LOEWS CORP
Form 10-Q
May 03, 2016
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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, 2016

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 22, 2016
Common stock, $0.01 par value	339,016,271 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, 2016	December 31, 2015
Assets:		
Investments:		
Fixed maturities, amortized cost of $37,507 and $37,407	$ 40,475	$ 39,701
Equity securities, cost of $817 and $824	777	752
Limited partnership investments	3,301	3,313
Other invested assets, primarily mortgage loans	822	824
Short term investments	5,275	4,810
Total investments	50,650	49,400
Cash	308	440
Receivables	8,227	8,041
Property, plant and equipment	15,351	15,477
Goodwill	350	351
Other assets	1,716	1,699
Deferred acquisition costs of insurance subsidiaries	622	598
Total assets	$ 77,224	$ 76,006
Liabilities and Equity:		
Insurance reserves:		
Claim and claim adjustment expense	$ 23,018	$ 22,663
Future policy benefits	10,500	10,152
Unearned premiums	3,807	3,671
Total insurance reserves	37,325	36,486
Payable to brokers	630	567
Short term debt	3	1,040
Long term debt	10,584	9,520
Deferred income taxes	540	382
Other liabilities	5,017	5,201

Total liabilities	**54,099**	53,196
Commitments and contingent liabilities		
Preferred stock, $0.10 par value:		
Authorized 100,000,000 shares		
Common stock, $0.01 par value:		
Authorized 1,800,000,000 shares		
Issued 339,933,179 and 339,897,547 shares	**3**	3
Additional paid-in capital	**3,177**	3,184
Retained earnings	**14,812**	14,731
Accumulated other comprehensive loss	**(126)**	(357)
	17,866	17,561
Less treasury stock, at cost (918,767 shares)	**(33)**	
Total shareholders equity	**17,833**	17,561
Noncontrolling interests	**5,292**	5,249
Total equity	**23,125**	22,810
Total liabilities and equity	**$ 77,224**	$ 76,006

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

Three Months Ended March 31	**2016**	2015
(In millions, except per share data)		
Revenues:		
Insurance premiums	**$ 1,699**	$ 1,687
Net investment income	**422**	588
Investment gains (losses):		
Other-than-temporary impairment losses	**(23)**	(12)
Other net investment gains (losses)	**(5)**	22
Total investment gains (losses)	**(28)**	10
Contract drilling revenues	**444**	600
Other revenues	**636**	593
Total	**3,173**	3,478
Expenses:		
Insurance claims and policyholders benefits	**1,408**	1,339
Amortization of deferred acquisition costs	**307**	303
Contract drilling expenses	**213**	351
Other operating expenses (Note 4)	**907**	1,249
Interest	**143**	131
Total	**2,978**	3,373
Income before income tax	**195**	105
Income tax (expense) benefit	**4**	(56)
Net income	**199**	49
Amounts attributable to noncontrolling interests	**(97)**	60
Net income attributable to Loews Corporation	**$ 102**	$ 109
Basic and diluted net income per share	**$ 0.30**	$ 0.29
Dividends per share	**$ 0.0625**	$ 0.0625

Weighted average shares outstanding:		
Shares of common stock	**339.10**	372.83
Dilutive potential shares of common stock	**0.15**	0.36
Total weighted average shares outstanding assuming dilution	**339.25**	373.19

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

Three Months Ended March 31	**2016**	2015
(In millions)		
Net income	**$ 199**	$ 49
Other comprehensive income (loss), after tax		
Changes in:		
Net unrealized gains (losses) on investments with other-than-temporary impairments	**5**	(1)
Net other unrealized gains on investments	**228**	110
Total unrealized gains on available-for-sale investments	**233**	109
Unrealized gains on cash flow hedges	**1**	3
Pension liability	**8**	4
Foreign currency	**14**	(96)
Other comprehensive income	**256**	20
Comprehensive income	**455**	69
Amounts attributable to noncontrolling interests	**(122)**	57
Total comprehensive income attributable to Loews Corporation	**$ 333**	$ 126

See accompanying Notes to Consolidated Condensed Financial Statements.

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Loews Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

(Unaudited)

	Loews Corporation Shareholders						
	Total	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Common Stock Held in Treasury**	**Noncontrolling Interests**
n millions)							
alance, nuary 1, 2015	$ 24,650	$ 4	$ 3,481	$ 15,515	$ 280	$ -	$ 5,370
et income	49			109			(60)
ther omprehensive come	20				17		3
ividends paid	(105)			(23)			(82)
suance of quity securities y subsidiary	109		(2)		1		110
urchases of bsidiary stock om oncontrolling terests	(26)		3				(29)
urchases of oews treasury ock	(71)					(71)	
suance of oews common ock	7		7				
ock-based ompensation	5		5				
ther	(8)		(17)	(1)			10
alance, March , 2015	$ 24,630	$ 4	$ 3,477	$ 15,600	$ 298	$ (71)	$ 5,322
alance, nuary 1,	**$ 22,810**	**$ 3**	**$ 3,184**	**$ 14,731**	**$ (357)**	**$ -**	**$ 5,249**

)16							
et income	**199**			**102**			**97**
ther omprehensive come	**256**				**231**		**25**
ividends paid	**(96)**			**(21)**			**(75)**
urchases of ıbsidiary ock from oncontrolling terests	**(9)**		**3**				**(12)**
urchases of oews treasury ock	**(33)**					**(33)**	
tock-based ompensation	**3**		**2**				**1**
ther	**(5)**		**(12)**				**7**
alance, Iarch 31, 2016	**$ 23,125**	**$ 3**	**$ 3,177**	**$ 14,812**	**$ (126)**	**$ (33)**	**$ 5,292**

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	2016	2015
(In millions)		
Operating Activities:		
Net income	$ 199	$ 49
Adjustments to reconcile net income to net cash provided (used) by operating activities, net	585	510
Changes in operating assets and liabilities, net:		
Receivables	(275)	(153)
Deferred acquisition costs	(23)	(13)
Insurance reserves	511	304
Other assets	(20)	(57)
Other liabilities	(287)	(227)
Trading securities	(541)	(371)
Net cash flow operating activities	149	42
Investing Activities:		
Purchases of fixed maturities	(2,238)	(1,919)
Proceeds from sales of fixed maturities	1,722	1,144
Proceeds from maturities of fixed maturities	490	1,144
Purchases of limited partnership investments	(170)	(34)
Proceeds from sales of limited partnership investments	89	20
Purchases of property, plant and equipment	(292)	(453)
Dispositions	220	5
Change in short term investments	16	197
Other, net	6	(10)
Net cash flow investing activities	(157)	94
Financing Activities:		
Dividends paid	(21)	(23)
Dividends paid to noncontrolling interests	(75)	(82)
Purchases of subsidiary stock from noncontrolling interests	(8)	(24)
Purchases of Loews treasury stock	(33)	(67)
Issuance of Loews common stock		7

Proceeds from sale of subsidiary stock		84
Principal payments on debt	**(1,809)**	(759)
Issuance of debt	**1,824**	636
Other, net	**(1)**	5
Net cash flow financing activities	**(123)**	(223)
Effect of foreign exchange rate on cash	**(1)**	(6)
Net change in cash	**(132)**	(93)
Cash, beginning of period	**440**	364
Cash, end of period	**$ 308**	$ 271

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

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

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, 2016 and December 31, 2015 and the results of operations, comprehensive income and changes in shareholders equity and cash flows for the three months ended March 31, 2016 and 2015. Net income for the first quarter of each of the years is not necessarily indicative of net income for that entire year. These Consolidated Condensed Financial Statements should be read in conjunction with the Consolidated Financial Statements in the 2015 Annual Report on Form 10-K.

The Company presents basic and diluted net income per share on the Consolidated Condensed Statements of Income. Basic net income per share excludes dilution and is computed by dividing net income attributable to common stock by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Stock appreciation rights (SARs) of 6.1 million and 3.5 million shares were not included in the diluted weighted average shares amounts for the three months ended March 31, 2016 and 2015 due to the exercise price being greater than the average stock price.

Accounting changes In April of 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The updated accounting guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, rather than as a deferred asset. As required, the Company s Consolidated Condensed Balance Sheet has been retrospectively adjusted to reflect the effect of the adoption of the updated accounting guidance, which resulted in a decrease of $23 million in Other assets and Long term debt at December 31, 2015.

Recently issued ASUs In May of 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the new accounting guidance is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new accounting guidance provides a five-step analysis of transactions to determine when and how revenue is recognized and requires enhanced disclosures about revenue. In August of 2015, the FASB formally amended the effective date of this update to annual reporting periods beginning after December 15, 2017, including interim periods, and it can be adopted either retrospectively or with a cumulative effect adjustment at the date of adoption. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated financial statements.

In May of 2015, the FASB issued ASU 2015-09, Financial Services Insurance (Topic 944): Disclosures about Short-Duration Contracts. The updated accounting guidance requires enhanced disclosures to provide additional information about insurance liabilities for short-duration contracts. The guidance is effective for annual periods beginning after December 15, 2015 and for interim periods beginning after December 15, 2016. The Company is currently evaluating the effect the updated guidance will have on its financial statement disclosures.

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In January of 2016, the FASB issued ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The updated accounting guidance requires changes to the reporting model for financial instruments. The guidance is effective for interim and annual periods beginning after December 15, 2017. The Company is currently evaluating the effect the guidance will have on its consolidated financial statements, and expects the primary change to be the requirement for equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income.

In February of 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The updated guidance requires lessees to recognize lease assets and lease liabilities for most operating leases. In addition, the updated guidance requires that lessors separate lease and nonlease components in a contract in accordance with the new revenue guidance in ASU 2014-09. The updated guidance is effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the effect the updated guidance will have on its consolidated financial statements.

2. Investments

Net investment income is as follows:

Three Months Ended March 31 (In millions)	**2016**	2015
Fixed maturity securities	**$ 446**	$ 443
Limited partnership investments	**(40)**	160
Short term investments	**3**	3
Equity securities	**3**	3
Income (loss) from trading portfolio (a)	**15**	(15)
Other	**9**	8
Total investment income	**436**	602
Investment expenses	**(14)**	(14)
Net investment income	**$ 422**	$ 588

(a) Includes net unrealized gains (losses) related to changes in fair value on trading securities still held of $15 and $(14) for the three months ended March 31, 2016 and 2015.

Investment gains (losses) are as follows:

Three Months Ended March 31 (In millions)	**2016**	2015
Fixed maturity securities	**$ (17)**	$ 12
Equity securities	**(5)**	

Derivative instruments	**(7)**	(1)
Short term investments and other	**1**	(1)
Investment gains (losses) (a)	**$ (28)**	$ 10

(a) Includes gross realized gains of $45 and $34 and gross realized losses of $67 and $22 on available-for-sale securities for the three months ended March 31, 2016 and 2015.

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

Three Months Ended March 31		**2016**		2015
(In millions)				
Fixed maturity securities available-for-sale:				
Corporate and other bonds	**$**	**16**	$	5
States, municipalities and political subdivisions				5
Asset-backed:				
Residential mortgage-backed				1
Other asset-backed		**2**		
Total asset-backed		**2**		1
Total fixed maturities available-for-sale		**18**		11
Equity securities available-for-sale:				
Common stock		**5**		1
Net OTTI losses recognized in earnings	**$**	**23**	$	12

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

March 31, 2016	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Unrealized OTTI Losses (Gains)**
(In millions)					
Fixed maturity securities:					
Corporate and other bonds	**$ 17,093**	**$ 1,255**	**$ 236**	**$ 18,112**	
States, municipalities and political subdivisions	**11,478**	**1,704**	**3**	**13,179**	**$ (15)**
Asset-backed:					
Residential mortgage-backed	**5,028**	**197**	**19**	**5,206**	**(33)**
Commercial mortgage-backed	**2,137**	**78**	**16**	**2,199**	
Other asset-backed	**937**	**4**	**20**	**921**	
Total asset-backed	**8,102**	**279**	**55**	**8,326**	**(33)**
U.S. Treasury and obligations of government-sponsored enterprises	**133**	**7**		**140**	
Foreign government	**447**	**17**	**1**	**463**	

Redeemable preferred stock	**33**	**2**		**35**	
Fixed maturities available-for-sale	**37,286**	**3,264**	**295**	**40,255**	**(48)**
Fixed maturities trading	**221**		**1**	**220**	
Total fixed maturities	**37,507**	**3,264**	**296**	**40,475**	**(48)**
Equity securities:					
Common stock	**37**	**6**	**2**	**41**	
Preferred stock	**145**	**5**	**2**	**148**	
Equity securities available-for-sale	**182**	**11**	**4**	**189**	**-**
Equity securities trading	**635**	**74**	**121**	**588**	
Total equity securities	**817**	**85**	**125**	**777**	**-**
Total	**$ 38,324**	**$ 3,349**	**$ 421**	**$ 41,252**	**$ (48)**

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December 31, 2015	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Unrealized OTTI Losses (Gains)
Fixed maturity securities:					
Corporate and other bonds	$ 17,097	$ 1,019	$ 347	$ 17,769	
States, municipalities and political subdivisions	11,729	1,453	8	13,174	$ (4)
Asset-backed:					
Residential mortgage-backed	4,935	154	17	5,072	(37)
Commercial mortgage-backed	2,154	55	12	2,197	
Other asset-backed	923	6	8	921	
Total asset-backed	8,012	215	37	8,190	(37)
U.S. Treasury and obligations of government-sponsored enterprises	62	5		67	
Foreign government	334	13	1	346	
Redeemable preferred stock	33	2		35	
Fixed maturities available-for-sale	37,267	2,707	393	39,581	(41)
Fixed maturities, trading	140		20	120	
Total fixed maturities	37,407	2,707	413	39,701	(41)
Equity securities:					
Common stock	46	3	1	48	
Preferred stock	145	7	3	149	
Equity securities available-for-sale	191	10	4	197	-
Equity securities, trading	633	56	134	555	
Total equity securities	824	66	138	752	-
Total	$ 38,231	$ 2,773	$ 551	$ 40,453	$ (41)

The net unrealized gains on investments included in the tables above are recorded as a component of Accumulated other comprehensive income (AOCI). When presented in AOCI, these amounts are net of tax and noncontrolling interests and any required Shadow Adjustments. To the extent that unrealized gains on fixed income securities supporting certain products within CNA s Life & Group Non-Core business would result in a premium deficiency if realized, a related increase in Insurance reserves is recorded, net of tax and noncontrolling interests, as a reduction of net unrealized gains through Other comprehensive income (Shadow Adjustments). As of March 31, 2016 and December 31, 2015, the net unrealized gains on investments included in AOCI were net of Shadow Adjustments of $1,176 million and $996 million.

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

March 31, 2016	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
(In millions)						
Fixed maturity securities:						
Corporate and other bonds	$ 2,669	$ 174	$ 279	$ 62	$ 2,948	$ 236
States, municipalities and political subdivisions	90	3	64		154	3
Asset-backed:						
Residential mortgage-backed	376	11	159	8	535	19
Commercial mortgage-backed	505	14	102	2	607	16
Other asset-backed	572	20	5		577	20
Total asset-backed	1,453	45	266	10	1,719	55
U.S. Treasury and obligations of government-sponsored enterprises	23				23	
Foreign government	54	1			54	1
Redeemable preferred stock	2				2	
Total fixed maturity securities	4,291	223	609	72	4,900	295
Common stock	6	2			6	2
Preferred stock	17	2			17	2
Total	$ 4,314	$ 227	$ 609	$ 72	$ 4,923	$ 299

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	Less than 12 Months		12 Months or Longer		Total	
December 31, 2015	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Fixed maturity securities:						
Corporate and other bonds	$ 4,882	$ 302	$ 174	$ 45	$ 5,056	$ 347
States, municipalities and political subdivisions	338	8	75		413	8
Asset-backed:						
Residential mortgage-backed	963	9	164	8	1,127	17
Commercial mortgage-backed	652	10	96	2	748	12
Other asset-backed	552	8	5		557	8
Total asset-backed	2,167	27	265	10	2,432	37
U.S. Treasury and obligations of government-sponsored enterprises	4				4	
Foreign government	54	1			54	1
Redeemable preferred stock	3				3	
Total fixed maturity securities	7,448	338	514	55	7,962	393
Common stock	3	1			3	1
Preferred stock	13	3			13	3
Total	$ 7,464	$ 342	$ 514	$ 55	$ 7,978	$ 397

Based on current facts and circumstances, the Company believes the unrealized losses presented in the table above are not indicative of the ultimate collectibility of the current amortized cost of the securities, but rather are attributable to changes in interest rates, credit spreads and other factors, including volatility in the energy and metals and mining sectors. As of March 31, 2016, the Company held fixed maturity securities and equity securities with an estimated fair value and a cost or amortized cost of $2.5 billion in the energy and metals and mining sectors. The portion of these securities in a gross unrealized loss position had an estimated fair value of $1.1 billion and a cost or amortized cost of $1.2 billion. The Company has no current intent to sell securities with unrealized losses, nor is it more likely than not that it will be required to sell prior to recovery of amortized cost; accordingly, the Company has determined that there are no additional OTTI losses to be recorded as of March 31, 2016.

The following table presents the activity related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held as of March 31, 2016 and 2015 for which a portion of an OTTI loss was recognized in Other comprehensive income.

Three Months Ended March 31	**2016**	2015
(In millions)		

Beginning balance of credit losses on fixed maturity securities	**$**	**53**	$	62
Reductions for securities sold during the period		**(5)**		(1)
Ending balance of credit losses on fixed maturity securities	**$**	**48**	$	61

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Contractual Maturity

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

	March 31, 2016		December 31, 2015	
	Cost or Amortized Cost	**Estimated Fair Value**	Cost or Amortized Cost	Estimated Fair Value
(In millions)				
Due in one year or less	**$ 1,747**	**$ 1,773**	$ 1,574	$ 1,595
Due after one year through five years	**8,352**	**8,753**	7,738	8,082
Due after five years through ten years	**14,587**	**15,129**	14,652	14,915
Due after ten years	**12,600**	**14,600**	13,303	14,989
Total	**$ 37,286**	**$ 40,255**	$ 37,267	$ 39,581

Actual maturities may differ from contractual maturities because certain securities may be called or prepaid. Securities not due at a single date are allocated based on weighted average life.

Derivative Financial Instruments

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

	March 31, 2016			December 31, 2015		
	Contractual/ Notional Amount	**Estimated Fair Value Asset**	**Estimated Fair Value (Liability)**	Contractual/ Notional Amount	Estimated Fair Value Asset	Estimated Fair Value (Liability)
(In millions)						
Without hedge designation:						
Equity markets:						
Options purchased	**$ 906**	**$ 21**		$ 501	$ 16	
written	**238**		**$ (10)**	614		$ (28)
Futures long				312		(1)
short	**101**					
Interest rate risk:						

Futures long				63	
Foreign exchange:					
Currency forwards long	**267**	**8**		133	2
short	**262**		**(10)**	152	
Currency options long	**300**	**3**		550	7
Commodities:					
Futures long	**64**				
Embedded derivative on funds withheld liability	**178**		**(1)**	179	5

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3. Fair Value

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

Level 1 Quoted prices for identical instruments in active markets.

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

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

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

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

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

March 31, 2016	Level 1	Level 2	Level 3	Total
(In millions)				
Fixed maturity securities:				
Corporate and other bonds		$ 17,919	$ 193	$ 18,112
States, municipalities and political subdivisions		13,177	2	13,179
Asset-backed:				
Residential mortgage-backed		5,078	128	5,206
Commercial mortgage-backed		2,172	27	2,199
Other asset-backed		871	50	921
Total asset-backed		8,121	205	8,326
U.S. Treasury and obligations of government-sponsored enterprises	$ 139	1		140
Foreign government		463		463
Redeemable preferred stock	35			35
Fixed maturities available-for-sale	174	39,681	400	40,255
Fixed maturities trading		217	3	220
Total fixed maturities	$ 174	$ 39,898	$ 403	$ 40,475
Equity securities available-for-sale	$ 170		$ 19	$ 189
Equity securities trading	588			588
Total equity securities	$ 758	$ -	$ 19	$ 777
Short term investments	$ 4,135	$ 1,064		$ 5,199
Other invested assets	102	17		119
Receivables		12		12
Life settlement contracts			$ 72	72
Payable to brokers	(102)	(10)		(112)

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December 31, 2015	Level 1	Level 2	Level 3	Total
(In millions)				
Fixed maturity securities:				
Corporate and other bonds		$ 17,601	$ 168	$ 17,769
States, municipalities and political subdivisions		13,172	2	13,174
Asset-backed:				
Residential mortgage-backed		4,938	134	5,072
Commercial mortgage-backed		2,175	22	2,197
Other asset-backed		868	53	921
Total asset-backed		7,981	209	8,190
U.S. Treasury and obligations of government-sponsored enterprises	$ 66	1		67
Foreign government		346		346
Redeemable preferred stock	35			35
Fixed maturities available-for-sale	101	39,101	379	39,581
Fixed maturities trading		35	85	120
Total fixed maturities	$ 101	$ 39,136	$ 464	$ 39,701
Equity securities available-for-sale	$ 177		$ 20	$ 197
Equity securities trading	554		1	555
Total equity securities	$ 731	$ -	$ 21	$ 752
Short term investments	$ 3,600	$ 1,134		$ 4,734
Other invested assets	102	44		146
Receivables		9	$ 3	12
Life settlement contracts			74	74
Payable to brokers	(196)			(196)

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The following tables present reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2016 and 2015:

2016	Balance, January 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income	Included in OCI	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, March 31	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at March 31
(In millions)										
Fixed maturity securities:										
Corporate and other bonds	$ 168	$ (1)	$ 4	$ 53	$ (16)	$ (3)		$ (12)	$ 193	
States, municipalities and political subdivisions	2								2	
Asset-backed:										
Residential mortgage-backed	134	1				(5)		(2)	128	
Commercial mortgage- backed	22			9				(4)	27	
Other asset-backed	53						$ 2	(5)	50	
Total asset-backed	209	1	-	9	-	(5)	2	(11)	205	$ -
Fixed maturities available-for-sale	379		4	62	(16)	(8)	2	(23)	400	
Fixed maturities trading	85	1		2	(85)				3	

Total fixed maturities	**$ 464**	**$ 1**	**$ 4**	**$ 64**	**$ (101)**	**$ (8)**	**$ 2**	**$ (23)**	**$ 403**	**$ -**
Equity securities available-for-sale	**$ 20**		**$ (1)**						**$ 19**	
Equity securities trading	**1**				**$ (1)**				**-**	
Total equity securities	**$ 21**	**$ -**	**$ (1)**	**$ -**	**$ (1)**	**$ -**	**$ -**	**$ -**	**$ 19**	**$ -**
Life settlement contracts	**$ 74**	**$ 4**				**$ (6)**			**$ 72**	**$ 1**
Derivative financial instruments, net	**3**	**(1)**			**$ (2)**					

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2015	Balance, January 1	Net Realized Gains (Losses) and Net Change in Unrealized Gains (Losses) Included in Net Income	Included in OCI	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Balance, March 31	Unrealized Gains (Losses) Recognized in Net Income on Level 3 Assets and Liabilities Held at March 31
(In millions)										
Fixed maturity securities:										
Corporate and other bonds	$ 162	$ 1		$ 12	$ (12)	$ (14)	$ 37		$ 186	
States, municipalities and political subdivisions	94	1				(9)			86	
Asset-backed:										
Residential mortgage-backed	189	1		72		(10)		$ (20)	232	
Commercial mortgage- backed	83	1	$ 1	6		(1)		(26)	64	
Other asset-backed	655	1	9	35	(144)	(3)			553	
Total asset-backed	927	3	10	113	(144)	(14)	-	(46)	849	$ -
Fixed maturities available-for-sale	1,183	5	10	125	(156)	(37)	37	(46)	1,121	
Fixed maturities trading	90				(1)				89	
Total fixed maturities	$ 1,273	$ 5	$ 10	$ 125	$ (157)	$ (37)	$ 37	$ (46)	$ 1,210	$ -
	$ 16		$ (3)						$ 13	

Equity securities available-for-sale										
Equity securities trading	1								1	
Total equity securities	$ 17	$ -	$ (3)	$ -	$ -	$ -	$ -	$ -	$ 14	$ -
Life settlement contracts	$ 82	$ 13				$ (16)			$ 79	$ 1

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

Major Category of Assets and Liabilities	Consolidated Condensed Statements of Income Line Items
Fixed maturity securities available-for-sale	Investment gains (losses)
Fixed maturity securities, trading	Net investment income
Equity securities available-for-sale	Investment gains (losses)
Equity securities, trading	Net investment income
Other invested assets	Investment gains (losses) and Net investment income
Derivative financial instruments held in a trading portfolio	Net investment income
Derivative financial instruments, other	Investment gains (losses) and Other revenues
Life settlement contracts	Other revenues

Securities may be transferred in or out of levels within the fair value hierarchy based on the availability of observable market information and quoted prices used to determine the fair value of the security. The availability of observable market information and quoted prices varies based on market conditions and trading volume. During the three months ended March 31, 2016 and 2015 there were no transfers between Level 1 and Level 2. The Company s policy is to recognize transfers between levels at the beginning of quarterly reporting periods.

Valuation Methodologies and Inputs

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

Fixed Maturity Securities

Level 1 securities include highly liquid and exchange traded bonds and redeemable preferred stock, valued using quoted market prices. Level 2 securities include most other fixed maturity securities as the significant inputs are observable in the marketplace. All classes of Level 2 fixed maturity securities are valued using a methodology based on information generated by market transactions involving identical or comparable assets, a discounted cash flow methodology or a combination of both when necessary. Common inputs for all classes of fixed maturity securities include prices from recently executed transactions of similar securities, marketplace quotes, benchmark yields, spreads off benchmark yields, interest rates and U.S. Treasury or swap curves. Specifically for asset-backed securities, key inputs include prepayment and default projections based on past performance of the underlying collateral and current market data. Fixed maturity securities are primarily assigned to Level 3 in cases where broker/dealer quotes are significant inputs to the valuation and there is a lack of transparency as to whether these quotes are based on information that is observable in the marketplace. Level 3 securities also include private placement debt securities whose fair value is determined using internal models with inputs that are not market observable.

Equity Securities

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

Derivative Financial Instruments

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

Short Term Investments

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

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Other Invested Assets

Level 1 securities include exchange traded open-end funds valued using quoted market prices.

Life Settlement Contracts

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

Significant Unobservable Inputs

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

March 31, 2016	Estimated Fair Value (In millions)	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
Fixed maturity securities	**$ 142**	**Discounted cash flow**	**Credit spread**	**0% 20% (4%)**
Life settlement contracts	**72**	**Discounted cash flow**	**Discount rate risk premium**	**9%**
			Mortality assumption	**55% 1,676% (164%)**
December 31, 2015				
Fixed maturity securities	$ 138	Discounted cash flow	Credit spread	3% 184% (6%)
Life settlement contracts	74	Discounted cash flow	Discount rate risk premium	9%
			Mortality assumption	55% 1,676% (164%)

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

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Financial Assets and Liabilities Not Measured at Fair Value

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

	Carrying		Estimated Fair Value		
March 31, 2016	**Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
(In millions)					
Assets:					
Other invested assets, primarily mortgage loans	**$ 675**			**$ 697**	**$ 697**
Liabilities:					
Short term debt	**2**			**2**	**2**
Long term debt	**10,571**		**$ 9,610**	**648**	**10,258**
December 31, 2015					
Assets:					
Other invested assets, primarily mortgage loans	$ 678			$ 688	$ 688
Liabilities:					
Short term debt	1,038		$ 1,050	2	1,052
Long term debt	9,507		8,538	595	9,133

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

The fair value of mortgage loans, included in Other invested assets, was based on the present value of the expected future cash flows discounted at the current interest rate for similar financial instruments, adjusted for specific loan risk.

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

4. Property, Plant and Equipment

Diamond Offshore

Sale of Assets

In February of 2016, Diamond Offshore entered into a ten-year agreement with a subsidiary of GE Oil & Gas (GE) to provide services with respect to certain blowout preventer and related well control equipment on four newly-built drillships. Such services include management of maintenance, certification and reliability with respect to such equipment. In connection with the contractual services agreement with GE, Diamond Offshore will sell the well control equipment to a GE affiliate and subsequently lease back such equipment over separate ten-year operating leases. During March of 2016, Diamond Offshore executed two sale and leaseback transactions and received $105 million in proceeds with no gain or loss recognized on the transactions. Future commitments under the operating leases and contractual services agreements are estimated to aggregate approximately $327 million over the term of the agreements. Diamond Offshore expects to complete the remaining sale and leaseback transactions in the second and fourth quarters of 2016.

Asset Impairments

During the first quarter of 2016, in response to continued deterioration of the market fundamentals in the oil and gas industry, significant cutbacks in customer capital spending plans and contract cancellations by customers as well as recently announced regulatory requirements in the U.S. Gulf of Mexico, Diamond Offshore evaluated ten of its drilling rigs with indications that their carrying amounts may not be recoverable. Using an undiscounted, projected probability-weighted cash flow analysis, Diamond Offshore determined that the carrying values of these rigs were not impaired.

If market fundamentals in the oil and gas industry deteriorate or if Diamond Offshore is unable to extend or secure new contracts for its current, actively-marketed drilling fleet or reactivate any of its cold stacked rigs or if Diamond Offshore experiences unfavorable changes to actual dayrates and rig utilization, additional impairment losses may be required to be recognized in future periods.

During the first quarter of 2015, Diamond Offshore evaluated 17 of its drilling rigs with indications that their carrying amounts may not be recoverable. Based on this evaluation, Diamond Offshore determined that seven mid-water semisubmersibles as well as an older drillship were impaired and an impairment loss was recognized aggregating $359 million ($158 million after tax and noncontrolling interests) for the three months ended March 31, 2015.

See Note 6 of the Consolidated Financial Statements in the Company s Annual Report on Form 10-K for further discussion of Diamond Offshore s asset impairments.

5. Claim and Claim Adjustment Expense Reserves

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

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

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Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in CNA s results of operations and/or equity. CNA reported catastrophe losses, net of reinsurance, of $36 million and $29 million for the three months ended March 31, 2016 and 2015. Catastrophe losses in 2016 related primarily to U.S. weather-related events.

Net Prior Year Development

The following tables and discussion present net prior year development.

Three Months Ended March 31, 2016		**Specialty**		**Commercial**		**International**		**Total**
(In millions)								
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	**$**	**(34)**	**$**	**(14)**	**$**	**(4)**	**$**	**(52)**
Pretax (favorable) unfavorable premium development		**(11)**		**(2)**		**(1)**		**(14)**
Total pretax (favorable) unfavorable net prior year development	**$**	**(45)**	**$**	**(16)**	**$**	**(5)**	**$**	**(66)**
Three Months Ended March 31, 2015								
Pretax (favorable) unfavorable net prior year claim and allocated claim adjustment expense reserve development	$	2	$	(5)	$	(4)	$	(7)
Pretax (favorable) unfavorable premium development		(6)		(1)		16		9
Total pretax (favorable) unfavorable net prior year development	$	(4)	$	(6)	$	12	$	2

Specialty

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

Three Months Ended March 31		**2016**		2015
(In millions)				
Medical professional liability	**$**	**(7)**	$	14
Other professional liability and management liability		**(9)**		(3)
Surety				1
Warranty		**2**		

Other		**(20)**		(10)
Total pretax (favorable) unfavorable development	**$**	**(34)**	$	2

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2016

Favorable development for medical professional liability was due to lower than expected severity in accident years 2011 and prior. This was partially offset by unfavorable development in accident years 2012 and 2013 recorded related to higher than expected large loss emergence and higher than expected severity in accident years 2014 and 2015.

Favorable development in other professional liability and management liability was primarily related to favorable settlements on claims in accident years 2011 through 2013. This was partially offset by unfavorable development recorded related to a specific financial institutions claim in accident year 2014 and continued deterioration on claims in accident year 2009 related to the credit crisis.

Favorable development for other coverages was primarily due to better than expected claim frequency in property coverages provided to Specialty customers in accident year 2015.

2015

Overall, unfavorable development for medical professional liability was primarily related to increased frequency in the Aging Services book for accident years 2013 and 2014, partially offset by better than expected severity in accident years 2010 and prior.

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

Commercial

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

Three Months Ended March 31		**2016**		2015
(In millions)				
Commercial auto	**$**	**(15)**		
General liability		**(15)**	$	4
Workers compensation		**4**		(1)
Property and other		**12**		(8)
Total pretax (favorable) unfavorable development	**$**	**(14)**	$	(5)

2016

Favorable development for commercial auto was primarily due to favorable settlements on claims in accident years 2011 through 2014.

Favorable development for general liability was primarily due to favorable settlements on claims in accident years 2013 and 2014.

Unfavorable development for property and other was primarily due to higher than expected severity from a 2015 catastrophe event.

2015

Favorable development for property and other was due to lower than expected loss emergence from 2014 catastrophe events.

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International

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

Three Months Ended March 31	2016	2015
(In millions)		
Other professional liability	$ (1)	
Liability		$ (5)
Property & marine	(4)	(6)
Other	1	7
Total pretax (favorable) unfavorable development	$ (4)	$ (4)

Asbestos and Environmental Pollution (A&EP) Reserves

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

Through December 31, 2013, CNA recognized $0.9 billion of additional amounts ceded under the LPT. As a result, the cumulative amounts ceded under the LPT exceeded the $2.2 billion consideration paid, resulting in the NICO LPT moving into a gain position, requiring deferred retroactive reinsurance accounting treatment. This deferred gain is recognized in earnings in proportion to actual paid recoveries under the LPT. Over the life of the contract, there is no economic impact as long as any additional losses incurred are within the limit of the LPT. In a period in which a change in the estimate of ceded incurred losses is recognized, the change to the deferred gain is cumulatively recognized in earnings as if the revised estimate was available at the effective date of the LPT.

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

Three Months Ended March 31	2016	2015
(In millions)		

Net A&EP adverse development before consideration of LPT	**$**	**200**	$	-
Provision for uncollectible third party reinsurance on A&EP				
Additional amounts ceded under LPT		**200**		-
Retroactive reinsurance benefit recognized		**(73)**		(5)
Pretax impact of unrecognized deferred retroactive reinsurance benefit	**$**	**127**	$	(5)

CNA expected to complete its reserve review of A&EP reserves in the second quarter of 2016, however, during the first quarter of 2016 CNA received communication from NICO that their reserve review indicated a substantial increase in reserves. As a result, CNA accelerated and completed its reserve review during the first quarter. Based upon CNA s accelerated review, net unfavorable development prior to cessions to the LPT of $200 million was recognized; $146 million related to asbestos claims and $54 million related to environmental pollution claims. The unfavorable development was driven by an increase in anticipated future expenses associated with determination of coverage, higher anticipated payouts associated with a limited number of historical accounts having significant asbestos exposures and higher than expected severity on pollution claims. This unfavorable development was ceded to NICO under the LPT, however CNA s reported earnings were negatively affected due to the application of retroactive reinsurance accounting, as only a portion of the additional amounts ceded under the LPT were recognized in the current quarter. Retroactive reinsurance accounting resulted in the recognition of a reinsurance benefit of $73 million in the current quarter, while the remaining $127 million of incurred losses covered by the LPT will be recognized as a benefit through future earnings in proportion to the actual paid recoveries subject to the

NICO LPT. All amounts recognized related to the LPT are recorded within Insurance claims and policyholders benefits in the Consolidated Condensed Statement of Income.

As of March 31, 2016 and December 31, 2015, the cumulative amounts ceded under the LPT were $2.8 billion and $2.6 billion. Cumulative losses recognized in the Consolidated Condensed Statements of Income that are covered by the LPT were $368 million and $241 million as of March 31, 2016 and December 31, 2015.

NICO established a collateral trust account as security for its obligations to CNA. The fair value of the collateral trust account was $2.7 billion and $2.8 billion as of March 31, 2016 and December 31, 2015. In addition, Berkshire Hathaway Inc. guaranteed the payment obligations of NICO up to the full aggregate reinsurance limit as well as certain of NICO s performance obligations under the trust agreement. NICO is responsible for claims handling and billing and collection from third-party reinsurers related to CNA s A&EP claims.

6. Income Taxes

The components of U.S. and foreign income before income tax and a reconciliation between the federal income tax expense at statutory rates and the actual income tax expense is as follows:

Three Months Ended March 31	**2016**	2015
(In millions)		
Income before income tax:		
U.S.	**$ 39**	$ 137
Foreign	**156**	(32)
Total	**$ 195**	$ 105
Income tax expense at statutory rate	**$ 69**	$ 37
Increase (decrease) in income tax expense resulting from:		
Exempt investment income	**(30)**	(29)
Foreign related tax differential	**(39)**	27
Amortization of deferred charges associated with intercompany rig sales to other tax jurisdictions		37
Taxes related to domestic affiliate	**3**	(10)
Partnership earnings not subject to taxes	**(17)**	(13)
Unrecognized tax benefit (expense)	**5**	3
Other	**5**	4
Income tax expense (benefit)	**$ (4)**	$ 56

The effective tax rate is impacted by the change in the relative components of earnings or losses generated in foreign tax jurisdictions with lower tax rates.

7. Debt

CNA Financial

In the first quarter of 2016, CNA completed a public offering of $500 million aggregate principal amount of 4.5% senior notes due March 1, 2026 and used the net proceeds to repay the entire $350 million outstanding principal amount of its 6.5% senior notes due August 15, 2016.

Diamond Offshore

In the first quarter of 2016, Diamond Offshore cancelled its commercial paper program and repaid the $287 million in commercial paper outstanding at December 31, 2015 with proceeds from Eurodollar loans under its revolving credit agreement. As of March 31, 2016, there were no amounts outstanding under the revolving credit agreement.

Loews

In March of 2016, the Company completed a public offering of $500 million aggregate principal amount of 3.8% senior notes due April 1, 2026 and repaid in full the entire $400 million aggregate principal amount of its 5.3% senior notes at maturity.

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8. Shareholders Equity

Accumulated other comprehensive income (loss)

The tables below display the changes in Accumulated other comprehensive income (AOCI) by component for the three months ended March 31, 2015 and 2016:

(In millions)	OTTI Gains (Losses)	Unrealized Gains (Losses) on Investments	Cash Flow Hedges	Pension Liability	Foreign Currency Translation	Total Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2015	$ 32	$ 846	$ (6)	$ (641)	$ 49	$ 280
Other comprehensive income (loss) before reclassifications, after tax of $0, $(62), $1, $0 and $0	(1)	119	(2)		(96)	20
Reclassification of (gains) losses from accumulated other comprehensive income, after tax of $0, $0, $(2), $(3) and $0		(9)	5	4		-
Other comprehensive income (loss)	(1)	110	3	4	(96)	20
Issuance of equity securities by subsidiary				1		1
Amounts attributable to noncontrolling interests		(12)			9	(3)
Balance, March 31, 2015	$ 31	$ 944	$ (3)	$ (636)	$ (38)	$ 298
Balance, January 1, 2016	**$ 24**	**$ 347**	**$ (3)**	**$ (649)**	**$ (76)**	**$ (357)**
Other comprehensive income before reclassifications, after tax of $(2), $(108), $0, $0 and $0	**3**	**217**			**14**	**234**
	2	**11**	**1**	**8**		**22**

Reclassification of losses from accumulated other comprehensive income, after tax of $(1), $(7), $0, $(3) and $0						
Other comprehensive income	**5**	**228**	**1**	**8**	**14**	**256**
Amounts attributable to noncontrolling interests		**(21)**		**(2)**	**(2)**	**(25)**
Balance, March 31, 2016	**$ 29**	**$ 554**	**$ (2)**	**$ (643)**	**$ (64)**	**$ (126)**

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

Major Category of AOCI	Affected Line Item
OTTI gains (losses)	Investment gains (losses)
Unrealized gains (losses) on investments	Investment gains (losses)
Cash flow hedges	Other revenues and Contract drilling expenses
Pension liability	Other operating expenses

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Subsidiary Equity Transactions

Loews purchased 0.3 million shares of CNA common stock at an aggregate cost of $8 million during the first three months of 2016. The Company s percentage ownership interest in CNA remained unchanged as a result of these transactions, at 90%. The Company s purchase price of the shares was lower than the carrying value of its investment in CNA, resulting in an increase to Additional paid-in capital (APIC) of $3 million.

Treasury Stock

The Company repurchased 0.9 million and 1.8 million shares of Loews common stock at aggregate costs of $33 million and $71 million during the three months ended March 31, 2016 and 2015.

9. Benefit Plans

The Company has several non-contributory defined benefit plans and postretirement benefit plans covering eligible employees and retirees.

The following table provides the components of net periodic benefit cost for the plans:

	Pension Benefits		Other Postretirement Benefits	
Three Months Ended March 31	**2016**	2015	**2016**	2015
(In millions)				
Service cost	**$ 2**	$ 4		
Interest cost	**32**	32	**$ 1**	$ 1
Expected return on plan assets	**(44)**	(48)	**(1)**	(1)
Amortization of unrecognized net loss	**11**	11		
Amortization of unrecognized prior service benefit			**(1)**	(2)
Settlement charge	**1**			
Net periodic benefit cost	**$ 2**	$ (1)	**$ (1)**	$ (2)

10. Business Segments

The Company s segments are CNA s Financial core property and casualty commercial insurance operations, including Specialty, Commercial, International and Other Non-Core operations; Diamond Offshore; Boardwalk Pipeline; Loews Hotels; and Corporate and other. The Company s reportable segments are primarily based on its individual operating subsidiaries. Each of the principal operating subsidiaries is headed by a chief executive officer who is responsible for the operation of its business and has the duties and authority commensurate with that position. Investment gains (losses) and the related income taxes, excluding those of CNA, are included in the Corporate and other segment.

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

Three Months Ended March 31	2016	2015
(In millions)		
Revenues (a):		
CNA Financial:		
Property and Casualty:		
Specialty	$ 865	$ 917
Commercial	802	895
International	215	206
Other Non-Core	321	334
Total CNA Financial	2,203	2,352
Diamond Offshore	471	627
Boardwalk Pipeline	347	330
Loews Hotels	163	139
Corporate and other	(11)	30
Total	$ 3,173	$ 3,478
Income (loss) before income tax and noncontrolling interests (a):		
CNA Financial:		
Property and Casualty:		
Specialty	$ 180	$ 207
Commercial	95	186
International	10	13
Other Non-Core	(227)	(92)
Total CNA Financial	58	314
Diamond Offshore	83	(287)
Boardwalk Pipeline	99	77
Loews Hotels	9	10
Corporate and other	(54)	(9)
Total	$ 195	$ 105
Net income (loss) (a):		
CNA Financial:		
Property and Casualty:		
Specialty	$ 107	$ 123

Commercial	**56**	110
International	**8**	9
Other Non-Core	**(111)**	(32)
Total CNA Financial	**60**	210
Diamond Offshore	**43**	(126)
Boardwalk Pipeline	**31**	25
Loews Hotels	**3**	5
Corporate and other	**(35)**	(5)
Total	**$ 102**	$ 109

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

Three Months Ended March 31		2016		2015
Revenues and Income (loss) before income tax and noncontrolling interests:				
CNA Financial:				
Property and Casualty:				
Specialty	**$**	**(11)**	$	4
Commercial		**(18)**		4
International		**4**		1
Other Non-Core		**(3)**		1
Total	**$**	**(28)**	$	10
Net income (loss):				
CNA Financial:				
Property and Casualty:				
Specialty	**$**	**(7)**	$	2
Commercial		**(10)**		3
International		**3**		1
Other Non-Core		**(3)**		2
Total	**$**	**(17)**	$	8

11. Legal Proceedings

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

12. Commitments and Contingencies

CNA Financial

In the course of selling business entities and assets to third parties, CNA agreed to guarantee the performance of certain obligations of a previously owned subsidiary and to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such guarantee and indemnification agreements in effect for sales of business entities, assets and third party loans may include provisions that survive indefinitely. As of March 31, 2016, the aggregate amount related to quantifiable guarantees was $375 million and the aggregate amount related to indemnification agreements was $259 million. Should CNA be required to make payments under the guarantee, it would have the right to seek reimbursement in certain cases from an affiliate of a previously owned subsidiary.

In addition, CNA has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of March 31, 2016, CNA had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser s ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. Certain provisions of the indemnification agreements survive indefinitely while others survive until the applicable statutes of limitation expire, or until the agreed upon contract terms expire.

CNA also provided guarantees, if the primary obligor fails to perform, to holders of structured settlement annuities provided by a previously owned subsidiary. As of March 31, 2016, the potential amount of future payments CNA could be required to pay under these guarantees was approximately $2.0 billion, which will be paid over the lifetime of the annuitants. CNA does not believe any payment is likely under these guarantees, as CNA is the beneficiary of a trust that must be maintained at a level that approximates the discounted reserves for these annuities.

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Diamond Offshore

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

13. Consolidating Financial Information

The following schedules present the Company s consolidating balance sheet information at March 31, 2016 and December 31, 2015, and consolidating statements of income information for the three months ended March 31, 2016 and 2015. 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, 2016	CNA Financial	Diamond Offshore	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	Total
(In millions)							
Assets:							
Investments	$ 45,371	$ 119		$ 78	$ 5,082		$ 50,650
Cash	242	15	$ 10	12	29		308
Receivables	7,531	367	88	36	230	$ (25)	8,227
Property, plant and equipment	255	6,222	7,735	1,093	46		15,351
Deferred income taxes	484			3	59	(546)	-
Goodwill	113		237				350
Investments in capital stocks of subsidiaries					14,932	(14,932)	-
Other assets	863	225	321	288	4	15	1,716
Deferred acquisition costs of insurance subsidiaries	622						622
Total assets	$ 55,481	$ 6,948	$ 8,391	$ 1,510	$ 20,382	$ (15,488)	$ 77,224
Liabilities and Equity:							
Insurance reserves	$ 37,325						$ 37,325
Payable to brokers	256				$ 374		630
Short term debt	1			$ 2			3
Long term debt	2,711	$ 1,980	$ 3,475	644	1,774		10,584
Deferred income taxes	5	230	786	50		$ (531)	540
Other liabilities	3,739	541	435	59	268	(25)	5,017
Total liabilities	44,037	2,751	4,696	755	2,416	(556)	54,099
Total shareholders equity	10,264	2,239	1,543	753	17,966	(14,932)	17,833
	1,180	1,958	2,152	2			5,292

Noncontrolling interests							
Total equity	**11,444**	**4,197**	**3,695**	**755**	**17,966**	**(14,932)**	**23,125**
Total liabilities and equity	**$ 55,481**	**$ 6,948**	**$ 8,391**	**$ 1,510**	**$ 20,382**	**$ (15,488)**	**$ 77,224**

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Loews Corporation

Consolidating Balance Sheet Information

December 31, 2015	CNA Financial	Diamond Offshore	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	Total
(In millions)							
Assets:							
Investments	$ 44,699	$ 117		$ 81	$ 4,503		$ 49,400
Cash	387	13	$ 4	12	24		440
Receivables	7,384	409	93	35	96	$ 24	8,041
Property, plant and equipment	333	6,382	7,712	1,003	47		15,477
Deferred income taxes	662			3	68	(733)	-
Goodwill	114		237				351
Investments in capital stocks of subsidiaries					15,129	(15,129)	-
Other assets	848	233	319	282		17	1,699
Deferred acquisition costs of insurance subsidiaries	598						598
Total assets	$ 55,025	$ 7,154	$ 8,365	$ 1,416	$ 19,867	$ (15,821)	$ 76,006
Liabilities and Equity:							
Insurance reserves	$ 36,486						$ 36,486
Payable to brokers	358				$ 209		567
Short term debt	351	$ 287		$ 2	400		1,040
Long term debt	2,213	1,980	$ 3,458	590	1,279		9,520
Deferred income taxes	5	276	766	47		$ (712)	382
Other liabilities	3,883	496	510	70	222	20	5,201
Total liabilities	43,296	3,039	4,734	709	2,110	(692)	53,196
Total shareholders equity	10,516	2,195	1,517	705	17,757	(15,129)	17,561
Noncontrolling interests	1,213	1,920	2,114	2			5,249
Total equity	11,729	4,115	3,631	707	17,757	(15,129)	22,810
Total liabilities and equity	$ 55,025	$ 7,154	$ 8,365	$ 1,416	$ 19,867	$ (15,821)	$ 76,006

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Loews Corporation

Consolidating Statement of Income Information

Three Months Ended March 31, 2016	CNA Financial	Diamond Offshore	Boardwalk Pipeline	Loews Hotels	Corporate and Other	Eliminations	Total
(In millions)							
Revenues:							
Insurance premiums	$ 1,699						$ 1,699
Net investment income (loss)	435				$ (13)		422
Intercompany interest and dividends					558	$ (558)	-
Investment losses	(28)						(28)
Contract drilling revenues		$ 444					444
Other revenues	97	27	$ 347	$ 163	2		636
Total	2,203	471	347	163	547	(558)	3,173
Expenses:							
Insurance claims and policyholders benefits	1,408						1,408
Amortization of deferred acquisition costs	307						307
Contract drilling expenses		213					213
Other operating expenses	380	149	205	148	25		907
Interest	50	26	43	6	18		143
Total	2,145	388	248	154	43	-	2,978
Income before income tax	58	83	99	9	504	(558)	195
Income tax (expense) benefit	9	1	(19)	(6)	19		4
Net income	67	84	80	3	523	(558)	199
	(7)	(41)	(49)				(97)

Amounts attributable to noncontrolling interests														
Net income attributable to Loews Corporation	**$**	**60**	**$**	**43**	**$**	**31**	**$**	**3**	**$**	**523**	**$**	**(558)**	**$**	**102**

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Loews Corporation

Consolidating Statement of Income Information

Three Months Ended March 31, 2015	CNA Financial	Diamond Offshore	Boardwalk Pipeline	Loews