, liquidity concerns and wider than historical bid/ask spreads, and are not indicative of the quality of the underlying collateral. The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost. Generally, non-investment grade securities consist of investments which were investment grade at the time of purchase but have subsequently been downgraded and primarily consist of holdings senior to the equity tranche. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of principal and interest, collateral shortfalls, or substantial changes in future cash flow expectations; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at March 31, 2010.

States, Municipalities and Political Subdivisions Tax-Exempt Securities

The tax-exempt portfolio consists primarily of special revenue and assessment bonds, representing 82.8% of the overall portfolio, followed by general obligation political subdivision bonds at 12.7% and state general obligation bonds at 4.5%.

The unrealized losses on the Company s investments in tax-exempt municipal securities are due to market conditions in certain sectors or states that continued to lag behind the broader municipal market recovery. Market conditions in the tax-exempt sector continued to improve in the first quarter of 2010. However, yields for certain issuers and types of securities, such as zero coupon bonds, auction rate and tobacco securitizations, continue to be higher than historical norms relative to after tax returns on other fixed income alternatives. The holdings for all tax-exempt securities in this category include 313 securities in a gross unrealized loss position. The aggregate severity of the total gross unrealized losses was approximately 11.6% of amortized cost.

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

March 31, 2010 (In millions)	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
AAA	$ 1,195	$ 1,130	$ 65
AA	801	666	135
A	424	402	22
BBB	480	363	117
Non-investment grade	21	20	1
Total	$ 2,921	$ 2,581	$ 340

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The largest exposures at March 31, 2010 as measured by gross unrealized losses were special revenue bonds issued by several states backed by tobacco settlement funds with gross unrealized losses of $105 million, and several separate issues of Puerto Rico sales tax revenue bonds with gross unrealized losses of $79 million. All of these securities are rated investment grade.

The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost. Additionally, the Company believes that the unrealized losses on these securities were not due to factors regarding the ultimate collection of principal and interest; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at March 31, 2010.

Corporate and Other Taxable Bonds

The holdings in this category include 489 securities in a gross unrealized loss position. The aggregate severity of the gross unrealized losses was 3.4% of amortized cost.

The corporate and other taxable bonds in a gross unrealized loss position by ratings distribution are as follows:

March 31, 2010	Amortized Cost	Estimated Fair Value	Gross Unrealized Losses
(In millions)			
Ratings distribution:			
AAA	$ 322	$ 316	$ 6
AA	791	785	6
A	1,368	1,332	36
BBB	1,691	1,617	74
Non-investment grade	680	636	44
Total	$ 4,852	$ 4,686	$ 166

The unrealized losses on corporate and other taxable bonds are attributable to lingering impacts of the broader credit market deterioration primarily in the financial sector of the portfolio. Overall conditions in the corporate bond market have continued to improve in the first quarter of 2010, resulting in improvement in the Company s unrealized position. The Company has no current intent to sell these securities, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost. Additionally, the Company believes that the unrealized losses were not due to factors regarding the ultimate collection of principal and interest; accordingly, the Company has determined that there are no additional OTTI losses to be recorded at March 31, 2010.

The Company has invested in securities with characteristics of both debt and equity investments, often referred to as hybrid debt securities. Such securities are typically debt instruments issued with long or extendable maturity dates, may provide for the ability to defer interest payments without defaulting and are usually lower in the capital structure of the issuer than traditional bonds. The data in the table above includes financial industry sector hybrid debt securities with an aggregate fair value of $670 million and an aggregate amortized cost of $700 million.

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Contractual Maturity

The following table summarizes available-for-sale fixed maturity securities by contractual maturity at March 31, 2010 and December 31, 2009. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Securities not due at a single date are allocated based on weighted average life.

	March 31, 2010		December 31, 2009	
(In millions)	**Amortized Cost**	**Estimated Fair Value**	Amortized Cost	Estimated Fair Value
Due in one year or less	**$ 1,333**	**$ 1,325**	$ 1,240	$ 1,219
Due after one year through five years	**11,371**	**11,679**	10,046	10,244
Due after five years through ten years	**10,469**	**10,567**	10,647	10,539
Due after ten years	**13,954**	**14,082**	13,496	13,437
Total	**$ 37,127**	**$ 37,653**	$ 35,429	$ 35,439

Investment Commitments

As of March 31, 2010, the Company had committed approximately $243 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 multiple bank loans as part of its overall investment strategy and has committed to additional future purchases and sales. The purchase and sale of these investments are recorded on the date that the legal agreements are finalized and cash settlements are made. As of March 31, 2010, the Company had commitments to purchase $337 million and sell $110 million of various bank loans.

3. Fair Value

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

Level 1 Quoted prices for identical instruments in active markets.

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

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

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

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

March 31, 2010 (In millions)	Level 1	Level 2	Level 3	Total
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	$ 130	$ 50		$ 180
Asset-backed securities:				
Residential mortgage-backed securities		6,259	$ 679	6,938
Commercial mortgage-backed securities		617	112	729
Other asset-backed securities		441	368	809
Total asset-backed securities	-	7,317	1,159	8,476
States, municipalities and political subdivisions-tax-exempt securities		5,572	737	6,309
Corporate and other taxable bonds	118	21,830	680	22,628
Redeemable preferred stock	3	53	4	60
Fixed maturities available-for-sale	251	34,822	2,580	37,653
Fixed maturities, trading	147	88	216	451
Total fixed maturities	$ 398	$ 34,910	$ 2,796	$ 38,104
Equity securities available-for-sale	$ 526	$ 147	$ 8	$ 681
Equity securities, trading	366			366
Total equity securities	$ 892	$ 147	$ 8	$ 1,047
Short term investments	$ 5,676	$ 510	$ 1	$ 6,187
Receivables		126	2	128
Life settlement contracts			131	131
Separate account business	44	358	40	442
Payable to brokers	(71)	(146)	(29)	(246)
Discontinued operations investments, included in Other assets	14	110	15	139

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December 31, 2009	Level 1	Level 2	Level 3	Total
(In millions)				
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	$ 145	$ 54		$ 199
Asset-backed securities:				
Residential mortgage-backed securities		6,309	$ 629	6,938
Commercial mortgage-backed securities		461	123	584
Other asset-backed securities		484	348	832
Total asset-backed securities		7,254	1,100	8,354
States, municipalities and political subdivisions-tax-exempt securities		6,237	756	6,993
Corporate and other taxable bonds	139	19,091	609	19,839
Redeemable preferred stock	3	49	2	54
Fixed maturities available-for-sale	287	32,685	2,467	35,439
Fixed maturities, trading	102	78	197	377
Total fixed maturities	$ 389	$ 32,763	$ 2,664	$ 35,816
Equity securities available-for-sale	$ 503	$ 130	$ 11	$ 644
Equity securities, trading	363			363
Total equity securities	$ 866	$ 130	$ 11	$ 1,007
Short term investments	$ 6,818	$ 397		$ 7,215
Receivables		53	$ 2	55
Life settlement contracts			130	130
Separate account business	43	342	38	423
Payable to brokers	(87)	(135)	(50)	(272)
Discontinued operations investments, included in Other liabilities	19	106	16	141

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The tables below present reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2010 and 2009:

		Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses)						Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities
2010	**Beginning Balance**	**Included in Net Income**	**Included in OCI**	**Purchases, Sales, Issuances and Settlements**	**Transfers into Level 3**	**Transfers out of Level 3**	**Balance, March 31**	**Held at March 31**
(In millions)								
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	$ 629	$ (10)	$ 26	$ 42		$ (8)	$ 679	$ (11)
Commercial mortgage-backed securities	123	(1)	(4)	(5)	$ 7	(8)	112	(2)
Other asset-backed securities	348	4	21	(5)			368	
Total asset-backed securities	1,100	(7)	43	32	7	(16)	1,159	(13)
States, municipalities and political subdivisions-tax-exempt securities	756		2	(21)			737	
Corporate and other taxable bonds	609	2	29	55	9	(24)	680	
Redeemable preferred stock	2		2				4	
Fixed maturities available-for-sale	2,467	(5)	76	66	16	(40)	2,580	(13)
Fixed maturities, trading	197	6		13			216	6
Total fixed maturities	$ 2,664	$ 1	$ 76	$ 79	$ 16	$ (40)	$ 2,796	$ (7)
Equity securities available-for-sale	$ 11				$ 2	$ (5)	$ 8	
Short term investments					1		1	
Life settlement contracts	130	$ 10		$ (9)			131	$ 3
Separate account business	38			2			40	
Discontinued operations investments	16		$ 1	(2)			15	
	(48)	(8)	14	15			(27)	

Derivative financial instruments, net

2009	Beginning Balance	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses)		Purchases, Sales, Issuances and Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, March 31	Unrealized Gains (Losses) Recognized in Net Income (Loss) on Level 3 Assets and Liabilities Held at March 31
		Included in Net Income (Loss)	Included in OCI					
(In millions)								
Fixed maturity securities:								
Asset-backed securities:								
Residential mortgage-backed securities	$ 782	$ (17)	$ 1	$ (23)			$ 743	$ (19)
Commercial mortgage-backed securities	186	(10)	(13)	(5)			158	(9)
Other asset-backed securities	139	(30)	30	(40)	$ 153		252	(32)
Total asset-backed securities	1,107	(57)	18	(68)	153		1,153	(60)
States, municipalities and political subdivisions-tax-exempt securities	750		37	(3)			784	
Corporate and other taxable bonds	622	(5)	(1)	204	2	$ (13)	809	(6)
Redeemable preferred stock	13	(9)	8	7			19	(9)
Fixed maturities available-for-sale	2,492	(71)	62	140	155	(13)	2,765	(75)
Fixed maturities, trading	218	3		(8)			213	
Total fixed maturities	$ 2,710	$ (68)	$ 62	$ 132	$ 155	$ (13)	$ 2,978	$ (75)
Equity securities available-for-sale	$ 210						$ 210	
Life settlement contracts	129	$ 11		$ (13)			127	$ 2
Separate account business	38		$ 1	(1)			38	
Discontinued operations investments	15		(1)	(1)			13	
Derivative financial instruments, net	(72)	18	(10)	6			(58)	24

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

Major Category of Assets and Liabilities	Consolidated Condensed Statements of Operations 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

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 shown in the Level 3 tables may be transferred in or out based on the availability of observable market information used to verify pricing sources or used in pricing models. The availability of observable market information varies based on market conditions and trading volume and may cause securities to move in and out of Level 3 from reporting period to reporting period. The Company s policy is to recognize transfers between levels at the beginning of the reporting period.

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

Fixed Maturity Securities

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

Equity Securities

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

Derivative Financial Instruments

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

Short Term Investments

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

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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.

Discontinued Operations Investments

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

Separate Account Business

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

Assets and Liabilities Not Measured at Fair Value

The Company did not have any financial instrument assets which are not measured at fair value. The carrying amount and estimated fair value of the Company s financial instrument liabilities which are not measured at fair value on the Consolidated Condensed Balance Sheets are listed in the table below.

	March 31, 2010		December 31, 2009	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
(In millions)				
Financial liabilities:				
Premium deposits and annuity contracts	**$ 104**	**$ 105**	$ 105	$ 106
Short term debt	**62**	**62**	10	10
Long term debt	**9,549**	**9,836**	9,475	9,574

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

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

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

4. Derivative Financial Instruments

The Company invests in certain derivative instruments for a number of purposes, including: (i) asset and liability management activities, (ii) income enhancements for its portfolio management strategy and (iii) to benefit from anticipated future movements in the underlying markets. If such movements do not occur as anticipated, then significant losses may occur.

Monitoring procedures include senior management review of daily detailed reports of existing positions and valuation fluctuations to ensure that open positions are consistent with the Company s portfolio strategy.

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

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

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

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

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

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

Foreign exchange rate risk arises from the possibility that changes in foreign currency exchange rates will impact the fair value of financial instruments denominated in a foreign currency. The Company s foreign transactions are primarily denominated in Australian dollars, Brazilian reais, British pounds, Canadian dollars and the European Monetary Unit. The Company typically manages this risk via asset/liability currency matching and through the use of foreign currency forwards. In May of 2009, Diamond Offshore began a hedging strategy and designated certain of its qualifying foreign currency forward exchange contracts as cash flow hedges.

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

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

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

The tables below summarize CDS contracts where the Company sold credit protection as of March 31, 2010 and December 31, 2009. The fair value of the contracts represents the amount that the Company would receive at those dates to exit the derivative positions. The maximum amount of future payments assumes no residual value in the defaulted securities that the Company would receive as part of the contract terminations and is equal to the notional value of the CDS contracts.

March 31, 2010	**Fair Value of Credit Default Swaps**	**Maximum Amount of Future Payments under Credit Default Swaps**	**Weighted Average Years To Maturity**
(In millions)			
B	**$ 1**	**$ 8**	**2.9**
Total	**$ 1**	**$ 8**	**2.9**
December 31, 2009			
B		$ 8	3.1
Total		$ 8	3.1

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized fair value of the asset related to the instruments recognized on the Consolidated Condensed Balance Sheets. The Company attempts to mitigate the risk of non-performance by monitoring the creditworthiness of counterparties and diversifying derivatives to multiple counterparties. The Company generally requires that all over-the-counter derivative contracts be governed by an International Swaps and Derivatives Association (ISDA) Master Agreement, and exchanges collateral under the terms of these agreements with its derivative investment counterparties depending on the amount of the exposure and the credit rating of the counterparty. The Company does not offset its net derivative positions against the fair value of the collateral provided. The fair value of collateral provided by the Company was $13 million at March 31, 2010 and $7 million at December 31, 2009 and primarily consisted of cash and U.S. Treasury Bills. The fair value of cash collateral received from counterparties was $2 million at March 31, 2010 and $1 million at December 31, 2009.

The agreements governing HighMount s derivative instruments contain certain covenants, including a maximum debt to capitalization ratio reviewed quarterly. If HighMount does not comply with these covenants, the counterparties to the derivative instruments could terminate the agreements and request payment on those derivative instruments in net liability positions. The aggregate fair value of HighMount s derivative instruments that are in a liability position was $161 million at March 31, 2010. HighMount was not required to post any collateral under the governing agreements. At March 31, 2010, HighMount was in compliance with all of its covenants under the derivatives agreements.

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

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A summary of the aggregate contractual or notional amounts and gross estimated fair values related to derivative financial instruments follows. Equity options purchased are included in Equity securities, and all other derivative assets are reported as Receivables. Derivative liabilities are included in Payable to brokers on the Consolidated Condensed Balance Sheets. The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and may not be representative of the potential for gain or loss on these instruments.

	March 31, 2010			December 31, 2009		
	Contractual/ Notional Amount	**Estimated Fair Value Asset**	**Estimated Fair Value (Liability)**	Contractual/ Notional Amount	Estimated Fair Value Asset	Estimated Fair Value (Liability)
(In millions)						
With hedge designation						
Interest rate risk:						
Interest rate swaps	**$ 1,095**		**$ (94)**	$ 1,600		$ (135)
Commodities:						
Forwards short	**656**	**$ 120**	**(23)**	715	$ 50	(39)
Foreign exchange:						
Currency forwards short	**78**	**2**	**(1)**	114	3	
Other				13	2	
Without hedge designation						
Equity markets:						
Options purchased	**173**	**26**		242	45	
written	**174**		**(6)**	282		(9)
Interest rate risk:						
Interest rate swaps	**514**		**(44)**	9		
Credit default swaps						
purchased protection	**70**		**(5)**	116		(11)
sold protection	**8**	**1**		8		
Futures long	**58**					
short	**727**			132		
Commodities:						
Forwards short	**41**	**13**				
Foreign exchange:						
Currency options short	**225**		**(8)**			
Other	**8**			2		
Total	**$ 3,827**	**$ 162**	**$ (181)**	$ 3,233	$ 100	$ (194)

Derivatives without hedge designation For derivatives not held in a trading portfolio, new derivative transactions entered into totaled approximately $104 million and $6.1 billion in notional value while derivative termination activity totaled approximately $149 million and $6.1 billion during the three months ended March 31, 2010 and 2009. This activity was primarily attributable to credit default swaps and forward commitments for mortgage-backed securities.

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A summary of the recognized gains (losses) related to derivative financial instruments without hedge designation follows. Changes in the fair value of derivatives not held in a trading portfolio are reported in Investment gains (losses) and changes in the fair value of derivatives held for trading purposes are reported in Net investment income on the Consolidated Condensed Statements of Operations.

Three Months Ended March 31	**2010**	2009
(In millions)		
Included in Net investment income:		
Equity risk:		
Equity options purchased	**$ (13)**	$ 5
written	**6**	
Futures long	**1**	
short	**(4)**	
Foreign exchange:		
Currency forwards long		(8)
short		7
Currency options short	**2**	
Interest rate risk:		
Credit default swaps purchased protection		9
sold protection		(6)
Options on government securities short		11
Futures long	**3**	5
short	**3**	
Other	**(1)**	(3)
	(3)	20
Included in Investment gains (losses):		
Equity options written		11
Interest rate risk:		
Interest rate swaps	**(26)**	21
Credit default swaps purchased protection		(9)
sold protection		(6)
Futures short		14
Commodity forwards short	**13**	
	(13)	31
Total	**$ (16)**	$ 51

Cash flow hedges A significant portion of the Company s hedge strategies represents cash flow hedges of the variable price risk associated with the purchase and sale of natural gas and other energy-related products. As of March 31, 2010, approximately 104.5 billion cubic feet of natural gas equivalents was hedged by qualifying cash flow hedges. The effective portion of these commodity hedges is reclassified from OCI into earnings when the anticipated transaction affects earnings. Approximately 47% of these derivatives have settlement dates in 2010 and 41% have settlement dates in 2011. As of March 31, 2010, the estimated amount of net unrealized gains associated with commodity contracts that will be reclassified into earnings during the next twelve months was $74 million. However, these amounts are likely to vary materially as a result of changes in market conditions. Diamond Offshore uses foreign currency forward exchange contracts to reduce exposure to foreign currency losses on future foreign currency expenditures. The effective portion of these hedges is reclassified from OCI into earnings when the hedged transaction affects earnings or it is determined that the hedged transaction will not occur. As of March 31, 2010, the estimated amount of net unrealized gains associated with these contracts that will be reclassified into earnings over the next twelve months was $1 million. The Company also uses interest rate swaps to hedge its exposure to variable interest rates or risk attributable to changes in interest rates on long term debt. The effective portion of the hedges is amortized to interest expense over the term of the related notes. As of March 31, 2010, the estimated amount of net unrealized losses associated with interest rate swaps that will be reclassified into earnings during the next twelve months was $64 million. However, this is likely to vary as a result of changes in the LIBOR rate. For the three months ended March 31, 2010 and 2009, the net amounts recognized due to ineffectiveness were less than $1 million.

In February of 2010, HighMount determined that a portion of the expected underlying transactions related to its cash flow hedging activities were no longer probable of occurring and discontinued hedge accounting treatment for a portion of its interest rate swaps and its commodity price swaps. In March of 2010, HighMount entered into a definitive agreement to sell substantially all of its exploration and production assets located in the Antrim Shale in Michigan and recorded a loss of $22 million in Investment gains (losses) in the Consolidated Condensed Statements of Operations, reflecting the reclassification of net derivative losses from AOCI to earnings.

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

Three Months Ended March 31, 2010 (In millions)	Amount of Gain (Loss) Recognized in OCI	Location of Gain (Loss) Reclassified from OCI into Income (Loss)	Amount of Gain (Loss) Reclassified from OCI into Income (Loss)
Commodities	**$ 104**	**Other revenues**	**$ 30**
Foreign exchange		**Contract drilling expenses**	**2**
Interest rate risks	**(22)**	**Interest**	**(46)**
Total	**$ 82**		**$ (14)**
Three Months Ended March 31, 2009			
Commodities	$ 92	Other revenues	$ 74
Interest rate risks	(9)	Interest	(14)
Total	$ 83		$ 60

The Company also enters into short sales as part of its portfolio management strategy. Short sales are commitments to sell a financial instrument not owned at the time of sale, usually done in anticipation of a price decline. These sales resulted in proceeds of $53 million with fair value liabilities of $65 million at March 31, 2010. These positions are marked to market and investment gains or losses are included in Net investment income in the Consolidated Condensed Statements of Operations.

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 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 general liability and

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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.

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company s results of operations and/or equity. CNA reported catastrophe losses, net of reinsurance, of $40 million and $13 million for the three months ended March 31, 2010 and 2009 for events occurring in those periods. Catastrophe losses in the first quarter of 2010 related primarily to winter storms and the Chilean earthquake. There can be no assurance that CNA s ultimate cost for catastrophes will not exceed current estimates.

The following provides discussion of the Company s Asbestos and Environmental Pollution (A&E) reserves.

A&E Reserves

The Company s property and casualty insurance subsidiaries have actual and potential exposures related to A&E claims.

The following table provides data related to the Company s A&E claim and claim adjustment expense reserves.

	March 31, 2010		December 31, 2009	
	Asbestos	**Environmental Pollution**	Asbestos	Environmental Pollution
(In millions)				
Gross reserves	**$ 1,991**	**$ 467**	$ 2,046	$ 482
Ceded reserves	**(895)**	**(195)**	(909)	(196)
Net reserves	**$ 1,096**	**$ 272**	$ 1,137	$ 286

Asbestos

The table below provides a reconciliation between CNA s beginning and ending net reserves for asbestos.

Asbestos Reserves

Three Months Ended March 31	**2010**	2009
(In millions)		
Beginning net reserves	**$ 1,137**	$ 1,202
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	**-**	-
Paid claims, net of reinsurance recoveries	**(41)**	(51)
Ending net reserves	**$ 1,096**	$ 1,151

The ultimate cost of reported claims, and in particular A&E claims, is subject to a great many uncertainties, including future developments of various kinds that CNA does not control and that are difficult or impossible to foresee accurately. With respect to the litigation identified, pending rulings are critical to the evaluation of the ultimate cost to CNA. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

Some asbestos-related defendants have asserted that their insurance policies are not subject to aggregate limits on coverage. CNA has such claims from a number of insureds. Some of these claims involve insureds facing exhaustion of products liability aggregate limits in their policies, who have asserted that their asbestos-related claims fall within so-called non-products liability coverage contained within their policies rather than products liability coverage, and that the claimed non-products coverage is not subject to any aggregate limit. It is difficult to predict the

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ultimate size of any of the claims for coverage purportedly not subject to aggregate limits or predict to what extent, if any, the attempts to assert non-products claims outside the products liability aggregate will succeed. CNA s policies also contain other limits applicable to these claims and CNA has additional coverage defenses to certain claims. CNA has attempted to manage its asbestos exposure by aggressively seeking to settle claims on acceptable terms. There can be no assurance that any of these settlement efforts will be successful, or that any such claims can be settled on terms acceptable to CNA. Where CNA cannot settle a claim on acceptable terms, CNA aggressively litigates the claim. However, adverse developments with respect to such matters could have a material adverse effect on the Company s results of operations and/or equity.

Certain asbestos claim litigation in which CNA is currently engaged is described below:

A.P. Green: In February 2003, CNA announced it had resolved asbestos-related coverage litigation and claims involving A.P. Green Industries, A.P. Green Services and Bigelow Liptak Corporation. Under the agreement, CNA is required to pay $70 million, net of reinsurance recoveries, over a ten year period commencing after the final approval of a bankruptcy plan of reorganization. The settlement received initial bankruptcy court approval in August 2003. The debtor s plan of reorganization includes an injunction to protect CNA from any future claims. The bankruptcy court issued an opinion in September 2007 recommending confirmation of that plan. In July 2008, the District Court affirmed the Bankruptcy Court s ruling. Several insurers have appealed that ruling to the Third Circuit Court of Appeals; that appeal was argued in May 2009 and the parties are awaiting the court s decision.

Direct Action Case - Montana: In March 2002, a direct action was filed in Montana (*Pennock, et al. v. Maryland Casualty, et al.* First Judicial District Court of Lewis & Clark County, Montana) by eight individual plaintiffs (all employees of W.R. Grace & Co. (W.R. Grace)) and their spouses against CNA, Maryland Casualty and the State of Montana. This action alleges that the carriers failed to warn of or otherwise protect W.R. Grace employees from the dangers of asbestos at a W.R. Grace vermiculite mining facility in Libby, Montana. The Montana direct action is currently stayed because of W.R. Grace s pending bankruptcy. In April 2008, W.R. Grace announced a settlement in principle with the asbestos personal injury claimants committee subject to confirmation of a plan of reorganization by the bankruptcy court. The confirmation hearing was held in two phases. The first phase was held in June 2009. The second phase concluded in January 2010 and the bankruptcy court has taken the matter under advisement. The settlement in principle with the asbestos claimants has no present impact on the stay currently imposed on the Montana direct action and with respect to such claims, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include: (a) the unclear nature and scope of any alleged duties owed to people exposed to asbestos and the resulting uncertainty as to the potential pool of potential claimants; (b) the potential application of Statutes of Limitation to many of the claims which may be made depending on the nature and scope of the alleged duties; (c) the unclear nature of the required nexus between the acts of the defendants and the right of any particular claimant to recovery; (d) the diseases and damages claimed by such claimants; (e) the extent that such liability would be shared with other potentially responsible parties; and (f) the impact of bankruptcy proceedings on claims resolution. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

CNA is vigorously defending these and other cases and believes that it has meritorious defenses to the claims asserted. However, there are numerous factual and legal issues to be resolved in connection with these claims, and it is extremely difficult to predict the outcome or ultimate financial exposure represented by these matters. Adverse developments with respect to any of these matters could have a material adverse effect on CNA s business, insurer financial strength and debt ratings and the Company s results of operations and/or equity.

Environmental Pollution

The table below provides a reconciliation between CNA s beginning and ending net reserves for environmental pollution.

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Environmental Pollution Reserves

Three Months Ended March 31 **(In millions)**	**2010**	2009
Beginning net reserves	**$ 286**	$ 262
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	**-**	-
Paid claims, net of reinsurance recoveries	**(14)**	(14)
Ending net reserves	**$ 272**	$ 248

Net Prior Year Development

The following tables and discussion include the net prior year development recorded for CNA Specialty, CNA Commercial and Other Insurance. Favorable net prior year development of $9 million was recorded in the Life & Group Non-Core segment for the three months ended March 31, 2010. Included in this amount is favorable reserve development of $24 million arising from a commutation of an assumed reinsurance agreement. For the three months ended March 31, 2009 for the Life & Group Non-Core segment, unfavorable net prior year development of $11 million was recorded.

Three Months Ended March 31, 2010 **(In millions)**	**CNA Specialty**	**CNA Commercial**	**Other Insurance**	**Total**
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	**$ (25)**	**$ (28)**	**$ 2**	**$ (51)**
A&E				
Pretax (favorable) unfavorable net prior year development before impact of premium development	**(25)**	**(28)**	**2**	**(51)**
Pretax (favorable) unfavorable premium development	**(4)**	**21**	**(1)**	**16**
Total pretax (favorable) unfavorable net prior year development	**$ (29)**	**$ (7)**	**$ 1**	**$ (35)**
Three Months Ended March 31, 2009				
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development:				
Core (Non-A&E)	$ (29)	$ (42)	$ 1	$ (70)
A&E				
Pretax (favorable) unfavorable net prior year development before impact of premium development	(29)	(42)	1	(70)
Pretax (favorable) unfavorable premium development	(5)	20	(1)	14
Total pretax (favorable) unfavorable net prior year development	$ (34)	$ (22)	$ -	$ (56)

2010 Net Prior Year Development

CNA Specialty

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable incurred loss emergence in several professional liability lines of business primarily in accident years 2007 and prior. This favorability was partially offset by unfavorable development in the employee practices liability line driven by higher unemployment, primarily in accident years 2008 and 2009.

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CNA Commercial

The favorable claim and allocated claim adjustment expense reserve development was primarily due to favorable experience in non-catastrophe related property coverages in accident years 2007 and prior.

2009 Net Prior Year Development

CNA Specialty

The favorable claim and allocated claim adjustment expense reserve development was primarily due to experience in liability coverages. This favorable development was the result of decreased frequency of large claims in accident years 2007 and prior.

An additional $7 million of favorable claim and allocated claim adjustment expense reserve development was a result of favorable outcomes on claims relating to catastrophes in accident years 2005 and 2008.

CNA Commercial

The favorable claim and allocated claim adjustment expense reserve development was primarily due to experience in property coverages, including $31 million resulting from favorable frequency and severity on claims relating to catastrophes in accident year 2008.

6. Benefit Plans

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

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

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

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

The components of net periodic benefit cost are as follows:

	Pension Benefits		**Other Postretirement Benefits**	
Three Months Ended March 31	**2010**	2009	**2010**	2009
(In millions)				
Service cost	**$ 6**	$ 7	**$ 1**	$ 1
Interest cost	**42**	43	**3**	3
Expected return on plan assets	**(44)**	(39)	**(1)**	(1)

Amortization of unrecognized net loss	**7**	7	**1**	1
Amortization of unrecognized prior service cost			**(6)**	(6)
Regulatory asset decrease			**1**	1
Net periodic benefit cost	**$ 11**	$ 18	**$ (1)**	$ (1)

7. Business Segments

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

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

CNA s non-core operations are managed in two segments: Life & Group Non-Core and Other Insurance. Life & Group Non-Core primarily includes the results of the life and group lines of business that are in run-off. Other Insurance primarily includes certain corporate expenses, including interest on corporate debt, and the results of certain property and casualty business primarily in run-off, including CNA Re. This segment also includes the results related to the centralized adjusting and settlement of A&E.

Diamond Offshore s business primarily consists of operating 47 offshore drilling rigs that are chartered on a contract basis for fixed terms by companies engaged in exploration and production of hydrocarbons. Offshore rigs are mobile units that can be relocated based on market demand. On March 31, 2010, Diamond Offshore s drilling rigs were located offshore twelve countries in addition to the United States.

HighMount s business consists primarily of natural gas exploration and production operations located in the Permian Basin in Texas, the Antrim Shale in Michigan and the Black Warrior Basin in Alabama. In April of 2010, HighMount sold its exploration and production assets located in the Antrim Shale in Michigan and entered into a definitive agreement with another purchaser to sell its exploration and production assets located in the Black Warrior Basin in Alabama.

Boardwalk Pipeline is engaged in the interstate transportation and storage of natural gas. This segment consists of three interstate natural gas pipeline systems originating in the Gulf Coast area and running north and east through Texas, Louisiana, Mississippi, Alabama, Florida, Arkansas, Tennessee, Kentucky, Indiana, Ohio, Illinois and Oklahoma.

Loews Hotels owns and/or operates 19 hotels, 17 of which are in the United States and two are in Canada. The Loews Atlanta Hotel, which is operated under a management contract, opened on April 1, 2010.

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

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. In addition, CNA does not maintain a distinct investment portfolio for each of its insurance segments, and accordingly, allocation of assets to each segment is not performed. Therefore, net investment income and investment gains (losses) are allocated based on each segment s carried insurance reserves, as adjusted.

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

Three Months Ended March 31 **(In millions)**	**2010**	2009
Revenues (a):		
CNA Financial:		
CNA Specialty	**$ 866**	$ 690
CNA Commercial	**1,073**	836
Life and Group Non-Core	**320**	124
Other Insurance	**56**	(12)
Total CNA Financial	**2,315**	1,638
Diamond Offshore	**862**	886
HighMount	**148**	175
Boardwalk Pipeline	**301**	224
Loews Hotels	**75**	73
Corporate and other	**12**	27
Total	**$ 3,713**	$ 3,023
Income (loss) before income tax and noncontrolling interest (a):		
CNA Financial:		
CNA Specialty	**$ 216**	$ 55
CNA Commercial	**163**	(87)
Life and Group Non-Core	**(21)**	(240)
Other Insurance	**2**	(60)
Total CNA Financial	**360**	(332)
Diamond Offshore	**405**	451
HighMount	**57**	(1,006)
Boardwalk Pipeline	**88**	51
Loews Hotels	**(1)**	(29)
Corporate and other	**(13)**	(3)
Total	**$ 896**	$ (868)
Net income (loss) - Loews (a):		
CNA Financial:		
CNA Specialty	**$ 123**	$ 35
CNA Commercial	**100**	(44)
Life and Group Non-Core	**(3)**	(131)
Other Insurance	**5**	(30)
Total CNA Financial	**225**	(170)
Diamond Offshore	**136**	163
HighMount	**32**	(641)
Boardwalk Pipeline	**38**	22
Loews Hotels	**(1)**	(18)

Corporate and other	**(10)**	(3)
Total	**$ 420**	$ (647)

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

Three Months Ended March 31	2010	2009
Revenues and Income (loss) before income tax and noncontrolling interest:		
CNA Financial:		
CNA Specialty	**$ 13**	$ (109)
CNA Commercial	**21**	(186)
Life and Group Non-Core	**(4)**	(190)
Other Insurance	**4**	(47)
Total CNA Financial	**34**	(532)
Corporate and other	**(13)**	1
Total	**$ 21**	$ (531)
Net income (loss) - Loews:		
CNA Financial:		
CNA Specialty	**$ 8**	$ (63)
CNA Commercial	**12**	(108)
Life and Group Non-Core	**(4)**	(111)
Other Insurance	**3**	(28)
Total CNA Financial	**19**	(310)
Corporate and other	**(8)**	
Total	**$ 11**	$ (310)

8. Legal Proceedings

On August 1, 2005, CNA and certain insurance subsidiaries were joined as defendants, along with other insurers and brokers, in multidistrict litigation pending in the United States District Court for the District of New Jersey, *In re Insurance Brokerage Antitrust Litigation,* Civil No. 04-5184 (FSH). The plaintiffs allege bid rigging and improprieties in the payment of contingent commissions in connection with the sale of insurance that violated federal and state antitrust laws, the federal Racketeer Influenced and Corrupt Organizations (RICO) Act and state common law. After discovery, the District Court dismissed the federal antitrust claims and the RICO claims, and declined to exercise supplemental jurisdiction over the state law claims. The plaintiffs have appealed the dismissal of their complaint to the Third Circuit Court of Appeals. The parties have filed their briefs on the appeal. Oral argument was held on April 21, 2009, and the Court took the matter under advisement. CNA believes it has meritorious defenses to this action and intends to defend the case vigorously.

The extent of losses beyond any amounts that may be accrued are not readily determinable at this time. However, based on facts and circumstances presently known, in the opinion of management, an unfavorable outcome will not materially affect the equity of the Company, although results of operations may be adversely affected.

CNA is also a party to litigation and claims related to A&E cases arising in the ordinary course of business. See Note 5 for further discussion.

The Company has been named as a defendant in the following three cases alleging substantial damages based on alleged health effects caused by smoking cigarettes, exposure to tobacco smoke or exposure to asbestos fibers incorporated into filter material used in one brand of cigarette that ceased manufacture more than 50 years ago, all of which also name a former subsidiary, Lorillard, Inc. or one of its subsidiaries, as a defendant. In *Cypret vs. The American Tobacco Company, Inc. et al.* (1998, Circuit Court, Jackson County, Missouri), the Company would contest jurisdiction and make use of all available defenses in the event it receives personal service of this action. In *Clalit vs. Philip Morris, Inc., et al.* (1998, Jerusalem District Court of Israel), the court initially permitted plaintiff to serve the Company outside the jurisdiction but it cancelled the leave of service in response to the Company s application, and plaintiff s appeal is pending. In *Young vs. The American Tobacco Company, Inc. et* *al.* (1997, Civil District Court, Orleans Parish, Louisiana), the Company filed an exception for lack of personal jurisdiction during 2000, which remains pending.

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The Company does not believe it is a proper defendant in any tobacco related cases and as a result, does not believe the outcome will have a material affect on its results of operations or equity. Further, pursuant to the Separation Agreement dated May 7, 2008 between the Company and Lorillard Inc. and its subsidiaries, Lorillard, Inc. and its subsidiaries have agreed to indemnify and hold the Company harmless from all costs and expenses based upon or arising out of the operation or conduct of Lorillard s business, including among other things, smoking and health claims and litigation such as the three cases described above. Please read Item 1. Business - Separation of Lorillard and Note 19. Legal Proceedings of the Notes to the Consolidated Financial Statements in the Form 10-K for the year ended December 31, 2009 for additional information.

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

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

9. Commitments and Contingencies

Guarantees

In the course of selling business entities and assets to third parties, CNA has agreed to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging from nine months following the applicable closing date to the expiration of the relevant statutes of limitation. As of March 31, 2010, the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was $819 million.

In addition, CNA has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of March 31, 2010, CNA had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser s ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire, or until the agreed upon contract terms expire.

As of March 31, 2010 and December 31, 2009, CNA has recorded liabilities of approximately $16 million related to indemnification agreements and management believes that it is not likely that any future indemnity claims will be significantly greater than the amounts recorded.

10. Consolidating Financial Information

The following schedules present the Company s consolidating balance sheet information at March 31, 2010 and December 31, 2009, and consolidating statements of operations information for the three months ended March 31, 2010 and 2009. These schedules present the individual subsidiaries of the Company and their contribution to the consolidated condensed financial statements. Amounts presented will not necessarily be the same as those in the individual financial statements of the Company s subsidiaries due to adjustments for purchase accounting, income taxes and noncontrolling interests. In addition, many of the Company s subsidiaries use a classified balance sheet which also leads to differences in amounts reported for certain line items.

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

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Loews Corporation

Consolidating Balance Sheet Information

March 31, 2010 (In millions)	CNA Financial	Diamond Offshore	HighMount	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	Total
Assets:								
Investments	$ 42,826	$ 933	$ 144	$ 113	$ 39	$ 3,447		$ 47,502
Cash	95	24	1	13	2			135
Receivables	8,908	808	164	89	39	138	$ (146)	10,000
Property, plant and equipment	297	4,424	1,798	6,334	358	38		13,249
Deferred income taxes	1,133		583				(847)	869
Goodwill	86	20	584	163	3			856
Investments in capital stocks of subsidiaries						15,576	(15,576)	-
Other assets	727	530	42	356	23	15		1,693
Deferred acquisition costs of insurance subsidiaries	1,109							1,109
Separate account business	442							442
Total assets	$ 55,623	$ 6,739	$ 3,316	$ 7,068	$ 464	$ 19,214	$ (16,569)	$ 75,855
Liabilities and Equity:								
Insurance reserves	$ 38,109							$ 38,109
Payable to brokers	289	$ 101	$ 183			$ 89		662
Short term debt		4			$ 58			62
Long term debt	2,304	1,487	1,600	$ 3,225	166	867	$ (100)	9,549
Deferred income taxes		534		356	45	446	(1,381)	-
Other liabilities	2,810	937	133	443	21	206	488	5,038
Separate account business	442							442
Total liabilities	43,954	3,063	1,916	4,024	290	1,608	(993)	53,862
Total shareholders equity	10,175	1,870	1,400	1,897	174	17,606	(15,576)	17,546
Noncontrolling interests	1,494	1,806		1,147				4,447
Total equity	11,669	3,676	1,400	3,044	174	17,606	(15,576)	21,993
Total liabilities and equity	$ 55,623	$ 6,739	$ 3,316	$ 7,068	$ 464	$ 19,214	$ (16,569)	$ 75,855

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Loews Corporation

Consolidating Balance Sheet Information

December 31, 2009 (In millions)	CNA Financial	Diamond Offshore	HighMount	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	Total
Assets:								
Investments	$ 41,996	$ 739	$ 80	$ 46	$ 61	$ 3,112		$ 46,034
Cash	140	39	3	4	2	2		190
Receivables	9,104	794	97	110	27	202	$ (122)	10,212
Property, plant and equipment	304	4,442	1,778	6,348	362	40		