

LOEWS CORP  
Form 10-Q  
November 05, 2018  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**  
**THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2018**

**OR**

**[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-6541**

**LOEWS CORPORATION**

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

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

**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)**

**13-2646102**  
**(I.R.S. Employer**  
**Identification No.)**

**NOT APPLICABLE**

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

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes  No  Not Applicable

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

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

Class  
Common stock, \$0.01 par value

Outstanding at October 26, 2018  
314,190,649 shares

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****Loews Corporation and Subsidiaries****CONSOLIDATED CONDENSED BALANCE SHEETS****(Unaudited)****September 30, December 31,  
2018 2017****(Dollar amounts in millions, except per share data)****Assets:**

## Investments:

|   |                  |           |
|---|------------------|-----------|
| Fixed maturities, amortized cost of \$38,237 and \$38,861 | <b>\$ 39,819</b> | \$ 42,133 |
| Equity securities, cost of \$1,306 and \$1,177            | <b>1,267</b>     | 1,224     |
| Limited partnership investments                           | <b>2,832</b>     | 3,278     |
| Other invested assets, primarily mortgage loans           | <b>983</b>       | 945       |
| Short term investments                                    | <b>3,794</b>     | 4,646     |
| Total investments   | <b>48,695</b>    | 52,226    |
| Cash  | <b>571</b>       | 472       |
| Receivables   | <b>7,836</b>     | 7,613     |
| Property, plant and equipment                             | <b>15,467</b>    | 15,427    |
| Goodwill  | <b>657</b>       | 659       |
| Other assets  | <b>4,845</b>     | 2,555     |
| Deferred acquisition costs of insurance subsidiaries      | <b>654</b>       | 634       |
| Total assets  | <b>\$ 78,725</b> | \$ 79,586 |

**Liabilities and Equity:**

## Insurance reserves:

|                                    |                  |           |
|------------------------------------|------------------|-----------|
| Claim and claim adjustment expense | <b>\$ 21,604</b> | \$ 22,004 |
| Future policy benefits             | <b>10,605</b>    | 11,179    |
| Unearned premiums                  | <b>4,289</b>     | 4,029     |
| Total insurance reserves           | <b>36,498</b>    | 37,212    |
| Payable to brokers                 | <b>217</b>       | 60        |
| Short term debt                    | <b>149</b>       | 280       |
| Long term debt                     | <b>11,311</b>    | 11,253    |
| Deferred income taxes              | <b>911</b>       | 749       |
| Other liabilities                  | <b>7,753</b>     | 5,466     |
| Total liabilities                  | <b>56,839</b>    | 55,020    |

Commitments and contingent liabilities

Preferred stock, \$0.10 par value:

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|  |                  |           |
|--|------------------|-----------|
| Authorized 100,000,000 shares                                |                  |           |
| Common stock, \$0.01 par value:                              |                  |           |
| Authorized 1,800,000,000 shares                              |                  |           |
| Issued 332,739,088 and 332,487,815 shares                    | <b>3</b>         | <b>3</b>  |
| Additional paid-in capital                                   | <b>3,813</b>     | 3,151     |
| Retained earnings  | <b>16,790</b>    | 16,096    |
| Accumulated other comprehensive loss                         | <b>(758)</b>     | (26)      |
|  | <b>19,848</b>    | 19,224    |
| Less treasury stock, at cost (17,795,538 and 400,000 shares) | <b>(896)</b>     | (20)      |
| Total shareholders' equity                                   | <b>18,952</b>    | 19,204    |
| Noncontrolling interests                                     | <b>2,934</b>     | 5,362     |
| Total equity   | <b>21,886</b>    | 24,566    |
| Total liabilities and equity                                 | <b>\$ 78,725</b> | \$ 79,586 |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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

|   | <b>Three Months Ended</b> |                  | <b>Nine Months Ended</b> |                  |
|---|---------------------------|------------------|--------------------------|------------------|
|   | <b>September 30,</b>      |                  | <b>September 30,</b>     |                  |
|   | <b>2018</b>               | <b>2017</b>      | <b>2018</b>              | <b>2017</b>      |
| <b>(In millions, except per share data)</b>                 |                           |                  |                          |                  |
| <b>Revenues:</b>  |                           |                  |                          |                  |
| Insurance premiums  | \$ 1,853                  | \$ 1,806         | \$ 5,453                 | \$ 5,185         |
| Net investment income                                       | 494                       | 557              | 1,551                    | 1,639            |
| Investment gains (losses):                                  |                           |                  |                          |                  |
| Other-than-temporary impairment losses                      | (3)                       | (5)              | (9)                      | (9)              |
| Other net investment gains                                  | 18                        | 21               | 30                       | 102              |
| Total investment gains                                      | 15                        | 16               | 21                       | 93               |
| Operating revenues and other                                | 1,246                     | 1,142            | 3,754                    | 3,263            |
| Total   | 3,608                     | 3,521            | 10,779                   | 10,180           |
| <b>Expenses:</b>  |                           |                  |                          |                  |
| Insurance claims and policyholders' benefits                | 1,312                     | 1,480            | 3,978                    | 4,053            |
| Amortization of deferred acquisition costs                  | 337                       | 309              | 992                      | 926              |
| Operating expenses and other                                | 1,459                     | 1,245            | 4,313                    | 3,576            |
| Interest  | 146                       | 223              | 430                      | 504              |
| Total   | 3,254                     | 3,257            | 9,713                    | 9,059            |
| Income before income tax                                    | 354                       | 264              | 1,066                    | 1,121            |
| Income tax expense  | (65)                      | (52)             | (149)                    | (240)            |
| Net income  | 289                       | 212              | 917                      | 881              |
| Amounts attributable to noncontrolling interests            | (11)                      | (55)             | (116)                    | (198)            |
| Net income attributable to Loews Corporation                | \$ 278                    | \$ 157           | \$ 801                   | \$ 683           |
| <b>Basic net income per share</b>                           | <b>\$ 0.88</b>            | <b>\$ 0.46</b>   | <b>\$ 2.50</b>           | <b>\$ 2.03</b>   |
| <b>Diluted net income per share</b>                         | <b>\$ 0.88</b>            | <b>\$ 0.46</b>   | <b>\$ 2.49</b>           | <b>\$ 2.02</b>   |
| <b>Dividends per share</b>                                  | <b>\$ 0.0625</b>          | <b>\$ 0.0625</b> | <b>\$ 0.1875</b>         | <b>\$ 0.1875</b> |
| <b>Weighted average shares outstanding:</b>                 |                           |                  |                          |                  |
| Shares of common stock                                      | 315.90                    | 336.91           | 320.81                   | 336.90           |
| Dilutive potential shares of common stock                   | 0.91                      | 0.88             | 0.92                     | 0.83             |
| Total weighted average shares outstanding assuming dilution | 316.81                    | 337.79           | 321.73                   | 337.73           |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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

|  | <b>Three Months Ended</b>     |             | <b>Nine Months Ended</b>      |             |
|--|-------------------------------|-------------|-------------------------------|-------------|
|  | <b>September 30,<br/>2018</b> | <b>2017</b> | <b>September 30,<br/>2018</b> | <b>2017</b> |
| <b>(In millions)</b>   |                               |             |                               |             |
| Net income   | <b>\$ 289</b>                 | \$ 212      | <b>\$ 917</b>                 | \$ 881      |
| Other comprehensive income (loss), after tax                                       |                               |             |                               |             |
| Changes in:  |                               |             |                               |             |
| Net unrealized gains (losses) on investments with other-than-temporary impairments | <b>(1)</b>                    | 1           | <b>(11)</b>                   | (3)         |
| Net other unrealized gains (losses) on investments                                 | <b>(158)</b>                  | 23          | <b>(746)</b>                  | 167         |
| Total unrealized gains (losses) on investments                                     | <b>(159)</b>                  | 24          | <b>(757)</b>                  | 164         |
| Unrealized gains on cash flow hedges   |                               | 1           | <b>14</b>                     | 1           |
| Pension liability  | <b>8</b>                      | 11          | <b>27</b>                     | 26          |
| Foreign currency translation   |                               | 41          | <b>(41)</b>                   | 94          |
| Other comprehensive income (loss)  | <b>(151)</b>                  | 77          | <b>(757)</b>                  | 285         |
| Comprehensive income   | <b>138</b>                    | 289         | <b>160</b>                    | 1,166       |
| Amounts attributable to noncontrolling interests                                   | <b>7</b>                      | (64)        | <b>(34)</b>                   | (228)       |
| Total comprehensive income attributable to Loews Corporation                       | <b>\$ 145</b>                 | \$ 225      | <b>\$ 126</b>                 | \$ 938      |

*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 |              |                            |                   |   |                               |                 | Noncontrolling Interests |
|--|--------------------------------|--------------|----------------------------|-------------------|---|-------------------------------|-----------------|--------------------------|
|  | Total                          | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Common Stock Held in Treasury |                 |                          |
| (In millions)  |                                |              |                            |                   |   |                               |                 |                          |
| Balance, January 1, 2017   | \$ 23,361                      | \$ 3         | \$ 3,187                   | \$ 15,196         | \$ (223)                                      | \$ -                          | \$ 5,198        |                          |
| Net income   | 881                            |              |                            | 683               |   |                               | 198             |                          |
| Other comprehensive income   | 285                            |              |                            |                   | 255   |                               | 30              |                          |
| Dividends paid   | (180)                          |              |                            | (63)              |   |                               | (117)           |                          |
| Purchases of Loews treasury stock  | (6)                            |              |                            |                   |   | (6)                           |                 |                          |
| Stock-based compensation   | 24                             |              | (8)                        |                   |   |                               | 32              |                          |
| Other  | (4)                            |              | 2                          | (5)               |   |                               | (1)             |                          |
| Balance, September 30, 2017  | \$ 24,361                      | \$ 3         | \$ 3,181                   | \$ 15,811         | \$ 32   | \$ (6)                        | \$ 5,340        |                          |
| <b>Balance, January 1, 2018, as reported</b>                                       | <b>\$ 24,566</b>               | <b>\$ 3</b>  | <b>\$ 3,151</b>            | <b>\$ 16,096</b>  | <b>\$ (26)</b>                                | <b>\$ (20)</b>                | <b>\$ 5,362</b> |                          |
| <b>Cumulative effect adjustments from changes in accounting standards (Note 1)</b> | <b>(91)</b>                    |              |                            | <b>(43)</b>       | <b>(28)</b>                                   |                               | <b>(20)</b>     |                          |
| <b>Balance, January 1, 2018, as adjusted</b>                                       | <b>24,475</b>                  | <b>3</b>     | <b>3,151</b>               | <b>16,053</b>     | <b>(54)</b>                                   | <b>(20)</b>                   | <b>5,342</b>    |                          |
| Net income   | 917                            |              |                            | 801               |   |                               | 116             |                          |
| Other comprehensive loss   | (757)                          |              |                            |                   | (675)   |                               | (82)            |                          |
| Dividends paid   | (170)                          |              |                            | (60)              |   |                               | (110)           |                          |
| Purchase of Boardwalk Pipeline common units  | (1,718)                        |              | 658                        |                   | (29)  |                               | (2,347)         |                          |
| Purchases of Loews treasury stock  | (876)                          |              |                            |                   |   | (876)                         |                 |                          |
| Stock-based compensation   | 19                             |              | 10                         |                   |   |                               | 9               |                          |

|                                    |           |               |           |            |           |              |           |               |           |              |           |              |           |              |
|------------------------------------|-----------|---------------|-----------|------------|-----------|--------------|-----------|---------------|-----------|--------------|-----------|--------------|-----------|--------------|
| <b>Other</b>                       |           | <b>(4)</b>    |           | <b>(6)</b> |           | <b>(4)</b>   |           |               | <b>6</b>  |              |           |              |           |              |
| <b>Balance, September 30, 2018</b> | <b>\$</b> | <b>21,886</b> | <b>\$</b> | <b>3</b>   | <b>\$</b> | <b>3,813</b> | <b>\$</b> | <b>16,790</b> | <b>\$</b> | <b>(758)</b> | <b>\$</b> | <b>(896)</b> | <b>\$</b> | <b>2,934</b> |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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

| <b>Nine Months Ended September 30</b>  | <b>2018</b> | <b>2017</b> |
|--|-------------|-------------|
| <b>(In millions)</b>   |             |             |
| <b>Operating Activities:</b>   |             |             |
| Net income   | \$ 917      | \$ 881      |
| Adjustments to reconcile net income to net cash provided (used) by operating activities, net | 1,121       | 959         |
| Changes in operating assets and liabilities, net:  |             |             |
| Receivables  | 18          | 19          |
| Deferred acquisition costs   | (24)        | (34)        |
| Insurance reserves   | 108         | 248         |
| Other assets   | (169)       | (85)        |
| Other liabilities  | (75)        | (116)       |
| Trading securities   | 1,499       | (62)        |
| Net cash flow operating activities   | 3,395       | 1,810       |
| <b>Investing Activities:</b>   |             |             |
| Purchases of fixed maturities  | (8,244)     | (6,877)     |
| Proceeds from sales of fixed maturities  | 6,622       | 4,167       |
| Proceeds from maturities of fixed maturities   | 1,838       | 2,635       |
| Purchases of limited partnership investments   | (381)       | (85)        |
| Proceeds from sales of limited partnership investments                                       | 382         | 179         |
| Purchases of property, plant and equipment   | (731)       | (735)       |
| Acquisitions   | (14)        | (1,218)     |
| Dispositions   | 110         | 68          |
| Change in short term investments   | (126)       | (85)        |
| Other, net   | (173)       | (136)       |
| Net cash flow investing activities   | (717)       | (2,087)     |
| <b>Financing Activities:</b>   |             |             |
| Dividends paid   | (60)        | (63)        |
| Dividends paid to noncontrolling interests   | (110)       | (117)       |
| Purchases of Loews treasury stock  | (889)       | (6)         |
| Purchase of Boardwalk Pipeline common units  | (1,504)     |             |
| Principal payments on debt   | (780)       | (2,249)     |
| Issuance of debt   | 693         | 2,808       |
| Other, net   | 75          | (16)        |

|   |         |        |
|---|---------|--------|
| Net cash flow financing activities      | (2,575) | 357    |
| Effect of foreign exchange rate on cash | (4)     | 9      |
| Net change in cash                      | 99      | 89     |
| Cash, beginning of period               | 472     | 327    |
| Cash, end of period                     | \$ 571  | \$ 416 |

*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 89% 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 (Boardwalk Pipeline Partners, LP ( Boardwalk Pipeline ), a wholly owned subsidiary); the operation of a chain of hotels (Loews Hotels Holding Corporation ( Loews Hotels & Co ), a wholly owned subsidiary); and the manufacture of rigid plastic packaging solutions (Consolidated Container Company LLC ( Consolidated Container ), a 99% owned subsidiary). 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 attributable to Loews Corporation as used herein means Net income attributable to Loews Corporation shareholders.

In the opinion of management, the accompanying unaudited Consolidated Condensed Financial Statements reflect all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company's financial position as of September 30, 2018 and December 31, 2017, results of operations and comprehensive income for the three and nine months ended September 30, 2018 and 2017 and changes in shareholders' equity and cash flows for the nine months ended September 30, 2018 and 2017. Net income for the third quarter and first nine months of each of the years is not necessarily indicative of net income for that entire year. These Consolidated Condensed Financial Statements should be read in conjunction with the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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. There were no shares and 0.4 million shares attributable to employee stock-based compensation awards excluded from the diluted weighted average shares outstanding amounts for the three and nine months ended September 30, 2018 and 2017 because the effect would have been antidilutive.

**Accounting changes** In May of 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standard Update ( ASU ) ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ( ASU 2014-09 ). 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. The standard excludes from its scope the accounting for insurance contracts, financial instruments and certain other agreements that are subject to other guidance in the FASB Accounting Standards Codification, which limits the impact of this change in accounting for the Company.

On January 1, 2018, the Company adopted the updated accounting guidance using the modified retrospective method, with a cumulative effect adjustment to the opening balance sheet. Upon adoption, the new guidance was applied to all

contracts subject to the standard that were not completed as of the date of adoption. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance. At adoption, the cumulative effect adjustment decreased beginning Retained earnings by \$62 million (after tax and noncontrolling interests), resulted in a deferred tax asset of \$23 million and increased Other assets by approximately \$1.9 billion and Other liabilities by approximately \$2.0 billion.

The impact of the new guidance is primarily related to revenue on CNA's non-insurance warranty products and services, which is recognized more slowly as compared to the historic revenue recognition pattern. For the warranty products where CNA acts as principal, Operating revenues and other and Operating expenses and other are increased to reflect the gross amount paid by consumers, including the retail seller's markup, which is considered a commission to the Company's agent. This gross-up of revenues and expenses resulted in an increase to Other assets and Other liabilities on the Consolidated Condensed Balance Sheet, as the revenue and expense are recognized over the actuarially determined expected claims emergence pattern. Prior to the adoption of ASU 2014-09, Other assets and Other liabilities would have been \$2.7 billion and \$5.5 billion as of September 30, 2018, as compared to \$2.6 billion and \$5.5 billion as of December 31, 2017. The impact of adopting the new guidance resulted in an increase to Operating revenues and other of \$145 million and \$419 million for the three and nine months ended September 30,

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2018 and an increase to Operating expenses and other of \$149 million and \$423 million for the three and nine months ended September 30, 2018. See Note 7 for additional information on revenues from contracts with customers.

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* (ASU 2016-01). The updated accounting guidance requires changes to the reporting model for financial instruments. The guidance primarily changes the model for equity securities by requiring changes in the fair value of equity securities (except those accounted for under the equity method of accounting, those without readily determinable fair values and those that result in consolidation of the investee) to be recognized through the income statement. With the adoption of the new guidance, equity securities are no longer classified as available-for-sale or trading. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance. As of January 1, 2018, the Company adopted the updated accounting guidance and recognized a cumulative effect adjustment of \$25 million (after tax and noncontrolling interests) as an increase to beginning Retained earnings. For the three and nine months ended September 30, 2018, an increase in the fair value of equity securities of approximately \$1 million and a decrease of approximately \$22 million was recognized in the Company's Consolidated Condensed Statements of Income as a result of this change. For the three and nine months ended September 30, 2017, a \$2 million and an \$8 million increase in the fair value of equity securities was recognized in Other comprehensive income (OCI).

In October of 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. The updated guidance amends the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. As of January 1, 2018, the Company adopted this updated guidance using the modified retrospective approach with a cumulative effect adjustment of \$9 million (after noncontrolling interests) as a decrease to beginning Retained earnings with an offset to a deferred income tax liability.

In February of 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (ASU 2018-02). Current accounting guidance requires the remeasurement of deferred tax liabilities and assets due to a change in tax laws or rates with the effect included in Net income in the reporting period that includes the enactment date. Because the remeasurement of deferred taxes due to a reduction in the federal corporate income tax rate under the Tax Cuts and Jobs Act of 2017 (the Tax Act) is required to be included in Net income, the tax effects of items within Accumulated Other Comprehensive Income (AOCI) do not reflect the appropriate rate (referred to as stranded tax effects). The updated accounting guidance allows a reclassification from AOCI to Retained earnings for the stranded tax effects resulting from the Tax Act. The Company early adopted the updated guidance effective January 1, 2018 and elected to reclassify the stranded tax effects from AOCI to Retained earnings. The impact of the change resulted in a \$3 million (after noncontrolling interests) increase in Retained earnings and a corresponding decrease in AOCI. The decrease in AOCI is comprised of a \$130 million (after noncontrolling interests) decrease in pension liability and a \$127 million (after noncontrolling interests) increase in unrealized gains (losses) on investments. The Company releases tax effects from AOCI utilizing the security-by-security approach for investments and using enacted tax rates based on the pretax adjustments for pension and postretirement benefits.

In August of 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement*. The updated accounting guidance requires changes to the disclosures for fair value measurement by adding, removing and modifying certain disclosures. The Company early adopted the updated guidance in September of 2018 and modified the fair value disclosures in Note 4, including added disclosures on changes in unrealized gains (losses) on Level 3 assets recognized in Other comprehensive income as well as the weighted average rate used to develop significant inputs utilized in the fair value measurements of Level 3 assets. The Company also eliminated disclosures on transfers between Level 1 and Level 2 assets and the policy for timing of transfers between levels.

**Recently issued ASUs** In February of 2016, the FASB issued ASU 2016-02, Leases (Topic 842) and in July of 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements. The updated guidance requires lessees to recognize lease assets and lease liabilities for most operating leases. In addition, the updated guidance provides lessors with an election to separate lease and nonlease components, if certain conditions are met, 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 and requires using a modified retrospective transition method. However, the updated guidance allows entities to elect a practical expedient and apply the guidance prospectively beginning with the adoption date. The Company has elected to apply this practical expedient and is currently in the process of evaluating its operating lease inventory and the lease assets and lease liabilities to be recorded as of January 1, 2019. The Company continues to evaluate other provisions of the updated guidance.



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In June of 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The updated accounting guidance requires changes to the recognition of credit losses on financial instruments not accounted for at fair value through net income. The guidance is effective for interim and annual periods beginning after December 15, 2019. The Company is currently evaluating the effect the guidance will have on its consolidated financial statements, and expects the primary changes to be the use of the expected credit loss model for the mortgage loan portfolio and reinsurance receivables and the use of the allowance method rather than the write-down method for credit losses within the available-for-sale fixed maturities portfolio. The expected credit loss model will require a financial asset to be presented at the net amount expected to be collected. Under the allowance method for available-for-sale debt securities the Company will record reversals of credit losses if the estimate of credit losses declines.

In August of 2018, the FASB issued ASU 2018-12, Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts. The updated accounting guidance requires changes to the measurement and disclosure of long-duration contracts. The standard requires entities to annually update cash flow assumptions, including morbidity and persistency and update discount rate assumptions quarterly using an upper-medium grade fixed-income instrument yield. The effect of changes in cash flow assumptions will be recorded in Net income and the effect of changes in discount rate assumptions will be recorded in OCI.

This guidance is effective for interim and annual periods beginning after December 15, 2020, and requires restatement of the prior periods presented. Early adoption is permitted. The Company is currently evaluating the method and timing of adoption and the effect the updated guidance will have on its consolidated financial statements. The annual updating of cash flow assumptions is expected to increase income statement volatility. The quarterly change in the discount rate is expected to increase volatility in the Company's Shareholders' equity, but that will be somewhat mitigated because Shadow Adjustments are eliminated under the new guidance. See Note 3 for further information on Shadow Adjustments.

In August of 2018, the FASB issued ASU 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans. The updated accounting guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by removing, adding and clarifying certain disclosures. The guidance is effective for annual periods ending after December 15, 2020 and the Company plans to early adopt this standard in December of 2018.

**Income tax reform update** Based on the Company's interpretation of the Tax Act, a non-cash provisional \$200 million increase to net income (net of noncontrolling interests) was recorded during the fourth quarter of 2017. This increase included a one-time mandatory repatriation of previously deferred earnings of certain of Diamond Offshore's non-U.S. subsidiaries inclusive of the utilization of certain tax attributes offset by a provisional liability for uncertain tax positions related to such attributes. In 2018, the U.S. Department of the Treasury and the Internal Revenue Service issued additional guidance which clarified certain of Diamond Offshore's tax positions, which resulted in a \$23 million increase to net income (net of noncontrolling interests) in the first quarter of 2018 for uncertain tax positions related to the mandatory repatriation toll charges in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 118 (SAB 118). SAB 118 allows companies to report the income tax effects of the Tax Act as a provisional amount based on a reasonable estimate, which would be subject to adjustment during a reasonable measurement period, not to exceed twelve months, until the accounting and analysis under ASC 740 is complete.

The Company is still in the process of evaluating the estimate as it relates to the tax effect of: (i) the amount of deferred tax assets and liabilities subject to the income tax rate change from 35% to 21%, including the calculation of

the mandatory deemed repatriation aspect of the Tax Act and the state tax effect of adjustments made to the federal temporary differences, (ii) the ability to more likely than not realize the benefit of deferred tax assets, including net operating losses and foreign tax credits, (iii) the effect of re-computing CNA's insurance reserves and the transition adjustment from existing law, the effects of which will have no impact on the effective tax rate and (iv) the special accounting method provisions for recognizing income for U.S. federal income tax purposes no later than financial accounting purposes and the transition adjustment from existing law, which will also have no impact on the effective tax rate.

**Table of Contents****2. Purchase of Boardwalk Pipeline Common Units**

On June 29, 2018, Boardwalk GP, LP ( General Partner ), the general partner of Boardwalk Pipeline and an indirect wholly owned subsidiary of the Company, elected to exercise its right to purchase all of the issued and outstanding common units representing limited partnership interests in Boardwalk Pipeline not already owned by the General Partner or its affiliates pursuant to Section 15.1(b) of Boardwalk Pipeline's Third Amended and Restated Agreement of Limited Partnership, as amended ( Limited Partnership Agreement ) for a cash purchase price, determined in accordance with the Limited Partnership Agreement, of \$12.06 per unit, or approximately \$1.5 billion, in the aggregate. The purchase price of the common units was lower than the carrying value of the noncontrolling interests for Boardwalk Pipeline, resulting in an increase to Additional paid-in capital of \$658 million, an increase to deferred income tax liabilities of \$213 million and a decrease to AOCI of \$29 million.

Following completion of the transaction on July 18, 2018, Boardwalk Pipelines Holding Corp., a wholly owned subsidiary of Loews Corporation, directly or indirectly owned all of the equity interests of Boardwalk Pipeline. As a result of the transaction, Boardwalk Pipeline has withdrawn the common units from listing on the New York Stock Exchange and from registration under Section 12(b) of the Securities Exchange Act of 1934.

**3. Investments**

Net investment income is as follows:

|  | Three Months Ended    |        | Nine Months Ended     |          |
|--|-----------------------|--------|-----------------------|----------|
|  | September 30,<br>2018 | 2017   | September 30,<br>2018 | 2017     |
| <b>(In millions)</b>                     |                       |        |                       |          |
| Fixed maturity securities                | \$ 449                | \$ 455 | \$ 1,339              | \$ 1,367 |
| Limited partnership investments          | 34                    | 67     | 142                   | 206      |
| Short term investments                   | 10                    | 5      | 30                    | 13       |
| Equity securities                        | 10                    | 1      | 32                    | 4        |
| Income (loss) from trading portfolio (a) | (7)                   | 34     | 13                    | 67       |
| Other                                    | 12                    | 10     | 40                    | 26       |
| Total investment income                  | 508                   | 572    | 1,596                 | 1,683    |
| Investment expenses                      | (14)                  | (15)   | (45)                  | (44)     |
| Net investment income                    | \$ 494                | \$ 557 | \$ 1,551              | \$ 1,639 |

(a) Net unrealized gains (losses) related to changes in fair value on securities still held were \$(23) and \$22 for the three months ended September 30, 2018 and 2017 and \$(66) and \$35 for the nine months ended September 30, 2018 and 2017.

Investment gains (losses) are as follows:

|  | Three Months Ended |      | Nine Months Ended |      |
|--|--------------------|------|-------------------|------|
|  | September 30,      |      | September 30,     |      |
|  | 2018               | 2017 | 2018              | 2017 |

(In millions)

|                                  |       |       |       |       |
|----------------------------------|-------|-------|-------|-------|
| Fixed maturity securities        | \$ 10 | \$ 16 | \$ 32 | \$ 92 |
| Equity securities                | 2     |       | (23)  |       |
| Derivative instruments           | 1     | (1)   | 10    | (3)   |
| Short term investments and other | 2     | 1     | 2     | 4     |
| Investment gains (a)             | \$ 15 | \$ 16 | \$ 21 | \$ 93 |

(a) Gross realized gains on available-for-sale securities were \$42 and \$34 for the three months ended September 30, 2018 and 2017 and \$148 and \$140 for the nine months ended September 30, 2018 and 2017. Gross realized losses on available-for-sale securities were \$32 and \$18 for the three months ended September 30, 2018 and 2017 and \$116 and \$48 for the nine months ended September 30, 2018 and 2017. Net realized gains of \$2 and net realized losses of \$23 were recognized due to the change in fair value of non-redeemable preferred stock still held for the three and nine months ended September 30, 2018.

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

|   | Three Months Ended    |      | Nine Months Ended     |      |
|---|-----------------------|------|-----------------------|------|
|   | September 30,<br>2018 | 2017 | September 30,<br>2018 | 2017 |
| <b>(In millions)</b>                          |                       |      |                       |      |
| Fixed maturity securities available-for-sale: |                       |      |                       |      |
| Corporate and other bonds                     | \$ 1                  | \$ 4 | \$ 6                  | \$ 8 |
| Asset-backed                                  | 2                     | 1    | 3                     | 1    |
| Net OTTI losses recognized in earnings        | \$ 3                  | \$ 5 | \$ 9                  | \$ 9 |

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

| September 30, 2018<br>(In millions)  | Cost or<br>Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Unrealized<br>OTTI Losses<br>(Gains) |
|--|------------------------------|------------------------------|-------------------------------|-------------------------|--------------------------------------|
| <b>Fixed maturity securities:</b>  |                              |                              |                               |                         |                                      |
| Corporate and other bonds  | \$ 18,348                    | \$ 887                       | \$ 215                        | \$ 19,020               |                                      |
| States, municipalities and political subdivisions                            | 10,171                       | 994                          | 20                            | 11,145                  |                                      |
| <b>Asset-backed:</b>   |                              |                              |                               |                         |                                      |
| Residential mortgage-backed  | 5,024                        | 62                           | 115                           | 4,971                   | \$ (24)                              |
| Commercial mortgage-backed   | 2,165                        | 23                           | 36                            | 2,152                   |                                      |
| Other asset-backed   | 1,732                        | 6                            | 9                             | 1,729                   |                                      |
| Total asset-backed   | 8,921                        | 91                           | 160                           | 8,852                   | (24)                                 |
| <b>U.S. Treasury and obligations of<br/>government-sponsored enterprises</b> |                              |                              |                               |                         |                                      |
|  | 145                          | 2                            | 2                             | 145                     |                                      |
| Foreign government   | 457                          | 4                            | 6                             | 455                     |                                      |
| Redeemable preferred stock   | 9                            | 1                            |                               | 10                      |                                      |
| Fixed maturities available-for-sale  | 38,051                       | 1,979                        | 403                           | 39,627                  | (24)                                 |
| Fixed maturities trading   | 186                          | 6                            |                               | 192                     |                                      |
| Total fixed maturity securities  | \$ 38,237                    | \$ 1,985                     | \$ 403                        | \$ 39,819               | \$ (24)                              |

December 31, 2017

|   |           |          |       |           |         |
|---|-----------|----------|-------|-----------|---------|
| <b>Fixed maturity securities:</b>                 |           |          |       |           |         |
| Corporate and other bonds                         | \$ 17,210 | \$ 1,625 | \$ 28 | \$ 18,807 |         |
| States, municipalities and political subdivisions | 12,478    | 1,551    | 2     | 14,027    | \$ (11) |
| <b>Asset-backed:</b>                              |           |          |       |           |         |
| Residential mortgage-backed                       | 5,043     | 109      | 32    | 5,120     | (27)    |

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|   |           |          |        |           |         |
|---|-----------|----------|--------|-----------|---------|
| Commercial mortgage-backed  | 1,840     | 46       | 14     | 1,872     |         |
| Other asset-backed  | 1,083     | 16       | 5      | 1,094     |         |
| Total asset-backed  | 7,966     | 171      | 51     | 8,086     | (27)    |
| U.S. Treasury and obligations of government-sponsored enterprises | 111       | 2        | 4      | 109       |         |
| Foreign government  | 437       | 9        | 2      | 444       |         |
| Redeemable preferred stock  | 10        | 1        |        | 11        |         |
| Fixed maturities available-for-sale                               | 38,212    | 3,359    | 87     | 41,484    | (38)    |
| Fixed maturities trading  | 649       | 2        | 2      | 649       |         |
| Total fixed maturities  | 38,861    | 3,361    | 89     | 42,133    | (38)    |
| Equity securities:  |           |          |        |           |         |
| Common stock  | 21        | 7        | 1      | 27        |         |
| Preferred stock   | 638       | 31       | 1      | 668       |         |
| Equity securities available-for-sale                              | 659       | 38       | 2      | 695       | -       |
| Equity securities trading   | 518       | 92       | 81     | 529       |         |
| Total equity securities   | 1,177     | 130      | 83     | 1,224     | -       |
| Total fixed maturity and equity securities                        | \$ 40,038 | \$ 3,491 | \$ 172 | \$ 43,357 | \$ (38) |

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The net unrealized gains on available-for-sale investments included in the tables above are recorded as a component of AOCI. When presented in AOCI, these amounts are net of tax and noncontrolling interests and any required Shadow Adjustments. To the extent that unrealized gains on fixed income securities supporting long term care products and structured settlements not funded by annuities would result in a premium deficiency if those gains were realized, a related increase in Insurance reserves is recorded, net of tax and noncontrolling interests, as a reduction of net unrealized gains through OCI ( Shadow Adjustments ). As of September 30, 2018 and December 31, 2017, the net unrealized gains on investments included in AOCI were correspondingly reduced by Shadow Adjustments of \$997 million and \$1.3 billion (after tax and noncontrolling interests).

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

|  | Less than<br>12 Months  |                      | 12 Months<br>or Longer  |                      | Total                   |                      |
|--|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
|  | Estimated<br>Fair Value | Unrealized<br>Losses | Estimated<br>Fair Value | Unrealized<br>Losses | Estimated<br>Fair Value | Unrealized<br>Losses |
| <b>September 30, 2018</b><br>(In millions)                                   |                         |                      |                         |                      |                         |                      |
| <b>Fixed maturity securities:</b>  |                         |                      |                         |                      |                         |                      |
| Corporate and other bonds  | \$ 7,546                | \$ 197               | \$ 342                  | \$ 18                | \$ 7,888                | \$ 215               |
| States, municipalities and political subdivisions                            | 807                     | 19                   | 2                       | 1                    | 809                     | 20                   |
| <b>Asset-backed:</b>   |                         |                      |                         |                      |                         |                      |
| Residential mortgage-backed  | 3,409                   | 89                   | 501                     | 26                   | 3,910                   | 115                  |
| Commercial mortgage-backed   | 968                     | 15                   | 322                     | 21                   | 1,290                   | 36                   |
| Other asset-backed   | 953                     | 9                    | 45                      |                      | 998                     | 9                    |
| <b>Total asset-backed</b>  | <b>5,330</b>            | <b>113</b>           | <b>868</b>              | <b>47</b>            | <b>6,198</b>            | <b>160</b>           |
| <b>U.S. Treasury and obligations of<br/>government-sponsored enterprises</b> | <b>35</b>               |                      | <b>42</b>               | <b>2</b>             | <b>77</b>               | <b>2</b>             |
| <b>Foreign government</b>  | <b>188</b>              | <b>4</b>             | <b>64</b>               | <b>2</b>             | <b>252</b>              | <b>6</b>             |
| <b>Total fixed maturity securities</b>                                       | <b>\$ 13,906</b>        | <b>\$ 333</b>        | <b>\$ 1,318</b>         | <b>\$ 70</b>         | <b>\$ 15,224</b>        | <b>\$ 403</b>        |

December 31, 2017

|  |              |           |              |           |              |           |
|--|--------------|-----------|--------------|-----------|--------------|-----------|
| <b>Fixed maturity securities:</b>  |              |           |              |           |              |           |
| Corporate and other bonds  | \$ 1,354     | \$ 21     | \$ 168       | \$ 7      | \$ 1,522     | \$ 28     |
| States, municipalities and political subdivisions                            | 72           | 1         | 85           | 1         | 157          | 2         |
| <b>Asset-backed:</b>   |              |           |              |           |              |           |
| Residential mortgage-backed  | 1,228        | 5         | 947          | 27        | 2,175        | 32        |
| Commercial mortgage-backed   | 403          | 4         | 212          | 10        | 615          | 14        |
| Other asset-backed   | 248          | 3         | 18           | 2         | 266          | 5         |
| <b>Total asset-backed</b>  | <b>1,879</b> | <b>12</b> | <b>1,177</b> | <b>39</b> | <b>3,056</b> | <b>51</b> |
| <b>U.S. Treasury and obligations of government-sponsored<br/>enterprises</b> | <b>49</b>    | <b>2</b>  | <b>21</b>    | <b>2</b>  | <b>70</b>    | <b>4</b>  |
| <b>Foreign government</b>  | <b>166</b>   | <b>2</b>  | <b>4</b>     |           | <b>170</b>   | <b>2</b>  |
| <b>Total fixed maturity securities</b>                                       | <b>3,520</b> | <b>38</b> | <b>1,455</b> | <b>49</b> | <b>4,975</b> | <b>87</b> |

## Equity securities:

|  |          |       |          |       |          |       |
|--|----------|-------|----------|-------|----------|-------|
| Common stock                               | 7        | 1     |          |       | 7        | 1     |
| Preferred stock                            | 93       | 1     |          |       | 93       | 1     |
| Total equity securities                    | 100      | 2     | -        | -     | 100      | 2     |
| Total fixed maturity and equity securities | \$ 3,620 | \$ 40 | \$ 1,455 | \$ 49 | \$ 5,075 | \$ 89 |

Based on current facts and circumstances, the Company believes the unrealized losses presented in the September 30, 2018 securities in a gross unrealized loss position 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. 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 September 30, 2018.



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The following table presents the activity related to the pretax credit loss component reflected in Retained earnings on fixed maturity securities still held as of September 30, 2018 and 2017 for which a portion of an OTTI loss was recognized in OCI.

|   | Three Months Ended    |       | Nine Months Ended     |       |
|---|-----------------------|-------|-----------------------|-------|
|   | September 30,<br>2018 | 2017  | September 30,<br>2018 | 2017  |
| <b>(In millions)</b>  |                       |       |                       |       |
| Beginning balance of credit losses on fixed maturity securities | \$ 21                 | \$ 30 | \$ 27                 | \$ 36 |
| Reductions for securities sold during the period                | (2)                   | (2)   | (8)                   | (8)   |
| Ending balance of credit losses on fixed maturity securities    | \$ 19                 | \$ 28 | \$ 19                 | \$ 28 |

**Contractual Maturity**

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

|  | September 30, 2018           |               | December 31, 2017            |               |
|--|------------------------------|---------------|------------------------------|---------------|
|  | Cost or<br>Amortized<br>Cost | Fair<br>Value | Cost or<br>Amortized<br>Cost | Fair<br>Value |
| <b>(In millions)</b>                   |                              |               |                              |               |
| Due in one year or less                | \$ 1,457                     | \$ 1,473      | \$ 1,135                     | \$ 1,157      |
| Due after one year through five years  | 8,017                        | 8,197         | 8,165                        | 8,501         |
| Due after five years through ten years | 16,453                       | 16,475        | 16,060                       | 16,718        |
| Due after ten years                    | 12,124                       | 13,482        | 12,852                       | 15,108        |
| Total                                  | \$ 38,051                    | \$ 39,627     | \$ 38,212                    | \$ 41,484     |

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.

September 30, 2018

December 31, 2017

|  | Contractual/<br>Notional |             | Contractual/<br>Notional |             |
|--|--------------------------|-------------|--------------------------|-------------|
|  | Estimated                | Fair Value  | Estimated                | Fair Value  |
|  | Amount                   | (Liability) | Amount                   | (Liability) |

(In millions)

**With hedge designation:**

|                     |        |       |        |      |
|---------------------|--------|-------|--------|------|
| Interest rate swaps | \$ 500 | \$ 22 | \$ 500 | \$ 4 |
|---------------------|--------|-------|--------|------|

**Without hedge designation:**

Equity markets:

|   |     |        |     |        |
|---|-----|--------|-----|--------|
| Options purchased                               | 222 | 9      | 224 | 12     |
| written   | 201 | \$ (6) | 290 | \$ (7) |
| Futures short                                   | 154 |        | 265 | 1      |
| Commodity futures long                          | 47  | 1      | 44  |        |
| Embedded derivative on funds withheld liability | 174 | 6      | 167 | (3)    |

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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 may include: (i) the review of pricing service methodologies or broker pricing qualifications, (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.

Assets and liabilities measured at fair value on a recurring basis are summarized in the following tables. Corporate bonds and other includes obligations of the U.S. Treasury, government-sponsored enterprises, foreign governments and redeemable preferred stock.

| <b>September 30, 2018</b><br><b>(In millions)</b>        | <b>Level 1</b> | <b>Level 2</b>   | <b>Level 3</b> | <b>Total</b>     |
|--|----------------|------------------|----------------|------------------|
| <b>Fixed maturity securities:</b>                        |                |                  |                |                  |
| <b>Corporate bonds and other</b>                         | <b>\$ 183</b>  | <b>\$ 19,259</b> | <b>\$ 188</b>  | <b>\$ 19,630</b> |
| <b>States, municipalities and political subdivisions</b> |                | <b>11,145</b>    |                | <b>11,145</b>    |
| <b>Asset-backed</b>                                      |                | <b>8,554</b>     | <b>298</b>     | <b>8,852</b>     |
| <b>Fixed maturities available-for-sale</b>               | <b>183</b>     | <b>38,958</b>    | <b>486</b>     | <b>39,627</b>    |

|                                 |               |                  |               |                  |
|---------------------------------|---------------|------------------|---------------|------------------|
| <b>Fixed maturities trading</b> |               | <b>186</b>       | <b>6</b>      | <b>192</b>       |
| <b>Total fixed maturities</b>   | <b>\$ 183</b> | <b>\$ 39,144</b> | <b>\$ 492</b> | <b>\$ 39,819</b> |
| <b>Equity securities</b>        | <b>\$ 623</b> | <b>\$ 625</b>    | <b>\$ 19</b>  | <b>\$ 1,267</b>  |
| <b>Short term and other</b>     | <b>2,678</b>  | <b>1,074</b>     |               | <b>3,752</b>     |
| <b>Receivables</b>              |               | <b>23</b>        |               | <b>23</b>        |
| <b>Payable to brokers</b>       | <b>(13)</b>   |                  |               | <b>(13)</b>      |

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| December 31, 2017<br>(In millions)                | Level 1       | Level 2          | Level 3       | Total            |
|---|---------------|------------------|---------------|------------------|
| <b>Fixed maturity securities:</b>                 |               |                  |               |                  |
| Corporate bonds and other                         | \$ 128        | \$ 19,145        | \$ 98         | \$ 19,371        |
| States, municipalities and political subdivisions |               | 14,026           | 1             | 14,027           |
| Asset-backed                                      |               | 7,751            | 335           | 8,086            |
| Fixed maturities available-for-sale               | 128           | 40,922           | 434           | 41,484           |
| Fixed maturities trading                          | 10            | 635              | 4             | 649              |
| <b>Total fixed maturities</b>                     | <b>\$ 138</b> | <b>\$ 41,557</b> | <b>\$ 438</b> | <b>\$ 42,133</b> |
| <br>  |               |                  |               |                  |
| Equity securities available-for-sale              | \$ 91         | \$ 584           | \$ 20         | \$ 695           |
| Equity securities trading                         | 527           |                  | 2             | 529              |
| <b>Total equity securities</b>                    | <b>\$ 618</b> | <b>\$ 584</b>    | <b>\$ 22</b>  | <b>\$ 1,224</b>  |
| <br>  |               |                  |               |                  |
| Short term and other                              | \$ 3,669      | \$ 958           |               | \$ 4,627         |
| Receivables                                       | 1             | 4                |               | 5                |
| Payable to brokers                                | (12)          |                  |               | (12)             |

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The following tables present reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2018 and 2017:

|       | Balance,<br>July 1 | Net Realized Gains<br>(Losses) and Net Change<br>in Unrealized Gains<br>(Losses) | Included in<br>Net Income Included in<br>(Loss) | OCI | Purchases | Sales  | Settlements | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3 | Balance,<br>September 30 | Unrealized<br>Gains<br><br>(Losses)<br>Recognized<br>in<br>Net C<br>Income<br>(Loss) on Lev<br>3 Assets<br>and<br><br>Liabilities<br>Held at<br>September 30 |
|-------|--------------------|--|---|-----|-----------|--------|-------------|------------------------------|--------------------------------|--------------------------|--|
| ty    |                    |  |   |     |           |        |             |                              |                                |                          |  |
| onds  | \$ 94              |  |   |     | \$ 67     |        | \$ (3)      | \$ 30                        |                                | \$ 188                   |  |
| s     |                    |  |   |     |           |        |             |                              |                                |                          |  |
|       | 1                  |  |   |     |           |        | (1)         |                              |                                | -                        |  |
|       | 273                | \$ (2)   |   |     | 55        |        | (25)        | 29                           | \$ (32)                        | 298                      | \$ (2)   |
| ities |                    |  |   |     |           |        |             |                              |                                |                          |  |
| sale  | 368                | (2)  | \$ -  |     | 122       | \$ -   | (29)        | 59                           | (32)                           | 486                      | (2)  |
| ities |                    |  |   |     |           |        |             |                              |                                |                          |  |
|       | 7                  |  |   |     |           | (1)    |             |                              |                                | 6                        |  |
|       | \$ 375             | \$ (2)   | \$ -  |     | \$ 122    | \$ (1) | \$ (29)     | \$ 59                        | \$ (32)                        | \$ 492                   | \$ (2)   |
| ities | \$ 18              | \$ 1   |   |     |           |        |             |                              |                                | \$ 19                    | \$ 1   |

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|                         | Balance,<br>July 1 | Net Realized Gains<br>(Losses) and Net Change<br>in Unrealized Gains<br>(Losses) | Included in<br>Net Income<br>(Loss) | Included in<br>OCI | Purchases | Sales   | Settlements | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3 | Balance,<br>September 30 | Unrealized<br>Gains<br>(Loss)<br>Recognized<br>in<br>Net Income<br>(Loss) of<br>3 As<br>an<br>Liability |
|-------------------------|--------------------|--|-------------------------------------|--------------------|-----------|---------|-------------|------------------------------|--------------------------------|--------------------------|---|
| State bonds             | \$ 100             | \$ 1   | \$ 1                                | \$ 13              |           | \$ (11) | \$ 15       |                              |                                | \$ 119                   |   |
| Equity securities       | 1                  |  |                                     |                    |           |         |             |                              |                                | 1                        |   |
| Fixed income securities | 218                |  | 1                                   | 39                 |           | (13)    | 101         |                              |                                | 346                      |   |
| Equity securities       | 319                | 1  | 2                                   | 52                 | \$ -      | (24)    | 116         | \$ -                         |                                | 466                      | \$  |
| Fixed income securities | 5                  |  |                                     |                    |           |         |             |                              |                                | 5                        |   |
| Equity securities       | \$ 324             | \$ 1   | \$ 2                                | \$ 52              | \$ -      | \$ (24) | \$ 116      | \$ -                         |                                | \$ 471                   | \$  |
| Equity securities       | \$ 19              |  |                                     |                    |           |         |             |                              |                                | \$ 19                    |   |
| Equity securities       | 1                  |  |                                     | \$ 1               |           |         |             |                              |                                | 2                        |   |
| Equity securities       | \$ 20              | \$ -   | \$ -                                | \$ 1               | \$ -      | \$ -    | \$ -        | \$ -                         | \$ -                           | \$ 21                    | \$  |
| Equity securities       | \$ 1               |  |                                     |                    |           | \$ (1)  |             |                              |                                | \$ -                     |   |

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|      | 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, September 30 | Unrealized Gains (Losses) Recognized in Net Income (Loss) on Level 3 Assets and Liabilities Held at September 30 |
|------|--------------------|---|------------------------|-----------------|-----------|---------|-------------|------------------------|--------------------------|-----------------------|--|
| Ends | \$ 98              | \$ (1)  | \$ (1)                 | \$ 69           | \$ (5)    | \$ (7)  | \$ 35       |                        |                          | \$ 188                |  |
|      | 1                  |   |                        |                 |           | (1)     |             |                        |                          | -                     |  |
|      | 335                | 5   | (6)                    | 126             | (72)      | (37)    | 42          | \$ (95)                |                          | 298                   | \$ (2)   |
| ies  | 434                | 4   | (7)                    | 195             | (77)      | (45)    | 77          | (95)                   |                          | 486                   | (2)  |
| ies  | 4                  | 3   |                        |                 |           | (1)     |             |                        |                          | 6                     | 2  |
|      | \$ 438             | \$ 7  | \$ (7)                 | \$ 195          | \$ (78)   | \$ (45) | \$ 77       | \$ (95)                |                          | \$ 492                | \$ -   |
| ies  | \$ 22              | \$ (2)  |                        |                 |           | \$ (1)  |             |                        |                          | \$ 19                 | \$ (2)   |



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|   | Balance,<br>January 1 | Net Realized Gains<br>(Losses) and Net Change<br>in Unrealized Gains<br>(Losses)<br>Included<br>in<br>Net Income<br>(Loss) | Included in<br>OCI | Purchases | Sales   | Settlements | Transfers<br>into<br>Level 3 | Transfers<br>out of<br>Level 3 | Balance,<br>September 30 | Unrealized<br>Gains<br>(Losses)<br>Recognized<br>in<br>Net<br>Income<br>(Loss) on Le<br>3 Assets<br>and<br>Liabilities<br>Held at<br>September 30 |
|---|-----------------------|--|--------------------|-----------|---------|-------------|------------------------------|--------------------------------|--------------------------|---|
| Fixed maturity securities:                        |                       |  |                    |           |         |             |                              |                                |                          |   |
| Corporate bonds and other                         | \$ 130                | \$ 1   | \$ 2               | \$ 18     | \$ (1)  | \$ (36)     | \$ 15                        | \$ (10)                        | \$ 119                   |   |
| States, municipalities and political subdivisions | 1                     |  |                    |           |         |             |                              |                                | 1                        |   |
| Asset-backed securities                           | 199                   | 1  | 4                  | 90        |         | (26)        | 153                          | (75)                           | 346                      |   |
| Fixed maturities available-for-sale               | 330                   | 2  | 6                  | 108       | (1)     | (62)        | 168                          | (85)                           | 466                      | \$ -  |
| Fixed maturities ending                           | 6                     | (1)  |                    |           |         |             |                              |                                | 5                        | (1)   |
| Total fixed maturities                            | \$ 336                | \$ 1   | \$ 6               | \$ 108    | \$ (1)  | \$ (62)     | \$ 168                       | \$ (85)                        | \$ 471                   | \$ (1)  |
| Equity securities available-for-sale              | \$ 19                 |  | \$ 2               | \$ 1      | \$ (3)  |             |                              |                                | \$ 19                    |   |
| Equity securities ending                          | 1                     |  |                    | 1         |         |             |                              |                                | 2                        |   |
| Total equity securities                           | \$ 20                 | \$ -   | \$ 2               | \$ 2      | \$ (3)  | \$ -        | \$ -                         | \$ -                           | \$ 21                    | \$ -  |
| Life settlement contracts                         | \$ 58                 | \$ 6   |                    |           | \$ (59) | \$ (5)      |                              |                                | \$ -                     |   |
| Derivative financial instruments, net             | -                     | 1  |                    |           | (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  | Investment gains (losses) and 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 Operating revenues and other |
| Life settlement contracts                                    | Operating revenues and other                               |

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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.

### **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 securities include publicly traded securities valued using quoted market prices. Level 2 securities are primarily 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 and Other Invested Assets*

Securities that are actively traded or have quoted prices are classified as Level 1. These securities include money market funds, treasury bills and exchange traded open-end funds valued using quoted market prices. 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.

*Life Settlement Contracts*

CNA sold its life settlement contracts to a third party in 2017. The valuation of the life settlement contracts was based on the terms of sale. The contracts were classified as Level 3 as there was not an active market for life settlement contracts.

**Table of Contents****Significant Unobservable Inputs**

The following tables present quantitative information about the significant unobservable inputs utilized by the Company in the fair value measurement 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. The weighted average rate is calculated based on fair value.

| September 30, 2018        | Estimated<br>Fair Value<br>(In millions) | Valuation<br>Techniques | Unobservable<br>Inputs | Range<br>(Weighted<br>Average) |          |
|---------------------------|--|-------------------------|------------------------|--------------------------------|----------|
|                           |  |                         |                        |                                |          |
| Fixed maturity securities | \$ 198                                   | Discounted cash<br>flow | Credit spread          | 1%                             | 12% (2%) |

December 31, 2017

|                           |        |                         |               |    |          |
|---------------------------|--------|-------------------------|---------------|----|----------|
| Fixed maturity securities | \$ 136 | Discounted cash<br>flow | Credit spread | 1% | 12% (3%) |
|---------------------------|--------|-------------------------|---------------|----|----------|

For fixed maturity securities, an increase to the credit spread assumptions would result in a lower fair value measurement.

**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.

| September 30, 2018<br>(In millions)             | Carrying<br>Amount | Estimated Fair Value |         |         | Total  |
|---|--------------------|----------------------|---------|---------|--------|
|   |                    | Level 1              | Level 2 | Level 3 |        |
| <b>Assets:</b>                                  |                    |                      |         |         |        |
| Other invested assets, primarily mortgage loans | \$ 868             |                      |         | \$ 847  | \$ 847 |
| <b>Liabilities:</b>                             |                    |                      |         |         |        |
| Short term debt                                 | 146                | \$ 6                 |         | 140     | 146    |
| Long term debt                                  | 11,295             |                      | 10,537  | 630     | 11,167 |

December 31, 2017

## Assets:

|   |        |        |        |
|---|--------|--------|--------|
| Other invested assets, primarily mortgage loans | \$ 839 | \$ 844 | \$ 844 |
|---|--------|--------|--------|

## Liabilities:

|                 |     |        |     |     |
|-----------------|-----|--------|-----|-----|
| Short term debt | 278 | \$ 156 | 122 | 278 |
|-----------------|-----|--------|-----|-----|

|                |        |        |     |        |
|----------------|--------|--------|-----|--------|
| Long term debt | 11,236 | 10,966 | 525 | 11,491 |
|----------------|--------|--------|-----|--------|

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

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

Catastrophes are an inherent risk of the property and casualty insurance business and 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 \$46 million and \$269 million for the three months ended September 30, 2018 and 2017 and \$106 million and \$342 million for the nine months ended September 30, 2018 and 2017. Net catastrophe losses in 2018 included \$35 million related to Hurricane Florence. The remaining catastrophe losses in 2018 resulted primarily from U.S. weather-related events. Net catastrophe losses in 2017 included \$149 million related to Hurricane Harvey, \$95 million related to Hurricane Irma and \$20 million related to Hurricane Maria and also required reinsurance reinstatement premium of \$6 million. The remaining catastrophe losses in 2017 resulted primarily from U.S. weather-related events.

**Liability for Unpaid Claim and Claim Adjustment Expenses Rollforward**

The following table presents a reconciliation between beginning and ending claim and claim adjustment expense reserves, including claim and claim adjustment expense reserves of Other Insurance Operations.

| <b>Nine Months Ended September 30</b>                    | <b>2018</b> | 2017      |
|--|-------------|-----------|
| <b>(In millions)</b>                                     |             |           |
| <b>Reserves, beginning of year:</b>                      |             |           |
| Gross  | \$ 22,004   | \$ 22,343 |
| Ceded  | 3,934       | 4,094     |
| Net reserves, beginning of year                          | 18,070      | 18,249    |
| <b>Net incurred claim and claim adjustment expenses:</b> |             |           |
| Provision for insured events of current year             | 3,866       | 3,949     |

|   |           |           |
|---|-----------|-----------|
| Decrease in provision for insured events of prior years | (173)     | (284)     |
| Amortization of discount                                | 136       | 138       |
| Total net incurred (a)                                  | 3,829     | 3,803     |
| <b>Net payments attributable to:</b>                    |           |           |
| Current year events                                     | (658)     | (560)     |
| Prior year events                                       | (3,415)   | (3,401)   |
| Total net payments                                      | (4,073)   | (3,961)   |
| Foreign currency translation adjustment and other       | (80)      | 110       |
| Net reserves, end of period                             | 17,746    | 18,201    |
| Ceded reserves, end of period                           | 3,858     | 4,008     |
| Gross reserves, end of period                           | \$ 21,604 | \$ 22,209 |



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(a) Total net incurred above does not agree to Insurance claims and policyholders' benefits as reflected in the Consolidated Condensed Statements of Income due to amounts related to retroactive reinsurance deferred gain accounting, uncollectible reinsurance and loss deductible receivables and benefit expenses related to future policy benefits, which are not reflected in the table above.

**Net Prior Year Development**

Changes in estimates of claim and claim adjustment expense reserves net of reinsurance, for prior years are defined as net prior year loss reserve development. These changes can be favorable or unfavorable.

Favorable net prior year development of \$62 million and \$115 million for the three months ended September 30, 2018 and 2017 and \$160 million and \$227 million for the nine months ended September 30, 2018 and 2017 was recorded for CNA's commercial property and casualty operations (Property & Casualty Operations).

The following table and discussion present details of the net prior year claim and claim adjustment expense reserve development in CNA's Property & Casualty Operations:

|   | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|   | <b>2018</b>               | <b>2017</b> | <b>2018</b>              | <b>2017</b> |
| <b>(In millions)</b>                                  |                           |             |                          |             |
| Medical professional liability                        | \$ 15                     | \$ 8        | \$ 38                    | \$ 30       |
| Other professional liability and management liability | (45)                      | (19)        | (113)                    | (88)        |
| Surety  | (20)                      | (82)        | (50)                     | (82)        |
| Commercial auto                                       | 1                         | (12)        |                          | (37)        |
| General liability                                     | (5)                       | (2)         | 13                       | (19)        |
| Workers' compensation                                 | (2)                       | 9           | (14)                     | (38)        |
| Other   | (6)                       | (17)        | (34)                     | 7           |
| Total pretax (favorable) unfavorable development      | \$ (62)                   | \$ (115)    | \$ (160)                 | \$ (227)    |

**Three Months****2018**

Unfavorable development in medical professional liability was primarily driven by higher than expected frequency and severity in aging services in accident years 2014 through 2017.

Favorable development in other professional liability and management liability was primarily driven by favorable outcomes on individual claims in accident years 2013 and prior in financial institutions.

Favorable development in surety was due to continued lower than expected loss emergence for accident years 2017 and prior.

**2017**

Favorable development in other professional liability and management liability was primarily due to lower than expected claim frequency in accident years 2012 through 2015, primarily for professional liability products.

Favorable development in surety coverages was primarily due to lower than expected frequency of large losses in accident years 2015 and prior.

*Nine Months*

**2018**

Unfavorable development for medical professional liability was primarily due to higher than expected severity in accident years 2014 and 2017 in CNA's hospitals business and higher than expected frequency and severity in aging services in accident years 2014 through 2017.

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Favorable development in other professional liability and management liability was primarily due to lower than expected claim frequency for accident years 2013 through 2017 related to financial institutions and professional liability errors and omissions ( E&O ). Favorable severity for accident years 2012 and prior related to professional liability E&O, and favorable outcomes on individual claims in financial institutions in accident years 2013 and prior.

Favorable development for surety was due to lower than expected loss emergence for accident years 2017 and prior.

Favorable development for other coverages was due to lower than expected claim severity in catastrophes in accident year 2017 for property, better than expected frequency in the liability portion of the package business in Canada and general liability in Europe for casualty, better than expected large loss frequency in the energy book in recent accident years for energy and marine and lower than expected frequency in accident years 2015 and prior related to healthcare in Europe for healthcare and technology. This favorable development was partially offset by unfavorable development driven by higher than expected severity in Canada and higher than expected frequency in CNA Hardy, both in accident year 2017, for property and increased severity in accident year 2017 related to professional indemnity.

### **2017**

Unfavorable development in medical professional liability was primarily due to continued higher than expected frequency in aging services.

Favorable development in other professional liability and management liability was primarily due to favorable settlements on closed claims and a lower frequency of large losses for accident years 2011 through 2016 for professional and management liability, lower than expected claim frequency in accident years 2012 through 2015 for professional liability and lower than expected severity in accident years 2014 through 2016 for professional liability.

Favorable development in surety coverages was primarily due to lower than expected frequency of large losses in accident years 2015 and prior.

Favorable development for commercial auto was primarily due to lower than expected severity in accident years 2013 through 2016, as well as a large favorable recovery on a claim in accident year 2012.

Favorable development for general liability was due to lower than expected severity in life sciences.

Favorable development for workers compensation was primarily related to decreases in frequency and severity in recent accident years, partially attributable to California reforms related to decreases in medical costs. This was partially offset by unfavorable development related to an adverse arbitration ruling on reinsurance recoverables from older accident years as well as the recognition of loss estimates associated with favorable premium development.

### **Asbestos and Environmental Pollution ( A&EP ) Reserves**

In 2010, Continental Casualty Company ( CCC ) together with several of CNA 's other 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 NICO through a 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.

In years subsequent to the effective date of the LPT, CNA recognized adverse prior year development on its A&EP reserves resulting in additional amounts ceded under the LPT. As a result, the cumulative amounts ceded under the LPT have exceeded the \$2.2 billion consideration paid, resulting in the NICO LPT moving into a gain position, requiring retroactive reinsurance accounting. Under retroactive reinsurance accounting, this gain is deferred and only 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 CNA recognizes a change in the estimate of A&EP reserves that increases or decreases the amounts ceded under the LPT, the proportion of actual paid recoveries to total ceded losses is affected and the change in the deferred gain is recognized in earnings as if the revised estimate of ceded losses was available at the effective date of the LPT. The effect of the deferred retroactive reinsurance benefit is recorded in Insurance claims and policyholders' benefits in the

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Consolidated Condensed Statements of Income.

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

|   | Three Months Ended    |         | Nine Months Ended     |       |
|---|-----------------------|---------|-----------------------|-------|
|   | September 30,<br>2018 | 2017    | September 30,<br>2018 | 2017  |
| <b>(In millions)</b>  |                       |         |                       |       |
| Additional amounts ceded under LPT:                         |                       |         |                       |       |
| Net A&EP adverse development before consideration of LPT    | \$ -                  | \$ -    | \$ 113                | \$ 60 |
| Provision for uncollectible third-party reinsurance on A&EP |                       |         | (16)                  |       |
| Total additional amounts ceded under LPT                    | -                     | -       | 97                    | 60    |
| Retroactive reinsurance benefit recognized                  | (12)                  | (17)    | (84)                  | (60)  |
| Pretax impact of deferred retroactive reinsurance           | \$ (12)               | \$ (17) | \$ 13                 | \$ -  |

Based upon CNA's annual A&EP reserve review, net unfavorable prior year development of \$113 million and \$60 million was recognized before consideration of cessions to the LPT for the nine months ended September 30, 2018 and 2017. Additionally, in 2018, CNA released a portion of its provision for uncollectible third party reinsurance. The 2018 unfavorable development was driven by higher than anticipated defense costs on direct asbestos environmental accounts and paid losses on assumed reinsurance exposures. The 2017 unfavorable development was driven by modestly higher anticipated payouts on claims from known sources of asbestos exposure. CNA expects to complete another A&EP reserve review in the fourth quarter of 2018 and intends to maintain that timing going forward annually.

As of September 30, 2018 and December 31, 2017, the cumulative amounts ceded under the LPT were \$3.0 billion and \$2.9 billion. The unrecognized deferred retroactive reinsurance benefit was \$339 million and \$326 million as of September 30, 2018 and December 31, 2017.

NICO established a collateral trust account as security for its obligations to CNA. The fair value of the collateral trust account was \$3.2 billion and \$3.1 billion as of September 30, 2018 and December 31, 2017. In addition, Berkshire Hathaway Inc. guaranteed the payment obligations of NICO up to the 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.

**Table of Contents****6. Shareholders Equity****Accumulated other comprehensive income (loss)**

The tables below present the changes in AOCI by component for the three and nine months ended September 30, 2017 and 2018:

|  | OTTI<br>Gains<br>(Losses) | Unrealized<br>Gains (Losses)<br>on Investments | Cash Flow<br>Hedges | Pension<br>Liability | Foreign<br>Currency<br>Translation | Total<br>Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |
|--|---------------------------|--|---------------------|----------------------|------------------------------------|--|
| (In millions)  |                           |  |                     |                      |                                    |  |
| Balance, July 1, 2017  | \$ 23                     | \$ 705   | \$ (2)              | \$ (632)             | \$ (130)                           | \$ (36)  |
| Other comprehensive income<br>(loss) before reclassifications,<br>after tax of \$0, \$(20), \$0, \$0 and<br>\$0                            | 1                         | 35   | (2)                 |                      | 41                                 | 75   |
| Reclassification of (gains) losses<br>from accumulated other<br>comprehensive income, after tax<br>of \$0, \$4, \$0, \$(6) and \$0         |                           | (12)   | 3                   | 11                   |                                    | 2  |
| Other comprehensive income   | 1                         | 23   | 1                   | 11                   | 41                                 | 77   |
| Amounts attributable to<br>noncontrolling interests  |                           | (3)  | (1)                 | (1)                  | (4)                                | (9)  |
| Balance, September 30, 2017  | \$ 24                     | \$ 725   | \$ (2)              | \$ (622)             | \$ (93)                            | \$ 32  |
| <b>Balance, July 1, 2018</b>   | <b>\$ 17</b>              | <b>\$ 244</b>                                  | <b>\$ 13</b>        | <b>\$ (774)</b>      | <b>\$ (125)</b>                    | <b>\$ (625)</b>  |
| <b>Other comprehensive loss<br/>before reclassifications, after<br/>tax of \$0, \$40, \$(2), \$0 and \$0</b>                               | <b>(1)</b>                | <b>(148)</b>                                   |                     |                      |                                    | <b>(149)</b>   |
| <b>Reclassification of (gains) losses<br/>from accumulated other<br/>comprehensive loss, after tax of<br/>\$0, \$2, \$0, \$(1) and \$0</b> |                           | <b>(10)</b>                                    |                     | <b>8</b>             |                                    | <b>(2)</b>   |
| <b>Other comprehensive income<br/>(loss)</b>   | <b>(1)</b>                | <b>(158)</b>                                   | <b>-</b>            | <b>8</b>             | <b>-</b>                           | <b>(151)</b>   |
| <b>Amounts attributable to<br/>noncontrolling interests</b>  |                           | <b>17</b>                                      |                     | <b>1</b>             |                                    | <b>18</b>  |
| <b>Balance, September 30, 2018</b>   | <b>\$ 16</b>              | <b>\$ 103</b>                                  | <b>\$ 13</b>        | <b>\$ (765)</b>      | <b>\$ (125)</b>                    | <b>\$ (758)</b>  |



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|  | OTTI<br>Gains<br>(Losses) | Unrealized<br>Gains<br>(Losses)<br>on Investments | Cash Flow<br>Hedges | Pension<br>Liability | Foreign<br>Currency<br>Translation | Total<br>Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |
|--|---------------------------|---|---------------------|----------------------|------------------------------------|--|
| (In millions)  |                           |   |                     |                      |                                    |  |
| Balance, January 1, 2017   | \$ 27                     | \$ 576  | \$ (2)              | \$ (646)             | \$ (178)                           | \$ (223)   |
| Other comprehensive income<br>(loss) before reclassifications,<br>after tax of \$0, \$(130), \$0, \$0 and<br>\$0                           |                           | 228   | (3)                 |                      | 94                                 | 319  |
| Reclassification of (gains) losses<br>from accumulated other<br>comprehensive income, after tax<br>of \$1, \$28, \$0, \$(13) and \$0       | (3)                       | (61)  | 4                   | 26                   |                                    | (34)   |
| Other comprehensive income<br>(loss)   | (3)                       | 167   | 1                   | 26                   | 94                                 | 285  |
| Amounts attributable to<br>noncontrolling interests  |                           | (18)  | (1)                 | (2)                  | (9)                                | (30)   |
| Balance, September 30, 2017  | \$ 24                     | \$ 725  | \$ (2)              | \$ (622)             | \$ (93)                            | \$ 32  |
| <b>Balance, January 1, 2018, as<br/>reported</b>   | <b>\$ 22</b>              | <b>\$ 673</b>                                     | <b>\$ -</b>         | <b>\$ (633)</b>      | <b>\$ (88)</b>                     | <b>\$ (26)</b>   |
| <b>Cumulative effect adjustment<br/>for adoption of ASU 2016-01<br/>(a), after tax of \$0, \$8, \$0, \$0<br/>and \$0</b>                   |                           | (25)  |                     |                      |                                    | (25)   |
| <b>Cumulative effect adjustment<br/>for adoption of ASU 2018-02 (a)</b>  | <b>4</b>                  | <b>123</b>  |                     | <b>(130)</b>         |                                    | <b>(3)</b>   |
| <b>Balance, January 1, 2018, as<br/>adjusted</b>   | <b>26</b>                 | <b>771</b>  | <b>-</b>            | <b>(763)</b>         | <b>(88)</b>                        | <b>(54)</b>  |
| <b>Other comprehensive income<br/>(loss) before reclassifications,<br/>after tax of \$3, \$190, \$(4), \$0<br/>and \$0</b>                 | <b>(12)</b>               | <b>(718)</b>                                      | <b>12</b>           |                      | <b>(41)</b>                        | <b>(759)</b>   |
| <b>Reclassification of (gains) losses<br/>from accumulated other<br/>comprehensive loss, after tax of<br/>\$0, \$7, \$0, \$(6) and \$0</b> | <b>1</b>                  | <b>(28)</b>                                       | <b>2</b>            | <b>27</b>            |                                    | <b>2</b>   |
| <b>Other comprehensive income<br/>(loss)</b>   | <b>(11)</b>               | <b>(746)</b>                                      | <b>14</b>           | <b>27</b>            | <b>(41)</b>                        | <b>(757)</b>   |
| <b>Amounts attributable to<br/>noncontrolling interests</b>  | <b>1</b>                  | <b>78</b>   |                     | <b>(1)</b>           | <b>4</b>                           | <b>82</b>  |
| <b>Purchase of Boardwalk Pipeline<br/>common units</b>   |                           |   | <b>(1)</b>          | <b>(28)</b>          |                                    | <b>(29)</b>  |



**Balance, September 30, 2018**      \$    16    \$    103    \$    13    \$    (765)    \$    (125)    \$    (758)

(a) For information regarding this accounting standard see Note 1.

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                         | Operating revenues and other and Operating expenses and other |
| Pension liability                        | Operating expenses and other                                  |

**Table of Contents****Treasury Stock**

The Company repurchased 17.4 million and 0.1 million shares of Loews common stock at aggregate costs of \$876 million and \$6 million during the nine months ended September 30, 2018 and 2017.

**7. Revenue from Contracts with Customers**

**Disaggregation of revenues** Revenue from contracts with customers, other than insurance premiums, is reported within Operating revenues and other on the Consolidated Condensed Statements of Income. The following table presents revenues from contracts with customers disaggregated by revenue type along with the reportable segment and a reconciliation to Operating revenues and other as reported in Note 11:

|  | Three Months Ended    |          | Nine Months Ended     |          |
|--|-----------------------|----------|-----------------------|----------|
|  | September 30,<br>2018 | 2017 (a) | September 30,<br>2018 | 2017 (a) |
| <b>(In millions)</b>   |                       |          |                       |          |
| Non-insurance warranty CNA Financial   | \$ 258                | \$ 99    | \$ 744                | \$ 290   |
| Contract drilling Diamond Offshore   | 287                   | 366      | 851                   | 1,139    |
| Transportation and storage of natural gas and NGLs and other services Boardwalk Pipeline | 274                   | 290      | 886                   | 944      |
| Lodging and related services Loews Hotels & Co   | 167                   | 162      | 550                   | 510      |
| Rigid plastic packaging and recycled resin Corporate                                     | 223                   | 202      | 652                   | 293      |
| Total revenues from contracts with customers   | 1,209                 | 1,119    | 3,683                 | 3,176    |
| Other revenues   | 37                    | 23       | 71                    | 87       |
| Operating revenues and other   | \$ 1,246              | \$ 1,142 | \$ 3,754              | \$ 3,263 |

(a) Prior period amounts have not been adjusted under the modified retrospective method of adoption for ASU 2014-09.

CNA's non-insurance warranty revenues are primarily generated from separately-priced service contracts that provide mechanical breakdown and other coverages to vehicle or consumer goods owners, which generally provide coverage from one month to ten years. Additionally, CNA provides warranty administration services for dealer and manufacturer warranty products. Non-insurance revenues are recognized when obligations under the terms of the contract with CNA's customers are satisfied, which is generally over time as obligations are fulfilled. CNA recognizes non-insurance warranty revenues over the service period in proportion to the actuarially determined expected claims emergence pattern. Customers pay in full at the inception of the warranty contract. A liability for unearned warranty revenue is recorded when cash payments are received or due in advance of CNA's performance, including amounts which are refundable upon cancellation.

Diamond Offshore's contract drilling revenues primarily result from providing a drilling rig and the crew and supplies necessary to operate the rig, mobilizing and demobilizing the rig to and from the drill site and performing rig preparation activities and/or modifications required for the contract. Consideration received for performing these activities may consist of dayrate drilling revenue, mobilization and demobilization revenue, contract preparation revenue and reimbursement revenue for the purchase of supplies, equipment, personnel services and other services

requested by the customer. Diamond Offshore accounts for these integrated services provided within its drilling contracts as a single performance obligation satisfied over time and comprised of a series of distinct time increments in which drilling services are provided. The total transaction price is determined for each individual contract by estimating both fixed and variable consideration expected to be earned over the term of the contract. The standard contract term ranges from two to 60 months.

Boardwalk Pipeline primarily earns revenues by providing transportation and storage services for natural gas and natural gas liquids and hydrocarbons (referred to together as NGLs ) on a firm and interruptible basis and provides interruptible natural gas parking and lending services. The majority of Boardwalk Pipeline's operating subsidiaries are subject to Federal Energy Regulatory Commission ( FERC ) regulations and certain revenues collected, under certain circumstances, may be subject to possible refunds to its customers. An estimated refund liability is recorded considering regulatory proceedings, advice of counsel and estimated total exposure. The majority of Boardwalk Pipeline's revenues are from firm service contracts which are accounted for as a single promise to stand ready each month of the contract term to provide the committed capacity for either transportation or storage services. The transaction price is comprised of a fixed fee based on the capacity reserved plus a usage fee paid on the volume of commodity transported or injected and withdrawn from storage. Both the fixed and the usage fees are allocated to the single performance obligation of providing transportation or storage service and recognized over time as control is passed to the customer. These service contracts can range in term from one to 20 years and are invoiced monthly.

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Loews Hotels & Co provides lodging and related goods and services as well as management and marketing services. Loews Hotels & Co allocates the lodging transaction price to the distinct goods and services based on the market price. Lodging and related revenues are recognized as the guest takes possession of the goods or receives the services. Management and marketing services revenues are recognized as the services are provided and billed on a monthly basis. In addition, Loews Hotels & Co recognizes revenue for the reimbursement of payroll expenses incurred on behalf of the owners of joint venture and managed hotel properties.

Consolidated Container manufactures rigid plastic packaging and recycled resins and provides packaging solutions to end markets such as beverage, food and household chemicals through a network of manufacturing locations across North America. Consolidated Container recognizes revenue as control is transferred to the customer.

**Receivables from contracts with customers** As of September 30, 2018 and January 1, 2018, receivables from contracts with customers were approximately \$415 million and \$488 million and are included within Receivables on the Consolidated Condensed Balance Sheets.

**Deferred revenue** The Company records deferred revenue, which is primarily related to non-insurance warranty contracts, when payment is received in advance of satisfying the performance obligations. As of September 30, 2018 and January 1, 2018, deferred revenue resulting from contracts with customers was approximately \$3.4 billion and \$3.0 billion and is included in Other liabilities on the Consolidated Condensed Balance Sheets. The increase in deferred revenue is primarily due to cash payments received in advance of satisfying performance obligations, partially offset by cancellations and revenues recognized during the period. Approximately \$685 million of revenues recognized during the nine months ended September 30, 2018 were included in deferred revenue as of January 1, 2018.

**Contract costs** Costs to obtain or fulfill contracts with customers are deferred and recorded as Other assets. These costs are expected to be recoverable over the duration of the contract and are amortized in the same manner the related revenue is recognized. As of September 30, 2018, the Company had approximately \$2.5 billion of costs to obtain contracts with customers, primarily related to CNA for amounts paid to dealers and other agents to obtain non-insurance warranty contracts, which are included in Other assets on the Consolidated Condensed Balance Sheet. For the three and nine months ended September 30, 2018, amortization expense totaled \$202 million and \$552 million and is included in Operating expenses and other in the Consolidated Condensed Statement of Income.

For CNA's non-insurance warranty contract costs, losses under warranty contracts shall be recognized when it is probable that estimated future costs exceed unrecognized revenue. CNA evaluates deferred costs for recoverability including consideration of anticipated investment income. Adjustments to deferred costs, if necessary, are recorded in the current period results of operations. No adjustments were recorded for the nine months ended September 30, 2018.

**Performance obligations** As of September 30, 2018, approximately \$12.4 billion of estimated operating revenues is expected to be recognized in the future related to outstanding performance obligations. The balance relates primarily to revenues for transportation and storage of natural gas and NGLs at Boardwalk Pipeline and non-insurance warranty services at CNA. Approximately \$0.6 billion will be recognized during the remaining three months of 2018, \$2.0 billion in 2019 and the remainder in following years. The actual timing of recognition may vary due to factors outside of the Company's control. The Company has elected to exclude variable consideration related entirely to wholly unsatisfied performance obligations and contracts where revenue is recognized based upon the right to invoice the customer. Therefore, the estimated operating revenues exclude contract drilling dayrate revenue at Diamond Offshore and interruptible service contract revenue at Boardwalk Pipeline.



**Table of Contents****8. Benefit Plans**

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

The following table presents the components of net periodic (benefit) cost for the plans:

|                                       | <b>Pension Benefits</b>   |             |                          |             |
|---------------------------------------|---------------------------|-------------|--------------------------|-------------|
|                                       | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|                                       | <b>September 30,</b>      | <b>2017</b> | <b>September 30,</b>     | <b>2017</b> |
| <b>(In millions)</b>                  | <b>2018</b>               | <b>2017</b> | <b>2018</b>              | <b>2017</b> |
| Service cost                          | \$ 2                      | \$ 2        | \$ 6                     | \$ 6        |
| Interest cost                         | 27                        | 30          | 82                       | 89          |
| Expected return on plan assets        | (44)                      | (43)        | (134)                    | (129)       |
| Amortization of unrecognized net loss | 11                        | 10          | 32                       | 32          |
| Settlement charge                     |                           | 7           | 7                        | 10          |
| Net periodic (benefit) cost           | \$ (4)                    | \$ 6        | \$ (7)                   | \$ 8        |

|  | <b>Other Postretirement Benefits</b> |                      |                          |             |
|--|--------------------------------------|----------------------|--------------------------|-------------|
|  | <b>Three Months</b>                  |                      | <b>Nine Months Ended</b> |             |
|  | <b>Ended</b>                         | <b>September 30,</b> | <b>September 30,</b>     | <b>2017</b> |
| <b>(In millions)</b>                               | <b>2018</b>                          | <b>2017</b>          | <b>2018</b>              | <b>2017</b> |
| Interest cost                                      | \$ 1                                 | \$ 1                 | \$ 2                     | \$ 2        |
| Expected return on plan assets                     | (1)                                  | (1)                  | (3)                      | (3)         |
| Amortization of unrecognized prior service benefit | (1)                                  | (1)                  | (2)                      | (2)         |
| Amortization of unrecognized net gain              | (1)                                  |                      | (1)                      |             |
| Net periodic (benefit) cost                        | \$ (2)                               | \$ (1)               | \$ (4)                   | \$ (3)      |

**9. Legal Proceedings**

The Company and its subsidiaries are from time to time parties to litigation arising in the ordinary course of business. While it is difficult to predict the outcome or effect of any litigation, management does not believe that the outcome of any such pending litigation will materially affect the Company's results of operations or equity.

**10. Commitments and Contingencies****CNA Guarantees**

In the course of selling business entities and assets to third parties, CNA agreed to guarantee the performance of certain obligations of previously owned subsidiaries and to indemnify purchasers for losses arising out of breaches of

representations 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 September 30, 2018, the aggregate amount related to quantifiable guarantees was \$375 million and the aggregate amount related to quantifiable indemnification agreements was \$252 million. In certain cases, should CNA be required to make payments under any such guarantee, it would have the right to seek reimbursement 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 September 30, 2018, 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.

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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 September 30, 2018, the potential amount of future payments CNA could be required to pay under these guarantees was approximately \$1.8 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.

### **CNA Small Business Premium Rate Adjustment**

In 2016 and 2017, CNA identified rating errors related to its multi-peril package product and workers' compensation policies within its Small Business unit and determined that it would voluntarily issue premium refunds along with interest on affected policies. After the rating errors were identified, written and earned premium were reported net of any impact from the premium rate adjustments.

The policyholder refunds for the multi-peril package product were issued in the third quarter of 2017. The policyholder refunds for workers' compensation policies were largely completed in the third quarter of 2018.

For the nine months ended September 30, 2017, earned premium was reduced by \$37 million. Earned premium increased by \$6 million for the three and nine months ended September 30, 2018 as a result of a change in estimate of the refund payments to policyholders. Additionally, Interest expense increased for interest due to policyholders on the premium rate adjustments by \$1 million and \$7 million for the three and nine months ended September 30, 2017 and \$1 million for the nine months ended September 30, 2018.

## **11. Segments**

The Company has five reportable segments comprised of four individual operating subsidiaries, CNA, Diamond Offshore, Boardwalk Pipeline and Loews Hotels & Co; and the Corporate segment. The operations of Consolidated Container are included in the Corporate segment for the three and nine months ended September 30, 2018 and the period from the acquisition date, May 22, 2017 through September 30, 2017. Each of the 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. For additional disclosures regarding the composition of the Company's segments, see Note 19 of the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The following tables present the reportable segments of the Company and their contribution to the Consolidated Condensed Statements of Income. 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.



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Statements of Income by segment are presented in the following tables.

| Three Months Ended<br>September 30, 2018<br>(In millions)  | CNA<br>Financial | Diamond<br>Offshore | Boardwalk<br>Pipeline | Loews<br>Hotels & Co | Corporate      | Total         |
|--|------------------|---------------------|-----------------------|----------------------|----------------|---------------|
| <b>Revenues:</b>   |                  |                     |                       |                      |                |               |
| Insurance premiums   | \$ 1,853         |                     |                       |                      |                | \$ 1,853      |
| Net investment income                                      | 487              | \$ 2                |                       |                      | \$ 5           | 494           |
| Investment gains   | 15               |                     |                       |                      |                | 15            |
| Operating revenues and other                               | 267              | 287                 | \$ 279                | \$ 190               | 223            | 1,246         |
| <b>Total</b>   | <b>2,622</b>     | <b>289</b>          | <b>279</b>            | <b>190</b>           | <b>228</b>     | <b>3,608</b>  |
| <b>Expenses:</b>   |                  |                     |                       |                      |                |               |
| Insurance claims and policyholders benefits                | 1,312            |                     |                       |                      |                | 1,312         |
| Amortization of deferred acquisition costs                 | 337              |                     |                       |                      |                | 337           |
| Operating expenses and other                               | 538              | 311                 | 197                   | 169                  | 244            | 1,459         |
| Interest   | 34               | 34                  | 44                    | 7                    | 27             | 146           |
| <b>Total</b>   | <b>2,221</b>     | <b>345</b>          | <b>241</b>            | <b>176</b>           | <b>271</b>     | <b>3,254</b>  |
| Income (loss) before income tax                            | 401              | (56)                | 38                    | 14                   | (43)           | 354           |
| Income tax (expense) benefit                               | (66)             | 5                   | (10)                  | (3)                  | 9              | (65)          |
| <b>Net income (loss)</b>                                   | <b>335</b>       | <b>(51)</b>         | <b>28</b>             | <b>11</b>            | <b>(34)</b>    | <b>289</b>    |
| Amounts attributable to noncontrolling interests           | (35)             | 24                  | -                     | -                    | -              | (11)          |
| <b>Net income (loss) attributable to Loews Corporation</b> | <b>\$ 300</b>    | <b>\$ (27)</b>      | <b>\$ 28</b>          | <b>\$ 11</b>         | <b>\$ (34)</b> | <b>\$ 278</b> |

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| Three Months Ended<br>September 30, 2017<br>(In millions) | CNA<br>Financial | Diamond<br>Offshore | Boardwalk<br>Pipeline | Loews<br>Hotels & Co | Corporate   | Total         |
|---|------------------|---------------------|-----------------------|----------------------|-------------|---------------|
| <b>Revenues:</b>  |                  |                     |                       |                      |             |               |
| Insurance premiums  | \$ 1,806         |                     |                       |                      |             | \$ 1,806      |
| Net investment income                                     | 509              |                     |                       |                      | \$ 48       | 557           |
| Investment gains  | 16               |                     |                       |                      |             | 16            |
| Operating revenues and<br>other                           | 110              | \$ 368              | \$ 301                | \$ 162               | 201         | 1,142         |
| <b>Total</b>  | <b>2,441</b>     | <b>368</b>          | <b>301</b>            | <b>162</b>           | <b>249</b>  | <b>3,521</b>  |
| <b>Expenses:</b>  |                  |                     |                       |                      |             |               |
| Insurance claims and<br>policyholders benefits            | 1,480            |                     |                       |                      |             | 1,480         |
| Amortization of deferred<br>acquisition costs             | 309              |                     |                       |                      |             | 309           |
| Operating expenses and<br>other                           | 379              | 307                 | 191                   | 147                  | 221         | 1,245         |
| Interest  | 83               | 64                  | 41                    | 7                    | 28          | 223           |
| <b>Total</b>  | <b>2,251</b>     | <b>371</b>          | <b>232</b>            | <b>154</b>           | <b>249</b>  | <b>3,257</b>  |
| Income (loss) before<br>income tax                        | 190              | (3)                 | 69                    | 8                    | -           | 264           |
| Income tax (expense)<br>benefit                           | (44)             | 14                  | (18)                  | (4)                  |             | (52)          |
| <b>Net income</b>   | <b>146</b>       | <b>11</b>           | <b>51</b>             | <b>4</b>             | <b>-</b>    | <b>212</b>    |
| Amounts attributable to<br>noncontrolling interests       | (16)             | (5)                 | (34)                  |                      |             | (55)          |
| <b>Net income attributable<br/>to Loews Corporation</b>   | <b>\$ 130</b>    | <b>\$ 6</b>         | <b>\$ 17</b>          | <b>\$ 4</b>          | <b>\$ -</b> | <b>\$ 157</b> |

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| Nine Months Ended<br>September 30, 2018<br>(In millions) | CNA<br>Financial | Diamond<br>Offshore | Boardwalk<br>Pipeline | Loews<br>Hotels & Co | Corporate | Total |
|--|------------------|---------------------|-----------------------|----------------------|-----------|-------|
|--|------------------|---------------------|-----------------------|----------------------|-----------|-------|

**Revenues:**

|                              |              |            |            |            |            |               |
|------------------------------|--------------|------------|------------|------------|------------|---------------|
| Insurance premiums           | \$ 5,453     |            |            |            |            | \$ 5,453      |
| Net investment income        | 1,483        | \$ 6       |            | \$ 1       | \$ 61      | 1,551         |
| Investment gains             | 21           |            |            |            |            | 21            |
| Operating revenues and other | 774          | 853        | \$ 901     | 573        | 653        | 3,754         |
| <b>Total</b>                 | <b>7,731</b> | <b>859</b> | <b>901</b> | <b>574</b> | <b>714</b> | <b>10,779</b> |

**Expenses:**

|  |               |                |              |              |                |               |
|--|---------------|----------------|--------------|--------------|----------------|---------------|
| Insurance claims and policyholders benefits                | 3,978         |                |              |              |                | 3,978         |
| Amortization of deferred acquisition costs                 | 992           |                |              |              |                | 992           |
| Operating expenses and other                               | 1,580         | 927            | 598          | 494          | 714            | 4,313         |
| Interest   | 104           | 92             | 131          | 22           | 81             | 430           |
| <b>Total</b>   | <b>6,654</b>  | <b>1,019</b>   | <b>729</b>   | <b>516</b>   | <b>795</b>     | <b>9,713</b>  |
| Income (loss) before income tax                            | 1,077         | (160)          | 172          | 58           | (81)           | 1,066         |
| Income tax (expense) benefit                               | (181)         | 59             | (24)         | (17)         | 14             | (149)         |
| <b>Net income (loss)</b>                                   | <b>896</b>    | <b>(101)</b>   | <b>148</b>   | <b>41</b>    | <b>(67)</b>    | <b>917</b>    |
| Amounts attributable to noncontrolling interests           | (95)          | 47             | (68)         | -            | -              | (116)         |
| <b>Net income (loss) attributable to Loews Corporation</b> | <b>\$ 801</b> | <b>\$ (54)</b> | <b>\$ 80</b> | <b>\$ 41</b> | <b>\$ (67)</b> | <b>\$ 801</b> |

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| Nine Months Ended<br>September 30, 2017<br>(In millions)           | CNA<br>Financial | Diamond<br>Offshore | Boardwalk<br>Pipeline | Loews<br>Hotels & Co | Corporate      | Total         |
|--|------------------|---------------------|-----------------------|----------------------|----------------|---------------|
| <b>Revenues:</b>   |                  |                     |                       |                      |                |               |
| Insurance premiums   | \$ 5,185         |                     |                       |                      |                | \$ 5,185      |
| Net investment income  | 1,529            | \$ 1                |                       |                      | \$ 109         | 1,639         |
| Investment gains   | 93               |                     |                       |                      |                | 93            |
| Operating revenues and<br>other                                    | 329              | 1,143               | \$ 987                | \$ 510               | 294            | 3,263         |
| <b>Total</b>   | <b>7,136</b>     | <b>1,144</b>        | <b>987</b>            | <b>510</b>           | <b>403</b>     | <b>10,180</b> |
| <b>Expenses:</b>   |                  |                     |                       |                      |                |               |
| Insurance claims and<br>policyholders benefits                     | 4,053            |                     |                       |                      |                | 4,053         |
| Amortization of deferred<br>acquisition costs                      | 926              |                     |                       |                      |                | 926           |
| Operating expenses and<br>other                                    | 1,086            | 1,012               | 646                   | 443                  | 389            | 3,576         |
| Interest   | 166              | 119                 | 131                   | 20                   | 68             | 504           |
| <b>Total</b>   | <b>6,231</b>     | <b>1,131</b>        | <b>777</b>            | <b>463</b>           | <b>457</b>     | <b>9,059</b>  |
| Income (loss) before<br>income tax                                 | 905              | 13                  | 210                   | 47                   | (54)           | 1,121         |
| Income tax (expense)<br>benefit                                    | (226)            | 35                  | (46)                  | (23)                 | 20             | (240)         |
| <b>Net income (loss)</b>   | <b>679</b>       | <b>48</b>           | <b>164</b>            | <b>24</b>            | <b>(34)</b>    | <b>881</b>    |
| Amounts attributable to<br>noncontrolling interests                | (71)             | (23)                | (104)                 |                      |                | (198)         |
| <b>Net income (loss)<br/>attributable to Loews<br/>Corporation</b> | <b>\$ 608</b>    | <b>\$ 25</b>        | <b>\$ 60</b>          | <b>\$ 24</b>         | <b>\$ (34)</b> | <b>\$ 683</b> |

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

Management's discussion and analysis of financial condition and results of operations ( MD&A ) should be read in conjunction with our Consolidated Condensed Financial Statements included under Item 1 of this Report, Risk Factors included under Part II, Item 1A of this Report, Risk Factors included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 and the Consolidated Financial Statements, Risk Factors, and MD&A included in our Annual Report on Form 10-K for the year ended December 31, 2017. This MD&A is comprised of the following sections:

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| <b>OVERVIEW</b>                        |                     |

We are a holding company and have five reportable segments comprised of four individual operating subsidiaries, CNA Financial Corporation ( CNA ), Diamond Offshore Drilling, Inc. ( Diamond Offshore ), Boardwalk Pipeline Partners, LP ( Boardwalk Pipeline ) and Loews Hotels Holding Corporation ( Loews Hotels & Co ); and the Corporate segment. The operations of Consolidated Container Company LLC ( Consolidated Container ) are included in the Corporate segment for the three and nine months ended September 30, 2018 and the period from the acquisition date, May 22, 2017 through September 30, 2017. For information on the acquisition of Consolidated Container on May 22, 2017, see Notes 2 and 11 of the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017. Each of our 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.

We rely upon our invested cash balances and distributions from our subsidiaries to generate the funds necessary to meet our obligations and to declare and pay any dividends to our shareholders. The ability of our subsidiaries to pay dividends is subject to, among other things, the availability of sufficient earnings and funds in such subsidiaries, applicable state laws, including in the case of the insurance subsidiaries of CNA, laws and rules governing the payment of dividends by regulated insurance companies (see Note 13 of the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017) and compliance with covenants in their

respective loan agreements. Claims of creditors of our subsidiaries will generally have priority as to the assets of such subsidiaries over our claims and those of our creditors and shareholders.

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

**Table of Contents****RESULTS OF OPERATIONS****Consolidated Financial Results**

The following table summarizes net income (loss) attributable to Loews Corporation by segment and net income per share attributable to Loews Corporation for the three and nine months ended September 30, 2018 and 2017:

|  | <b>Three Months Ended</b> |         | <b>Nine Months Ended</b> |         |
|--|---------------------------|---------|--------------------------|---------|
|  | <b>September 30,</b>      |         | <b>September 30,</b>     |         |
|  | <b>2018</b>               | 2017    | <b>2018</b>              | 2017    |
| <b>(In millions, except per share data)</b>  |                           |         |                          |         |
| CNA Financial                                | \$ 300                    | \$ 130  | \$ 801                   | \$ 608  |
| Diamond Offshore                             | (27)                      | 6       | (54)                     | 25      |
| Boardwalk Pipeline                           | 28                        | 17      | 80                       | 60      |
| Loews Hotels & Co                            | 11                        | 4       | 41                       | 24      |
| Corporate                                    | (34)                      |         | (67)                     | (34)    |
| Net income attributable to Loews Corporation | \$ 278                    | \$ 157  | \$ 801                   | \$ 683  |
| <b>Basic net income per share</b>            | <b>\$ 0.88</b>            | \$ 0.46 | <b>\$ 2.50</b>           | \$ 2.03 |
| <b>Diluted net income per share</b>          | <b>\$ 0.88</b>            | \$ 0.46 | <b>\$ 2.49</b>           | \$ 2.02 |

Net income for the three and nine months ended September 30, 2018 increased as compared to the prior year periods, due to higher earnings at CNA, Boardwalk and Loews Hotels. Lower results at Diamond Offshore and the parent company investment portfolio partially offset the year-over-year improvement.

**CNA Financial**

The following table summarizes the results of operations for CNA for the three and nine months ended September 30, 2018 and 2017 as presented in Note 11 of the Notes to Consolidated Condensed Financial Statements included under Item 1 of this Report. For further discussion of Net investment income and Net realized investment results, see the Investments section of this MD&A.

|                       | <b>Three Months Ended</b> |          | <b>Nine Months Ended</b> |          |
|-----------------------|---------------------------|----------|--------------------------|----------|
|                       | <b>September 30,</b>      |          | <b>September 30,</b>     |          |
|                       | <b>2018</b>               | 2017     | <b>2018</b>              | 2017     |
| <b>(In millions)</b>  |                           |          |                          |          |
| <b>Revenues:</b>      |                           |          |                          |          |
| Insurance premiums    | \$ 1,853                  | \$ 1,806 | \$ 5,453                 | \$ 5,185 |
| Net investment income | 487                       | 509      | 1,483                    | 1,529    |

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|  |               |        |               |        |
|--|---------------|--------|---------------|--------|
| Investment gains                                 | <b>15</b>     | 16     | <b>21</b>     | 93     |
| Other revenues                                   | <b>267</b>    | 110    | <b>774</b>    | 329    |
| Total  | <b>2,622</b>  | 2,441  | <b>7,731</b>  | 7,136  |
| Expenses:  |               |        |               |        |
| Insurance claims and policyholders' benefits     | <b>1,312</b>  | 1,480  | <b>3,978</b>  | 4,053  |
| Amortization of deferred acquisition costs       | <b>337</b>    | 309    | <b>992</b>    | 926    |
| Other operating expenses                         | <b>538</b>    | 379    | <b>1,580</b>  | 1,086  |
| Interest   | <b>34</b>     | 83     | <b>104</b>    | 166    |
| Total  | <b>2,221</b>  | 2,251  | <b>6,654</b>  | 6,231  |
| Income before income tax                         | <b>401</b>    | 190    | <b>1,077</b>  | 905    |
| Income tax expense                               | <b>(66)</b>   | (44)   | <b>(181)</b>  | (226)  |
| Net income                                       | <b>335</b>    | 146    | <b>896</b>    | 679    |
| Amounts attributable to noncontrolling interests | <b>(35)</b>   | (16)   | <b>(95)</b>   | (71)   |
| Net income attributable to Loews Corporation     | <b>\$ 300</b> | \$ 130 | <b>\$ 801</b> | \$ 608 |



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**Table of Contents*****Three Months Ended September 30, 2018 Compared to 2017***

Net income attributable to Loews increased \$170 million for the three months ended September 30, 2018 as compared with the 2017 period. Net income increased due to lower net catastrophe losses and the reduction in the corporate income tax rate, partially offset by lower favorable net prior year loss reserve development and lower net investment income driven by limited partnership returns. Favorable net prior year development of \$62 million and \$115 million was recorded in the three months ended September 30, 2018 and 2017.

***Nine Months Ended September 30, 2018 Compared to 2017***

Net income attributable to Loews increased \$193 million for the nine months ended September 30, 2018 as compared with the 2017 period primarily due to lower net catastrophe losses and the reduction in the corporate income tax rate, partially offset by lower favorable net prior year loss reserve development and lower net investment income driven by limited partnership returns. Earnings were also impacted by lower net realized investment results driven by lower net realized investment gains on sales of securities. Favorable net prior year development of \$160 million and \$227 million was recorded in the nine months ended September 30, 2018 and 2017.

**CNA's Property & Casualty and Other Insurance Operations**

CNA's commercial property and casualty insurance operations ( Property & Casualty Operations ) include its Specialty, Commercial and International lines of business. CNA's Other Insurance Operations outside of Property & Casualty Operations include its long term care business that is in run-off, certain corporate expenses, including interest on CNA's corporate debt, and certain property and casualty businesses in run-off, including CNA Re and Asbestos and Environmental Pollution ( A&EP ). CNA's products and services are primarily marketed through independent agents, brokers and managing general underwriters to a wide variety of customers, including small, medium and large businesses, insurance companies, associations, professionals and other groups. We believe the presentation of CNA as one reportable segment is appropriate in accordance with applicable accounting standards on segment reporting. However, for purposes of this discussion and analysis of the results of operations, we provide greater detail with respect to CNA's Property & Casualty Operations and Other Insurance Operations to enhance the reader's understanding and to provide further transparency into key drivers of CNA's financial results.

In assessing CNA's insurance operations, the Company utilizes the core income (loss) financial measure. Core income (loss) is calculated by excluding from net income (loss) (i) net realized investment gains or losses, (ii) income or loss from discontinued operations, (iii) any cumulative effects of changes in accounting guidance and (iv) deferred tax asset and liability remeasurement as a result of an enacted U.S. federal tax rate change. In addition, core income (loss) excludes the effects of noncontrolling interests. The calculation of core income (loss) excludes net realized investment gains or losses because net realized investment gains or losses are generally driven by economic factors that are not necessarily consistent with key drivers of underwriting performance, and are therefore not considered an indication of trends in insurance operations. Core income (loss) is deemed to be a non-GAAP financial measure and management believes this measure is useful to investors as management uses this measure to assess financial performance.

**Property & Casualty Operations**

In evaluating the results of Property & Casualty Operations, CNA utilizes the loss ratio, the expense ratio, the dividend ratio and the combined ratio. These ratios are calculated using GAAP financial results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of insurance underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of policyholders' dividends incurred to net earned

premiums. The combined ratio is the sum of the loss, expense and dividend ratios. In addition, CNA also utilizes renewal premium change, rate, retention and new business in evaluating operating trends. Renewal premium change represents the estimated change in average premium on policies that renew, including rate and exposure changes. Rate represents the average change in price on policies that renew excluding exposure changes. Exposure represents the measure of risk used in the pricing of the insurance product. Retention represents the percentage of premium dollars renewed in comparison to the expiring premium dollars from policies available to renew. Renewal premium change, rate and retention presented for the prior period are updated to reflect subsequent activity on policies written in the period. New business represents premiums from policies written with new customers and additional policies written with existing customers.

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Effective January 1, 2018, CNA changed the presentation of its life sciences business and technology and media related errors and omissions ( E&O ) business within the Specialty and Commercial businesses as a result of a change in management responsibility. The life sciences business, with approximately \$110 million of net written premium for the year ended December 31, 2017, provides product liability and other coverages such as property and workers compensation associated with the life sciences industry. This business, which was previously reported as part of the Specialty business, is now reported as part of the Commercial business. The technology and media related E&O business, with approximately \$70 million of net written premium for the year ended December 31, 2017, provides network security and privacy, media and E&O coverage primarily for technology risks. This business, which was previously reported as part of the Commercial business, is now reported as part of the Specialty business. Data for prior reporting periods has been adjusted to reflect the new presentation.

The following tables summarize the results of CNA's Property & Casualty Operations for the three and nine months ended September 30, 2018 and 2017:

**Three Months Ended  
September 30, 2018  
(In millions, except %)**

|                       | Specialty | Commercial | International | Total    |
|-----------------------|-----------|------------|---------------|----------|
| Net written premiums  | \$ 688    | \$ 697     | \$ 196        | \$ 1,581 |
| Net earned premiums   | 684       | 782        | 255           | 1,721    |
| Net investment income | 124       | 144        | 14            | 282      |
| Core income           | 177       | 127        | 1             | 305      |

**Other performance metrics:**

|  |       |       |        |       |
|--|-------|-------|--------|-------|
| Loss and loss adjustment expense ratio | 54.5% | 63.5% | 67.6%  | 60.5% |
| Expense ratio                          | 32.3  | 33.2  | 36.3   | 33.3  |
| Dividend ratio                         | 0.2   | 0.7   |        | 0.4   |
| Combined ratio                         | 87.0% | 97.4% | 103.9% | 94.2% |

|                        |       |        |       |        |
|------------------------|-------|--------|-------|--------|
| Rate                   | 2%    | 2%     | 3%    | 2%     |
| Renewal premium change | 3     | 3      | 8     | 4      |
| Retention              | 84    | 84     | 67    | 82     |
| New business           | \$ 93 | \$ 123 | \$ 72 | \$ 288 |

**Three Months Ended  
September 30, 2017**

|                       |        |        |        |          |
|-----------------------|--------|--------|--------|----------|
| Net written premiums  | \$ 695 | \$ 697 | \$ 207 | \$ 1,599 |
| Net earned premiums   | 692    | 752    | 226    | 1,670    |
| Net investment income | 129    | 166    | 13     | 308      |
| Core income (loss)    | 173    | 32     | (38)   | 167      |

**Other performance metrics:**

|  |       |       |       |       |
|--|-------|-------|-------|-------|
|  | 51.7% | 81.2% | 88.4% | 69.9% |
|--|-------|-------|-------|-------|

Loss and loss adjustment expense ratio

|                |       |        |        |        |
|----------------|-------|--------|--------|--------|
| Expense ratio  | 31.2  | 34.2   | 37.5   | 33.5   |
| Dividend ratio | 0.2   | 0.5    |        | 0.3    |
| Combined ratio | 83.1% | 115.9% | 125.9% | 103.7% |

|                        |       |        |       |        |
|------------------------|-------|--------|-------|--------|
| Rate                   | 0%    | 0%     | 1%    | 0%     |
| Renewal premium change | 1     | 2      | 3     | 2      |
| Retention              | 90    | 86     | 76    | 87     |
| New business           | \$ 60 | \$ 138 | \$ 69 | \$ 267 |

**Table of Contents****Nine Months Ended  
September 30, 2018  
(In millions, except %)**

|                       | Specialty | Commercial | International | Total    |
|-----------------------|-----------|------------|---------------|----------|
| Net written premiums  | \$ 2,062  | \$ 2,339   | \$ 762        | \$ 5,163 |
| Net earned premiums   | 2,039     | 2,278      | 739           | 5,056    |
| Net investment income | 376       | 450        | 43            | 869      |
| Core income           | 531       | 403        | 17            | 951      |

**Other performance metrics:**

|  |       |       |        |       |
|--|-------|-------|--------|-------|
| Loss and loss adjustment expense ratio | 55.1% | 63.0% | 65.0%  | 60.1% |
| Expense ratio                          | 31.8  | 33.3  | 36.8   | 33.2  |
| Dividend ratio                         | 0.2   | 0.7   |        | 0.4   |
| Combined ratio                         | 87.1% | 97.0% | 101.8% | 93.7% |

|                        |        |        |        |        |
|------------------------|--------|--------|--------|--------|
| Rate                   | 2%     | 1%     | 3%     | 2%     |
| Renewal premium change | 3      | 3      | 6      | 4      |
| Retention              | 84     | 85     | 77     | 83     |
| New business           | \$ 266 | \$ 461 | \$ 248 | \$ 975 |

**Nine Months Ended September 30,  
2017**

|                       |          |          |        |          |
|-----------------------|----------|----------|--------|----------|
| Net written premiums  | \$ 2,066 | \$ 2,203 | \$ 664 | \$ 4,933 |
| Net earned premiums   | 2,024    | 2,129    | 629    | 4,782    |
| Net investment income | 394      | 495      | 38     | 927      |
| Core income (loss)    | 441      | 263      | (8)    | 696      |

**Other performance metrics:**

|  |       |        |        |       |
|--|-------|--------|--------|-------|
| Loss and loss adjustment expense ratio | 56.9% | 68.6%  | 70.6%  | 63.9% |
| Expense ratio                          | 31.8  | 35.3   | 37.2   | 34.0  |
| Dividend ratio                         | 0.1   | 0.5    |        | 0.3   |
| Combined ratio                         | 88.8% | 104.4% | 107.8% | 98.2% |

|                        |        |        |        |        |
|------------------------|--------|--------|--------|--------|
| Rate                   | 1%     | 0%     | 0%     | 0%     |
| Renewal premium change | 3      | 3      | 2      | 3      |
| Retention              | 89     | 86     | 79     | 86     |
| New business           | \$ 177 | \$ 432 | \$ 207 | \$ 816 |

**Three Months Ended September 30, 2018 Compared to 2017**

Total net written premiums decreased \$18 million for the three months ended September 30, 2018 as compared with the 2017 period primarily due to a decrease of \$11 million in International. The trend in net earned premiums was consistent with net written premiums in International in recent quarters.

Core income increased \$138 million for the three months ended September 30, 2018 as compared with the 2017 period. Excluding the favorable effect of the corporate income tax rate change, core income increased approximately \$85 million primarily due to lower net catastrophe losses partially offset by lower favorable net prior year loss development.

Pretax net catastrophe losses were \$46 million and \$269 million for the three months ended September 30, 2018 and 2017 as the prior year period was impacted by Hurricanes Harvey, Irma and Maria. For the three months ended September 30, 2018 and 2017, Specialty had net catastrophe losses of \$16 million and \$35 million, Commercial had net catastrophe losses of \$25 million and \$176 million and International had net catastrophe losses of \$5 million and \$58 million.

Favorable net prior year loss reserve development decreased to \$62 million from \$115 million for the three months ended September 30, 2018 as compared to the 2017 period primarily due to a decrease of \$46 million in Specialty. Further information on net prior year development is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

Specialty's combined ratio of 87.0% increased 3.9 points for the three months ended September 30, 2018 as compared with the same period in 2017. The loss ratio increased 2.8 points primarily due to lower favorable net prior year loss reserve development partially offset by lower net catastrophe losses. The expense ratio for the three months

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ended September 30, 2018 increased 1.1 points as compared with the same period in 2017 driven by higher acquisition expenses and lower net earned premiums.

Commercial's combined ratio of 97.4% improved 18.5 points for the three months ended September 30, 2018 as compared to the 2017 period. The loss ratio improved 17.7 points driven by lower net catastrophe losses partially offset by lower favorable net prior year loss reserve development. The expense ratio improved 1.0 point for the three months ended September 30, 2018 as compared with the same period in 2017 driven by lower employee costs and higher net earned premiums.

International's combined ratio of 103.9% improved 22.0 points for the three months ended September 30, 2018 as compared with the 2017 period. The loss ratio improved 20.8 points, primarily due to lower net catastrophe losses partially offset by a higher number of large property losses in CNA Hardy. The expense ratio for the three months ended September 30, 2018 improved 1.2 points as compared with the 2017 period driven by higher net earned premiums.

***Nine Months Ended September 30, 2018 Compared to 2017***

Total net written premiums increased \$230 million for the nine months ended September 30, 2018 as compared with the 2017 period primarily due to increases in Commercial and International. Excluding the effect of Small Business premium rate adjustments as discussed in Note 10 of the Notes to Consolidated Condensed Financial Statements included under Item 1, net written premiums for Commercial increased \$83 million driven by higher new business and positive renewal premium change. Excluding the effect of foreign currency exchange rates, net written premiums for International increased \$69 million or 10% for the nine months ended September 30, 2018 as compared with the 2017 period, driven by positive renewal premium change and higher new business partially offset by a higher level of ceded reinsurance. The trend in net earned premiums was consistent with net written premiums in Commercial and International for the nine months ended September 30, 2018 as compared with the 2017 period.

Core income increased \$255 million for the nine months ended September 30, 2018 as compared with the 2017 period. Excluding the favorable effect of the corporate income tax rate change and the Small Business premium rate adjustments, core income increased approximately \$76 million due to improved underwriting results and lower net catastrophe losses partially offset by lower favorable net prior year loss reserve development and lower net investment income, driven by limited partnership returns.

Pretax net catastrophe losses were \$106 million and \$342 million for the nine months ended September 30, 2018 and 2017 as the prior year period was impacted by Hurricanes Harvey, Irma and Maria. For the nine months ended September 30, 2018 and 2017, Specialty had net catastrophe losses of \$22 million and \$44 million, Commercial had net catastrophe losses of \$73 million and \$238 million and International had net catastrophe losses of \$11 million and \$60 million.

Favorable net prior year loss reserve development decreased to \$160 million from \$227 million for the nine months ended September 30, 2018 as compared to the 2017 period primarily due to a decrease of \$67 million in Commercial. Further information on net prior year development is included in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

Specialty's combined ratio of 87.1% improved 1.7 points for the nine months ended September 30, 2018 as compared with the same period in 2017. The loss ratio improved 1.8 points primarily due to an improved current accident year loss ratio partially offset by lower favorable net prior year loss reserve development. The expense ratio for nine months ended September 30, 2018 was consistent with the same period in 2017.

Commercial s combined ratio of 97.0% improved 7.4 points for the nine months ended September 30, 2018 as compared to the 2017 period. The loss ratio improved 5.6 points driven by lower net catastrophe losses partially offset by lower favorable net prior year loss reserve development. Excluding the Small Business premium rate adjustments, the expense ratio improved 1.2 points driven by lower employee costs and IT spend.

International s combined ratio of 101.8% improved 6.0 points for the nine months ended September 30, 2018 as compared with the 2017 period. The loss ratio improved 5.6 points, primarily due to lower net catastrophe losses partially offset by a higher number of large property losses. The expense ratio for the nine months ended September 30, 2018 improved 0.4 points as compared with the 2017 period driven by higher net earned premiums partially offset by higher employee costs.



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Effective October 1, 2018, CNA will no longer write property treaty, marine hull and construction all risk/erection all risk through the Lloyd's platform. While these three classes combined represent a relatively small component of International's business, it may result in lower net written premiums within the CNA Hardy line of business.

**Other Insurance Operations**

The following table summarizes the results of CNA's Other Insurance Operations for the three and nine months ended September 30, 2018 and 2017:

|                       | Three Months Ended    |        | Nine Months Ended     |        |
|-----------------------|-----------------------|--------|-----------------------|--------|
|                       | September 30,<br>2018 | 2017   | September 30,<br>2018 | 2017   |
| <b>(In millions)</b>  |                       |        |                       |        |
| Net earned premiums   | \$ 133                | \$ 136 | \$ 398                | \$ 404 |
| Net investment income | 205                   | 201    | 614                   | 602    |
| Core income (loss)    | 12                    | (8)    | (83)                  | (63)   |

***Three Months Ended September 30, 2018 Compared to 2017***

Core income was \$12 million for the three months ended September 30, 2018, an increase of \$20 million as compared with the 2017 period. Excluding the unfavorable effect of the corporate income tax rate change, core income increased by approximately \$32 million. This increase was driven by a \$24 million after tax reduction in long term care claim reserves resulting from the annual claims experience study. This study was completed in the third quarter of 2018 as compared to the fourth quarter in 2017. Persistency continues to benefit from a high proportion of policyholders choosing to reduce benefits in lieu of premium rate increases. Morbidity continues to trend in line with expectations.

***Nine Months Ended September 30, 2018 Compared to 2017***

The core loss was \$83 million for the nine months ended September 30, 2018, an increase of \$20 million as compared with the 2017 period. Excluding the unfavorable effect of the corporate income tax rate change, core loss decreased by approximately \$38 million. Results for the nine months ended September 30, 2018 includes the \$24 million benefit of the reduction in long term care claim reserves resulting from the annual claims experience study. Persistency continues to benefit from a high proportion of policyholders choosing to reduce benefits in lieu of premium rate increases. The favorable persistency trend was partially offset by a significant number of policies converting to a fully paid-up status with modest future benefits following the termination of a large group account. The reserves associated with these converted policies were, on average, slightly higher than the previously recorded carried reserves, resulting in a negative financial impact. Morbidity continues to trend in line with expectations. The core loss was also impacted by non-recurring costs of \$27 million associated with the transition to a new IT infrastructure service provider and higher adverse net prior year reserve development recorded in 2018 for A&EP under the loss portfolio transfer as compared with the 2017 period, as further discussed in Note 5 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

**Other Insurance Operations Policyholder Reserves**

Annually, CNA assesses the adequacy of its long term care future policy benefit reserves by performing a gross premium valuation ( GPV ) to determine if there is a premium deficiency. The GPV process occurred in the third

quarter of 2018 as compared to the fourth quarter in 2017. See the Insurance Reserves section of our MD&A included under Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017 for further information on the reserving process.

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The September 30, 2018 GPV indicated recorded reserves included a margin of approximately \$182 million. A summary of the changes in the estimated reserve margin is presented in the table below:

(In millions)

**Long term care active life reserve - change in estimated reserve margin**

|   |               |
|---|---------------|
| <b>December 31, 2017 estimated margin</b>   | <b>\$ 246</b> |
| <b>Changes in underlying morbidity assumptions</b>                                | <b>(213)</b>  |
| <b>Changes in underlying persistency assumptions and inforce policy inventory</b> | <b>(86)</b>   |
| <b>Changes in underlying discount rate assumptions</b>                            | <b>17</b>     |
| <b>Changes in underlying premium rate action assumptions</b>                      | <b>178</b>    |
| <b>Changes in underlying expense and other assumptions</b>                        | <b>40</b>     |
| <b>September 30, 2018 estimated margin</b>  | <b>\$ 182</b> |

The decrease in the margin in 2018 was driven by the removal of the future morbidity improvement assumption and extending the period of mortality improvement within the persistency assumptions. These unfavorable drivers were partially offset by higher than expected rate increases on active rate action programs and favorable changes to the underlying expense and discount rate assumptions.

The table below summarizes the estimated pretax impact on CNA's results of operations from various hypothetical revisions to its active life reserve assumptions. The annual GPV process involves updating all assumptions to the then current best estimate, and historically all significant assumptions have been revised each year. In the hypothetical revisions table below, CNA has assumed that revisions to such assumptions would occur in each policy type, age and duration within each policy group and would occur absent any changes, mitigating or otherwise, in the other assumptions. Although such hypothetical revisions are not currently required or anticipated, CNA believes they could occur based on past variances in experience and its expectations of the ranges of future experience that could reasonably occur. Any required increase in the recorded reserves resulting from the hypothetical revision in the table below would first reduce the margin in the carried reserves before it would affect results of operations. Any actual adjustment would be dependent on the specific policies affected and, therefore, may differ from the estimates summarized below. The estimated impacts to results of operations in the table below are after consideration of the existing margin.

| <b>September 30, 2018<br/>(In millions)</b> | <b>Estimated Reduction<br/>to Pretax Income</b> |
|---|---|
| <b>Hypothetical revisions</b>               |   |
| <b>Morbidity:</b>                           |   |
| <b>5% increase in morbidity</b>             | <b>\$ 460</b>                                   |
| <b>10% increase in morbidity</b>            | <b>1,103</b>                                    |
| <b>Persistency:</b>                         |   |

|  |           |            |
|--|-----------|------------|
| <b>5% decrease in active life mortality and lapse</b>            | <b>\$</b> | <b>31</b>  |
| <b>10% decrease in active life mortality and lapse</b>           |           | <b>253</b> |
| <b>Discount rates:</b>   |           |            |
| <b>50 basis point decline in future interest rates</b>           | <b>\$</b> | <b>140</b> |
| <b>100 basis point decline in future interest rates</b>          |           | <b>500</b> |
| <b>Premium rate actions:</b>                                     |           |            |
| <b>50% decrease in anticipated future premium rate increases</b> |           | <b>-</b>   |

While the GPV process indicated there is margin in the recorded future policy benefit reserves at September 30, 2018, CNA noted that its projections indicate a pattern of expected profits in earlier future years followed by expected losses in later future years ( profits followed by losses ). In that circumstance, GAAP requires that the future policy benefit reserves should be increased in the profitable years by an amount necessary to offset losses that would be recognized in later years.

As a result, in the fourth quarter of 2018 CNA will begin to establish additional future policy benefit reserves in periods where the long term care business generates core income. The amount of the additional future policy benefit reserves in each quarterly period will be based on the ratio of the present value of future losses divided by the present value of future profits resulting from the most recently completed GPV.

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The need for additional future policy benefit reserves for profits followed by losses as well as the percentage used to establish such reserves will be re-evaluated in connection with the next GPV, which is expected to be completed in the third quarter of 2019.

The following table summarizes policyholder reserves for CNA's long term care operations:

| September 30, 2018<br>(In millions) | Claim and claim<br>adjustment<br>expenses | Future<br>policy benefits | Total            |
|-------------------------------------|---|---------------------------|------------------|
| Long term care                      | \$ 2,689                                  | \$ 9,078                  | \$ 11,767        |
| Structured settlement annuities     | 535                                       |                           | 535              |
| Other                               | 16  |                           | 16               |
| <b>Total</b>                        | <b>3,240</b>                              | <b>9,078</b>              | <b>12,318</b>    |
| Shadow adjustments (a)              | 118                                       | 1,293                     | 1,411            |
| Ceded reserves (b)                  | 193                                       | 234                       | 427              |
| <b>Total gross reserves</b>         | <b>\$ 3,551</b>                           | <b>\$ 10,605</b>          | <b>\$ 14,156</b> |

December 31, 2017

|                                 |                 |                  |                  |
|---------------------------------|-----------------|------------------|------------------|
| Long term care                  | \$ 2,568        | \$ 8,959         | \$ 11,527        |
| Structured settlement annuities | 547             |                  | 547              |
| Other                           | 16              |                  | 16               |
| <b>Total</b>                    | <b>3,131</b>    | <b>8,959</b>     | <b>12,090</b>    |
| Shadow adjustments (a)          | 159             | 1,990            | 2,149            |
| Ceded reserves (b)              | 209             | 230              | 439              |
| <b>Total gross reserves</b>     | <b>\$ 3,499</b> | <b>\$ 11,179</b> | <b>\$ 14,678</b> |

(a) To the extent that unrealized gains on fixed income securities supporting long term care products and annuity contracts would result in a premium deficiency if those gains were realized, an increase in Insurance reserves is recorded, after tax and noncontrolling interests, as a reduction of net unrealized gains through Other comprehensive income (loss) ( Shadow Adjustments ).

(b) Ceded reserves relate to claim or policy reserves fully reinsured in connection with a sale or exit from the underlying business.

**Non-GAAP Reconciliation of Core Income (Loss) to Net Income**

The following table reconciles core income (loss) to net income attributable to Loews Corporation for the CNA segment for the three and nine months ended September 30, 2018 and 2017:

|  | Three Months Ended    |        | Nine Months Ended     |        |
|--|-----------------------|--------|-----------------------|--------|
|  | September 30,<br>2018 | 2017   | September 30,<br>2018 | 2017   |
| <b>(In millions)</b>   |                       |        |                       |        |
| Core income (loss):  |                       |        |                       |        |
| Property & Casualty Operations   | \$ 305                | \$ 167 | \$ 951                | \$ 696 |
| Other Insurance Operations   | 12                    | (8)    | (83)                  | (63)   |
| Total core income  | 317                   | 159    | 868                   | 633    |
| Realized investment gains (after tax)  | 12                    | 12     | 19                    | 63     |
| Consolidating adjustments including purchase accounting and noncontrolling interests | (29)                  | (41)   | (86)                  | (88)   |
| Net income attributable to Loews Corporation   | \$ 300                | \$ 130 | \$ 801                | \$ 608 |

## Diamond Offshore

### Overview

Oil prices continued to rise during the third quarter of 2018, with Brent crude closing above \$80 per barrel at the end of September of 2018. Despite the increase in commodity price, the recovery of the offshore contract drilling market has lagged with floater utilization and dayrates remaining at low levels, compared to the most recent peak cycle in the offshore contract drilling market. Many market analysts expect that with current market fundamentals and

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a continuation of rig scrapping activity, floater utilization and dayrates will increase in the next 12-24 months. As dayrates increase, offshore drillers with more available floaters and/or unpriced options for currently committed rigs will be better positioned to take advantage of the market recovery as it materializes.

Capital spending for offshore exploration and development remained at a relatively low level during the first nine months of 2018 and is likely to remain flat through the end of 2018. However, many market analysts predict that the stage is set for higher offshore activity either in 2019, or more likely in 2020, given the recent and, thus far, sustained increase in oil prices above the \$50 per barrel level, combined with a robust worldwide demand for oil consumption and shrinking oil reserves, resulting from both low exploration activity and new discovery rates. To date, there has been an increase in contract tenders for late 2019 and 2020 project commencements, primarily for work in the North Sea and Australia floater markets. Many of these tenders are limited to single-well jobs, with options for future wells. Although some geographic areas appear to be improving, other markets show little or no sign of recovery at this time.

Even with the increase in contract tendering activity, the recovery of the offshore contract drilling industry continues to be challenged by an oversupply of drilling rigs. Industry reports indicate that there remain approximately 30 newbuild floaters on order or under construction with scheduled deliveries between 2018 and 2021, most of which have not yet been contracted for future work. In addition, contract rollovers of currently contracted rigs are expected to add to the oversupply of rigs if options for future work are not exercised or further work is not secured for these rigs. Industry analysts currently report that there could be nearly 30 contract rollovers in the fourth quarter of 2018. In addition, certain drilling contractors have announced the reactivation of stacked rigs or plans to reactivate certain rigs if contracts are awarded. This supply-and-demand imbalance will continue to impact dayrates until the oversupply is equalized by an increase in demand or through the retirement of rigs.

**Contract Drilling Backlog**

Diamond Offshore's contract drilling backlog was \$2.0 billion and \$2.4 billion as of October 1, 2018 (based on information available at that time) and January 1, 2018 (the date reported in our Annual Report on Form 10-K for the year ended December 31, 2017). The contract drilling backlog by year as of October 1, 2018 is \$0.2 billion in 2018 (for the three-month period beginning October 1, 2018), \$0.8 billion in 2019, \$0.7 billion in 2020 and an aggregate \$0.3 billion for the years 2021 and 2022. Contract drilling backlog excludes future commitment amounts of \$30 million in 2019, \$30 million in 2020 and \$75 million in 2021 through 2023, payable by a customer in the form of a guarantee of gross margin to be earned on future contracts or by direct payment, pursuant to terms of an existing contract.

Contract drilling backlog includes only firm commitments (typically represented by signed contracts) and is calculated by multiplying the contracted operating dayrate by the firm contract period. Diamond Offshore's calculation also assumes full utilization of its drilling equipment for the contract period (excluding scheduled shipyard and survey days); however, the amount of actual revenue earned and the actual periods during which revenues are earned will be different than the amounts and periods stated above due to various factors affecting utilization such as weather conditions and unscheduled repairs and maintenance. Contract drilling backlog excludes revenues for mobilization, demobilization, contract preparation and customer reimbursables. Changes in Diamond Offshore's contract drilling backlog between periods are generally a function of the performance of work on term contracts, as well as the extension or modification of existing term contracts and the execution of additional contracts. In addition, under certain circumstances, Diamond Offshore's customers may seek to terminate or renegotiate its contracts, which could adversely affect its reported backlog.





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

The following table summarizes the results of operations for Diamond Offshore for the three and nine months ended September 30, 2018 and 2017 as presented in Note 11 of the Notes to Consolidated Condensed Financial Statements included under Item 1 of this Report:

|   | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |              |
|---|---------------------------|-------------|--------------------------|--------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |              |
| <b>(In millions)</b>                                | <b>2018</b>               | <b>2017</b> | <b>2018</b>              | <b>2017</b>  |
| <b>Revenues:</b>                                    |                           |             |                          |              |
| Net investment income                               | \$ 2                      |             | \$ 6                     | \$ 1         |
| Contract drilling revenues                          | 281                       | \$ 357      | 834                      | 1,113        |
| Other revenues                                      | 6                         | 11          | 19                       | 30           |
| <b>Total</b>  | <b>289</b>                | <b>368</b>  | <b>859</b>               | <b>1,144</b> |
| <b>Expenses:</b>                                    |                           |             |                          |              |
| Contract drilling expenses                          | 188                       | 198         | 562                      | 598          |
| Other operating expenses                            |                           |             |                          |              |
| Impairment of assets                                |                           |             | 27                       | 72           |
| Other expenses                                      | 123                       | 109         | 338                      | 342          |
| Interest  | 34                        | 64          | 92                       | 119          |
| <b>Total</b>  | <b>345</b>                | <b>371</b>  | <b>1,019</b>             | <b>1,131</b> |
| Income (loss) before income tax                     | (56)                      | (3)         | (160)                    | 13           |
| Income tax benefit                                  | 5                         | 14          | 59                       | 35           |
| Amounts attributable to noncontrolling interests    | 24                        | (5)         | 47                       | (23)         |
| Net income (loss) attributable to Loews Corporation | \$ (27)                   | \$ 6        | \$ (54)                  | \$ 25        |

**Three Months Ended September 30, 2018 Compared to 2017**

Contract drilling revenue decreased \$76 million for the three months ended September 30, 2018 as compared with the 2017 period, primarily due to 231 fewer revenue earning days resulting primarily from incremental downtime for planned shipyard projects. Contract drilling expense decreased \$10 million for the three months ended September 30, 2018 as compared with the 2017 period, primarily due to currently cold-stacked and previously-owned rigs, which had incurred contract drilling expense in the third quarter of 2017. Other expenses increased \$14 million for the three months ended September 30, 2018 as compared with the 2017 period primarily due to an \$18 million charge recorded in 2018 for settlement of a previously pending legal matter.

Interest expense decreased \$30 million for the three months ended September 30, 2018 as compared with the 2017 period, primarily due to costs resulting from the redemption of debt in 2017.

Net results attributable to Loews Corporation decreased \$33 million for the three months ended September 30, 2018 as compared with the 2017 period, reflecting lower margins from contract drilling services, primarily due to lower contract drilling revenues, a lower tax benefit recognized and costs associated with a legal settlement.

*Nine Months Ended September 30, 2018 Compared to 2017*

Contract drilling revenue decreased \$279 million for the nine months ended September 30, 2018 as compared with the 2017 period, primarily due to 701 fewer revenue earning days, combined with the effect of lower average daily revenue earned. Contract drilling expense decreased \$36 million for the nine months ended September 30, 2018 as compared with the 2017 period, primarily due to reduced costs of \$44 million for currently cold-stacked and previously-owned rigs, which had incurred contract drilling expense in the first nine months of 2017. Contract drilling expenses for the current rig fleet increased \$9 million, reflecting increased costs for fuel, maintenance, mobilization and other rig operating costs, partially offset by favorable reductions in labor and related rig operating costs.

Interest expense decreased \$27 million for the nine months ended September 30, 2018 as compared with the 2017 period, primarily due to costs resulting from the redemption of debt in 2017, partially offset by incremental interest expense from senior notes issued in the third quarter of 2017.

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Net results attributable to Loews Corporation decreased \$79 million for the nine months ended September 30, 2018 as compared with the 2017 period, primarily due to the lower contract drilling revenues and other changes discussed above. The decrease in net results was partially offset by lower depreciation expense, primarily due to a lower depreciable asset base as a result of asset impairments recognized in 2017, lower impairment charges and an income tax benefit of \$43 million (\$23 million after noncontrolling interests) for the reversal of an uncertain tax position recognized in the fourth quarter of 2017, as discussed in Note 1 to the Consolidated Condensed Financial Statements under Item 1.

**Boardwalk Pipeline**

On June 29, 2018, Boardwalk GP, LP ( General Partner ), the general partner of Boardwalk Pipeline and an indirect wholly owned subsidiary of the Company, elected to exercise its right to purchase all of the issued and outstanding common units representing limited partnership interests in Boardwalk Pipeline not already owned by the General Partner or its affiliates pursuant to Section 15.1(b) of Boardwalk Pipeline's Third Amended and Restated Agreement of Limited Partnership, as amended ( Limited Partnership Agreement ). On July 18, 2018, the General Partner completed the transaction for a cash purchase price, determined in accordance with the Limited Partnership Agreement, of \$12.06 per unit, or approximately \$1.5 billion, in the aggregate. For further information on this transaction, see Note 2 to the Consolidated Condensed Financial Statements under Item 1.

**Firm Agreements**

A substantial portion of Boardwalk Pipeline's transportation and storage capacity is contracted for under firm agreements. For the last twelve months ended September 30, 2018, approximately 87% of Boardwalk Pipeline's revenues, excluding retained fuel, were derived from fixed fees under firm agreements. Boardwalk Pipeline expects to earn revenues of approximately \$10.0 billion from fixed fees under committed firm agreements in place as of September 30, 2018, including agreements for transportation, storage and other services, over the remaining term of those agreements. This amount has increased by approximately \$1.1 billion from the comparable amount at December 31, 2017, from contracts entered into during 2018. For Boardwalk Pipeline's customers that are charged maximum tariff rates related to its Federal Energy Regulatory Commission ( FERC ) regulated operating subsidiaries, the revenues expected to be earned from fixed fees under committed firm agreements reflect the current tariff rate for such services for the term of the agreements, however, the tariff rates may be subject to future adjustment. The revenues expected to be earned from fixed fees under committed firm agreements do not include additional revenues Boardwalk Pipeline may recognize under firm agreements based on actual utilization of the contracted pipeline or storage capacity, any expected revenues for periods after the expiration dates of the existing agreements, execution of precedent agreements associated with growth projects or other events that occurred or will occur subsequent to September 30, 2018.

**Contract renewals**

Each year a portion of Boardwalk Pipeline's firm transportation and storage agreements expire. Demand for firm service is primarily based on market conditions which can vary across Boardwalk Pipeline's pipeline systems. The amount of change in firm reservation fees under contract reflects the overall market trends, including the impact from Boardwalk Pipeline's growth projects. Boardwalk Pipeline focuses its marketing efforts on enhancing the value of the capacity that is up for renewal and works with customers to match gas supplies from various basins to new and existing customers and markets, including aggregating supplies at key locations along its pipelines to provide end-use customers with attractive and diverse supply options. If the market perceives the value of Boardwalk Pipeline's available capacity to be lower than its long term view of the capacity, Boardwalk Pipeline may seek to shorten contract terms until market perception improves.

**FERC Matters**

Effective December 22, 2017, the Tax Cuts and Jobs Act of 2017 changed several provisions of the federal tax code, including a reduction in the maximum corporate tax rate. In addition, in the first quarter of 2018, the FERC issued a set of related issuances, which addressed the inclusion of federal income tax allowances in interstate pipeline companies' rates. The FERC issued a Revised Policy Statement on Treatment of Income Taxes ( "Revised Policy Statement" ) reversing its long-standing policy by stating that it will no longer permit master limited partnerships to include an income tax allowance in their cost-of-service. As a result of the purchase of the outstanding common units by the General Partner on July 18, 2018, and its election to be treated as a corporation for federal income tax purposes, the Revised Policy Statement should not have an impact on the ability of Boardwalk Pipeline's FERC-regulated natural gas pipelines to include an income tax allowance in their cost-of-service.

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Included in the first quarter of 2018 issuances was a Notice of Proposed Rulemaking ( NOPR ) proposing rules for implementation of the Revised Policy Statement and the corporate income tax rate reduction with respect to interstate natural gas pipeline rates. On July 18, 2018, the FERC issued its final order on the NOPR, which requires all FERC-regulated natural gas pipelines to make a one-time informational filing reflecting the impacts of the Tax Cuts and Jobs Act of 2017 and the Revised Policy Statement on each individual pipeline s cost-of-service. Customers will be provided an opportunity to protest or comment on each pipeline s informational filing. This procedure may encourage the FERC or one or more of Boardwalk Pipeline s customers to challenge a pipeline s informational filings which could lead to challenges to a pipeline s currently effective maximum applicable rates pursuant to Section 5 of the Natural Gas Act ( NGA ). Boardwalk Pipeline s FERC-regulated natural gas pipelines include Texas Gas Transmission, LLC, which filed its informational filing on October 11, 2018, and Gulf South Pipeline Company, LP and Gulf Crossing Pipeline Company LLC, which are required to make their filings on December 6, 2018.

The NOPR requires that each FERC-regulated natural gas pipeline select one of four options when it makes its informational filing: (i) file a limited NGA Section 4 filing reducing its rates only as required related to the Tax Cuts and Jobs Act of 2017 and the Revised Policy Statement; (ii) commit to filing a general NGA Section 4 rate case in the near future; (iii) file a statement explaining why an adjustment to rates is not needed; or (iv) take no other action beyond submitting the informational filing. Because of the ownership changes described above, the informational filings submitted or to be submitted by Boardwalk Pipeline s FERC-regulated natural gas pipelines will include an income tax component in each of the pipelines cost-of-service.

Even without action on the NOPR or Notice of Inquiry, the FERC and/or Boardwalk Pipeline s customers may challenge the maximum applicable rates that any of Boardwalk Pipeline s regulated pipelines are allowed to charge in accordance with Section 5 of the NGA. The Tax Cuts and Jobs Act of 2017 and the Revised Policy Statement may increase the likelihood of such a challenge. If such a challenge is successful for any of its pipelines, the revenues associated with transportation and storage services the pipeline provides pursuant to cost-of-service rates could materially decrease in the future, which would adversely affect the revenues on that pipeline going forward.

**Results of Operations**

The following table summarizes the results of operations for Boardwalk Pipeline for the three and nine months ended September 30, 2018 and 2017 as presented in Note 11 of the Notes to Consolidated Condensed Financial Statements included under Item 1 of this Report:

|                                    | Three Months Ended    |            | Nine Months Ended     |            |
|------------------------------------|-----------------------|------------|-----------------------|------------|
|                                    | September 30,<br>2018 | 2017       | September 30,<br>2018 | 2017       |
| <b>(In millions)</b>               |                       |            |                       |            |
| <b>Revenues:</b>                   |                       |            |                       |            |
| Other revenue, primarily operating | \$ 279                | \$ 301     | \$ 901                | \$ 987     |
| <b>Total</b>                       | <b>279</b>            | <b>301</b> | <b>901</b>            | <b>987</b> |
| <b>Expenses:</b>                   |                       |            |                       |            |
| Operating                          | 197                   | 191        | 598                   | 646        |
| Interest                           | 44                    | 41         | 131                   | 131        |
| <b>Total</b>                       | <b>241</b>            | <b>232</b> | <b>729</b>            | <b>777</b> |
| Income before income tax           | 38                    | 69         | 172                   | 210        |

|  |       |       |       |       |
|--|-------|-------|-------|-------|
| Income tax expense                               | (10)  | (18)  | (24)  | (46)  |
| Amounts attributable to noncontrolling interests |       | (34)  | (68)  | (104) |
| Net income attributable to Loews Corporation     | \$ 28 | \$ 17 | \$ 80 | \$ 60 |

*Three Months Ended September 30, 2018 Compared to 2017*

Total revenues decreased \$22 million for the three months ended September 30, 2018 as compared with the 2017 period. Excluding the net effect of items offset in fuel and transportation expense, primarily retained fuel, operating revenues decreased \$17 million due to lower transportation revenues of \$14 million, which resulted primarily from contract restructuring and contract expirations that were recontracted at overall lower average rates, partially offset by revenues from projects placed into service and higher system utilization. In addition, storage and parking and lending revenues decreased related to unfavorable market conditions.

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Operating expenses increased \$6 million for the three months ended September 30, 2018 as compared with the 2017 period. Excluding items offset in operating revenues, operating expenses increased \$12 million primarily due to higher depreciation expense and property taxes from an increased asset base from recently completed growth projects and increased employee related costs. Interest expense increased \$3 million for the three months ended September 30, 2018 as compared with the 2017 period primarily due to lower capitalized interest due to lower capital spending.

Net income attributable to Loews Corporation increased \$11 million for the three months ended September 30, 2018 as compared with the 2017 period as a result of the Company now owning 100% of Boardwalk Pipeline as compared to 51% in the prior year period and the lower corporate income tax rate. However, on a pretax basis, earnings decreased due to the changes discussed above.

***Nine Months Ended September 30, 2018 Compared to 2017***

Total revenues decreased \$86 million for the nine months ended September 30, 2018 as compared with the 2017 period. Excluding the net effect of items offset in fuel and transportation expense, primarily retained fuel, operating revenues decreased \$56 million due to lower transportation revenues of \$37 million, which resulted primarily from contract restructuring and contract expirations that were recontracted at overall lower average rates, partially offset by revenues from projects placed into service and by higher system utilization. In addition, storage and parking and lending revenues decreased related to unfavorable market conditions.

Operating expenses decreased \$48 million for the nine months ended September 30, 2018 as compared with the 2017 period. Excluding items offset in operating revenues and the \$47 million loss on sale of a processing plant in 2017, operating expenses increased \$25 million primarily due to higher depreciation expense and property taxes from an increased asset base from recently completed growth projects and increased employee related costs.

Net income attributable to Loews Corporation increased \$20 million for the nine months ended September 30, 2018 as compared with the 2017 period as a result of the Company now owning 100% of Boardwalk Pipeline and the lower corporate income tax rate. On a pretax basis, earnings decreased due to the changes discussed above.

**Loews Hotels & Co**

The following table summarizes the results of operations for Loews Hotels & Co for the three and nine months ended September 30, 2018 and 2017 as presented in Note 11 of the Notes to Consolidated Condensed Financial Statements included under Item 1 of this Report:

|   | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|   | <b>2018</b>               | <b>2017</b> | <b>2018</b>              | <b>2017</b> |
| <b>(In millions)</b>                      |                           |             |                          |             |
| <b>Revenues:</b>                          |                           |             |                          |             |
| Operating revenue                         | \$ 148                    | \$ 137      | \$ 472                   | \$ 427      |
| Gain on sale of owned hotel               | 23                        |             | 23                       |             |
| Revenues related to reimbursable expenses | 19                        | 25          | 79                       | 83          |
| <b>Total</b>                              | <b>190</b>                | <b>162</b>  | <b>574</b>               | <b>510</b>  |
| <b>Expenses:</b>                          |                           |             |                          |             |

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|  |              |      |              |       |
|--|--------------|------|--------------|-------|
| Operating                                    | <b>129</b>   | 124  | <b>399</b>   | 375   |
| Asset impairments at owned hotels            | <b>22</b>    |      | <b>22</b>    |       |
| Reimbursable expenses                        | <b>19</b>    | 25   | <b>79</b>    | 83    |
| Depreciation                                 | <b>16</b>    | 15   | <b>49</b>    | 46    |
| Equity income from joint ventures            | <b>(17)</b>  | (17) | <b>(55)</b>  | (61)  |
| Interest                                     | <b>7</b>     | 7    | <b>22</b>    | 20    |
| Total  | <b>176</b>   | 154  | <b>516</b>   | 463   |
| Income before income tax                     | <b>14</b>    | 8    | <b>58</b>    | 47    |
| Income tax expense                           | <b>(3)</b>   | (4)  | <b>(17)</b>  | (23)  |
| Net income attributable to Loews Corporation | \$ <b>11</b> | \$ 4 | \$ <b>41</b> | \$ 24 |

Operating revenues increased \$11 million and \$45 million and operating expenses increased \$5 million and \$24 million for the three and nine months ended September 30, 2018 as compared with the 2017 periods due to the improved performance of several owned hotels, primarily the Loews Miami Beach Hotel and the Loews Coronado Bay Resort. Total revenues for the three and nine months ended September 30, 2018 include a \$23 million gain on sale of the Loews Annapolis Hotel. Asset impairments for the three and nine months ended September 30, 2018 reflect



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reductions in the carrying value of two owned properties.

Equity income from joint ventures for the three months ended September 30, 2018 was consistent with the prior year period. Equity income from joint ventures decreased \$6 million for the nine months ended September 30, 2018 primarily due to a net benefit of \$10 million from a gain on sale partially offset by an impairment charge related to joint venture hotel properties in the first quarter of 2017. Absent this net benefit, equity income from joint ventures increased primarily due to higher equity income from Universal Orlando joint venture properties.

Net income attributable to Loews Corporation increased \$7 million and \$17 million for the three and nine months ended September 30, 2018 as compared with the 2017 periods. Excluding the effect of the corporate income tax rate change, net income increased approximately \$3 million and \$5 million primarily due to the changes discussed above.

**Corporate**

Corporate operations consist primarily of investment income at the Parent Company, operating results of Consolidated Container from the May 22, 2017 acquisition date, corporate interest expenses and other corporate administrative costs. Investment income includes earnings on cash and short term investments held at the Parent Company to meet current and future liquidity needs, as well as results of limited partnership investments and the trading portfolio.

The following table summarizes the results of operations for Corporate for the three and nine months ended September 30, 2018 and 2017 as presented in Note 11 of the Notes to Consolidated Condensed Financial Statements included under Item 1 of this Report:

|  | Three Months Ended    |       | Nine Months Ended     |         |
|--|-----------------------|-------|-----------------------|---------|
|  | September 30,<br>2018 | 2017  | September 30,<br>2018 | 2017    |
| <b>(In millions)</b>                       |                       |       |                       |         |
| <b>Revenues:</b>                           |                       |       |                       |         |
| Net investment income                      | \$ 5                  | \$ 48 | \$ 61                 | \$ 109  |
| Other revenues                             | 223                   | 201   | 653                   | 294     |
| Total                                      | 228                   | 249   | 714                   | 403     |
| <b>Expenses:</b>                           |                       |       |                       |         |
| Operating                                  | 244                   | 221   | 714                   | 389     |
| Interest                                   | 27                    | 28    | 81                    | 68      |
| Total                                      | 271                   | 249   | 795                   | 457     |
| Loss before income tax                     | (43)                  | -     | (81)                  | (54)    |
| Income tax benefit                         | 9                     |       | 14                    | 20      |
| Net loss attributable to Loews Corporation | \$ (34)               | \$ -  | \$ (67)               | \$ (34) |

Net investment income decreased \$43 million for the three months ended September 30, 2018 as compared with the 2017 period, primarily due to lower results from equity based investments in the trading portfolio and limited partnership investments. Net investment income decreased \$48 million for the nine months ended September 30, 2018 as compared with the 2017 period, primarily due to lower results from equity based investments in the trading portfolio, partially offset by improved performance by derivative related investments in the trading portfolio and favorable results from invested cash balances.

Other revenues increased \$22 million for the three months ended September 30, 2018 as compared with the 2017 period due to an increase of \$21 million from Consolidated Container primarily reflecting the pass-through effect of higher resin prices. Resin price changes are passed through to Consolidated Container's customers on a short-term lag, generally about one month. When a pass-through occurs, revenues and expenses change by the same amount so that Consolidated Container's gross margin returns to the same level as prior to the change in prices. Other revenues increased \$359 million for the nine months ended September 30, 2018 as compared with the 2017 period due to Consolidated Container's revenues reflecting nine months of operations in the 2018 period as compared with approximately four months of operations in the 2017 period since the acquisition date, May 22, 2017.

Operating expenses increased \$23 million for the three months ended September 30, 2018 as compared with the 2017 period primarily due to an increase in resin prices from Consolidated Container's operations. Operating expenses increased \$325 million for the nine months ended September 30, 2018 as compared with the 2017 period, primarily due to Consolidated Container's expenses reflecting nine months of operations in the 2018 period as compared with

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approximately four months of operations in the 2017 period. This increase is partially offset by the absence of costs related to the acquisition of Consolidated Container and decreased corporate overhead expenses. Interest expense increased \$13 million for the nine months ended September 30, 2018 as compared with the 2017 period, primarily due to interest expense associated with Consolidated Container's term loan reflecting nine months in the 2018 period as compared with approximately four months in the 2017 period.

Net results decreased \$34 million and \$33 million for the three and nine months ended September 30, 2018 as compared with the 2017 periods. Excluding the effect of the corporate income tax rate change, net results decreased \$29 million and \$18 million primarily due to the changes discussed above.

**LIQUIDITY AND CAPITAL RESOURCES****Parent Company**

Parent Company cash and investments, net of receivables and payables, totaled \$3.2 billion at September 30, 2018 as compared to \$4.9 billion at December 31, 2017. During the nine months ended September 30, 2018, we received \$768 million in dividends from our subsidiaries, including a special dividend from CNA of \$485 million. Cash outflows included the payment of \$1.5 billion to fund the purchase of common units in Boardwalk Pipeline as discussed below, \$889 million to fund treasury stock purchases, \$60 million of cash dividends to our shareholders and approximately \$65 million of net cash contributions to Loews Hotels & Co. As a holding company we depend on dividends from our subsidiaries and returns on our investment portfolio to fund our obligations. We also have an effective Registration Statement on Form S-3 on file with the Securities and Exchange Commission ( SEC ) registering the future sale of an unlimited amount of our debt and equity securities. We are not responsible for the liabilities and obligations of our subsidiaries and there are no Parent Company guarantees.

On June 29, 2018, the General Partner, an indirect wholly owned subsidiary of the Company, elected to exercise its right to purchase all of the issued and outstanding common units representing limited partnership interests in Boardwalk Pipeline not already owned by the General Partner or its affiliates. On July 18, 2018, the General Partner completed the transaction for a cash purchase price of approximately \$1.5 billion, funded with available cash. For further information on this transaction, see Note 2 to the Consolidated Condensed Financial Statements under Item 1.

As of October 26, 2018, there were 314,190,649 shares of Loews common stock outstanding. Depending on market and other conditions, we may purchase our shares and shares of our subsidiaries outstanding common stock in the open market or otherwise. During the nine months ended September 30, 2018, we purchased 17.4 million shares of Loews common stock. As of October 26, 2018, we had purchased an additional 0.8 million shares of Loews common stock in 2018 at an aggregate cost of \$36 million.

Future uses of our cash may include investing in our subsidiaries, new acquisitions, dividends and/or repurchases of our and our subsidiaries' outstanding common stock.

**Subsidiaries**

CNA's cash provided by operating activities was \$868 million for the nine months ended September 30, 2018 as compared with \$894 million for the 2017 period. The decrease in cash provided by operating activities was driven by higher income taxes paid and higher net claim payments, partially offset by an increase in premiums collected. CNA believes that its present cash flows from operating, investing and financing activities are sufficient to fund its current and expected working capital and debt obligation needs.

CNA declared and paid dividends of \$2.95 per share on its common stock, including a special dividend of \$2.00 per share during the nine months ended September 30, 2018. On November 2, 2018, CNA's Board of Directors declared a quarterly dividend of \$0.35 per share on its common stock, payable December 5, 2018 to shareholders of record on November 19, 2018. CNA's declaration and payment of future dividends is at the discretion of its Board of Directors and will depend on many factors, including CNA's earnings, financial condition, business needs and regulatory constraints.

Dividends from the Continental Casualty Company ( CCC ), a subsidiary of CNA, are subject to the insurance holding company laws of the State of Illinois, the domiciliary state of CCC. Under these laws, ordinary dividends, or dividends that do not require prior approval by the Illinois Department of Insurance ( Department ), are determined based on the greater of the prior year's statutory net income or 10% of statutory surplus as of the end of the prior year, as well as the timing and amount of dividends paid in the preceding twelve months. Additionally, ordinary dividends may only be paid from earned surplus, which is calculated by removing unrealized gains from unassigned surplus. As of September 30, 2018, CCC was in a positive earned surplus position. The maximum allowable dividend CCC could

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pay during 2018 that would not be subject to the Department's prior approval is approximately \$1.1 billion, less dividends paid during the preceding twelve months measured at that point in time. CCC paid dividends of \$100 million during the three months ended December 31, 2017 and \$910 million during the nine months ended September 30, 2018. As of September 30, 2018, CCC is able to pay approximately \$63 million of dividends that would not be subject to prior approval of the Department. The actual level of dividends paid in any year is determined after an assessment of available dividend capacity, holding company liquidity and cash needs as well as the impact the dividends will have on the statutory surplus of the applicable insurance company.

Diamond Offshore's cash provided by operating activities for the nine months ended September 30, 2018 decreased \$178 million compared to the 2017 period, primarily due to lower cash receipts for contract drilling services of \$220 million, partially offset by a net decrease in cash expenditures for contract drilling services and other working capital requirements of \$3 million and lower income tax payments, net of refunds, of \$39 million.

For 2018, Diamond Offshore has budgeted approximately \$220 million for capital expenditures. At September 30, 2018, Diamond Offshore has no significant purchase obligations, except for those related to its direct rig operations, which arise during the normal course of business.

In October of 2018, Diamond Offshore entered into a new senior five-year revolving credit agreement with maximum borrowings available of \$950 million which may be used for general corporate purposes, including investments, acquisitions and capital expenditures. The new credit agreement, which expires on October 2, 2023, provides for a swingline subfacility of \$100 million and a letter of credit subfacility in the amount of \$250 million. Diamond Offshore also amended its existing credit agreement to reduce the aggregate principal amounts of commitments to \$325 million, of which, \$40 million matures in March of 2019, \$60 million matures in October of 2019 and \$225 million matures in October of 2020. As of September 30, 2018, Diamond Offshore was in compliance with all covenant requirements under its existing credit agreement. As of November 2, 2018, Diamond Offshore had no outstanding borrowings under its credit agreements.

In August of 2018, S&P Global Ratings downgraded Diamond Offshore's corporate credit rating to B from B+ with a negative outlook and Moody's Investors Service, Inc. downgraded Diamond Offshore's corporate credit rating to B2 from Ba3 with a negative outlook. Market conditions and other factors, many of which are outside of Diamond Offshore's control, could cause its credit ratings to be further lowered. Any further downgrade in Diamond Offshore's credit ratings could cause an increase in the fees paid under the new credit agreement and could adversely impact its cost of issuing additional debt and the amount of additional debt that it could issue and could further restrict its access to capital markets and its ability to raise funds by issuing additional debt. As a consequence, Diamond Offshore may not be able to issue additional debt in amounts and/or with terms that it considers to be reasonable. One or more of these occurrences could limit Diamond Offshore's ability to pursue other business opportunities.

Diamond Offshore will make periodic assessments of its capital spending programs based on industry conditions and will make adjustments if it determines they are required. Diamond Offshore, may, from time to time, issue debt or equity securities, or a combination thereof, to finance capital expenditures, the acquisition of assets and businesses or for general corporate purposes. Diamond Offshore's ability to access the capital markets by issuing debt or equity securities will be dependent on its results of operations, current financial condition, current credit ratings, current market conditions and other factors beyond its control.

Boardwalk Pipeline's cash provided by operating activities decreased \$48 million for the nine months ended September 30, 2018 compared to the 2017 period primarily due to the change in net income.

In June of 2018, Boardwalk Pipeline retired at maturity the \$185 million outstanding aggregate principal amount of its 5.2% senior notes with borrowings under its credit facility. As of September 30, 2018, Boardwalk Pipeline had \$555 million of outstanding borrowings under its revolving credit facility and was in compliance with all covenant requirements. Boardwalk Pipeline has a subordinated loan agreement with a subsidiary of the Company under which it could borrow up to \$300 million until December 31, 2018. As of November 2, 2018, Boardwalk Pipeline had no outstanding borrowings under the subordinated loan agreement.

For the nine months ended September 30, 2018 and 2017, Boardwalk Pipeline's capital expenditures were \$345 million and \$496 million, consisting of a combination of growth and maintenance capital. During the three months ended September 30, 2018, Boardwalk Pipeline purchased \$10 million of natural gas to be used as base gas for its pipeline system.

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Boardwalk Pipeline anticipates that its existing capital resources, including its revolving credit facility, subordinated loan and cash flows from operating activities, will be adequate to fund its operations for 2018.

In the first quarter of 2018, Loews Hotels & Co completed the financial closing for its investment in the Loews Kansas City Hotel with a governmental authority in Kansas City, Missouri issuing debt to support the development of the 800 room hotel, meetings space and parking garage. Loews Hotels & Co is obligated to repay approximately \$95 million.

**INVESTMENTS**

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

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

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

**Insurance**

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

**Net Investment Income**

The significant components of CNA's net investment income are presented in the following table. Fixed income securities, as presented, include both fixed maturity and non-redeemable preferred stock.

|                      | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|----------------------|---------------------------|-------------|--------------------------|-------------|
|                      | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|                      | <b>2018</b>               | <b>2017</b> | <b>2018</b>              | <b>2017</b> |
| <b>(In millions)</b> |                           |             |                          |             |

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|  |    |            |    |     |    |              |    |       |    |              |    |      |
|--|----|------------|----|-----|----|--------------|----|-------|----|--------------|----|------|
| Fixed income securities:   |    |            |    |     |    |              |    |       |    |              |    |      |
| Taxable fixed income securities  | \$ | <b>366</b> | \$ | 350 | \$ | <b>1,070</b> | \$ | 1,051 |    |              |    |      |
| Tax-exempt fixed income securities   |    | <b>93</b>  |    | 106 |    | <b>298</b>   |    | 320   |    |              |    |      |
| Total fixed income securities  |    | <b>459</b> |    | 456 |    | <b>1,368</b> |    | 1,371 |    |              |    |      |
| Limited partnership and common stock investments                             |    | <b>23</b>  |    | 51  |    | <b>96</b>    |    | 157   |    |              |    |      |
| Other, net of investment expense   |    | <b>5</b>   |    | 2   |    | <b>19</b>    |    | 1     |    |              |    |      |
| Pretax net investment income   | \$ | <b>487</b> | \$ | 509 | \$ | <b>1,483</b> | \$ | 1,529 |    |              |    |      |
| Fixed income securities after tax and noncontrolling interests               |    |            |    |     | \$ | <b>338</b>   | \$ | 295   | \$ | <b>1,010</b> | \$ | 890  |
| Net investment income after tax and noncontrolling interests                 |    |            |    |     | \$ | <b>357</b>   | \$ | 325   | \$ | <b>1,091</b> | \$ | 981  |
| Effective income yield for the fixed income securities portfolio, before tax |    |            |    |     |    | <b>4.7%</b>  |    | 4.7%  |    | <b>4.7%</b>  |    | 4.7% |
| Effective income yield for the fixed income securities portfolio, after tax  |    |            |    |     |    | <b>3.9%</b>  |    | 3.4%  |    | <b>3.9%</b>  |    | 3.4% |



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Net investment income before tax and noncontrolling interests for the three months ended September 30, 2018 decreased \$22 million as compared with the 2017 period. The decrease was driven by limited partnership and common stock investments, which returned 0.9% in 2018 as compared with 2.2% in the 2017 period. However, despite the decline in limited partnership income, net investment income after tax and noncontrolling interests increased \$32 million for the three months ended September 30, 2018 as compared with the 2017 period driven by the lower federal corporate income tax rate.

Net investment income before tax and noncontrolling interests for the nine months ended September 30, 2018 decreased \$46 million as compared with the 2017 period. The decrease was driven by limited partnership and common stock investments, which returned 4.0% in 2018 as compared with 6.8% in the 2017 period. However, despite the decline in limited partnership income, net investment income after tax and noncontrolling interests increased \$110 million for the nine months ended September 30, 2018 as compared with the 2017 period driven by the lower federal corporate income tax rate.

**Net Realized Investment Gains (Losses)**

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

|  | Three Months Ended    |       | Nine Months Ended     |       |
|--|-----------------------|-------|-----------------------|-------|
|  | September 30,<br>2018 | 2017  | September 30,<br>2018 | 2017  |
| <b>(In millions)</b>   |                       |       |                       |       |
| Realized investment gains (losses):                                      |                       |       |                       |       |
| Fixed maturity securities:   |                       |       |                       |       |
| Corporate bonds and other  | \$ 8                  | \$ 14 | \$ 36                 | \$ 85 |
| States, municipalities and political subdivisions                        | 9                     | 4     | 35                    | 14    |
| Asset-backed   | (7)                   | (2)   | (39)                  | (7)   |
| Total fixed maturity securities  | 10                    | 16    | 32                    | 92    |
| Non-redeemable preferred stock   | 2                     |       | (23)                  |       |
| Short term and other   | 3                     |       | 12                    | 1     |
| Total realized investment gains (losses)                                 | 15                    | 16    | 21                    | 93    |
| Income tax (expense) benefit   | (3)                   | (4)   | (2)                   | (30)  |
| Amounts attributable to noncontrolling interests                         | (1)                   | (2)   | (2)                   | (7)   |
| Net realized investment gains (losses) attributable to Loews Corporation | \$ 11                 | \$ 10 | \$ 17                 | \$ 56 |

Net realized investment gains before tax and noncontrolling interests decreased \$1 million for the three months ended September 30, 2018 as compared with the 2017 period.

Net realized investment gains before tax and noncontrolling interests decreased \$72 million for the nine months ended September 30, 2018 as compared with the 2017 period. The decrease was driven by lower net realized gains on sales of securities and the decline in fair value of non-redeemable preferred stock.

Further information on CNA's realized gains and losses, including OTTI losses, is set forth in Note 3 of the Notes to Consolidated Condensed Financial Statements included under Item 1.



**Table of Contents****Portfolio Quality**

The following table presents the estimated fair value and net unrealized gains (losses) of CNA's fixed maturity securities by rating distribution:

|   | <b>September 30, 2018</b>   |                 | <b>December 31, 2017</b>    |                 |
|---|-----------------------------|-----------------|-----------------------------|-----------------|
|   | <b>Net Unrealized Gains</b> |                 | <b>Net Unrealized Gains</b> |                 |
|   | <b>Estimated Fair Value</b> | <b>(Losses)</b> | <b>Estimated Fair Value</b> | <b>(Losses)</b> |
| <b>(In millions)</b>  |                             |                 |                             |                 |
| U.S. Government, Government agencies and Government-sponsored enterprises | \$ 4,430                    | \$ (96)         | \$ 4,514                    | \$ 21           |
| AAA   | 3,064                       | 221             | 1,954                       | 152             |
| AA  | 6,575                       | 459             | 8,982                       | 914             |
| A   | 8,838                       | 525             | 9,643                       | 952             |
| BBB   | 13,997                      | 417             | 13,554                      | 1,093           |
| Non-investment grade  | 2,724                       | 50              | 2,840                       | 140             |
| Total   | \$ 39,628                   | \$ 1,576        | \$ 41,487                   | \$ 3,272        |

As of September 30, 2018 and December 31, 2017, 3% and 2% of CNA's fixed maturity portfolio was rated internally.

The following table presents CNA's available-for-sale fixed maturity securities in a gross unrealized loss position by ratings distribution:

| <b>September 30, 2018</b>  | <b>Estimated Fair Value</b> | <b>Gross Unrealized Losses</b> |
|--|-----------------------------|--------------------------------|
| <b>(In millions)</b>   |                             |                                |
| <b>U.S. Government, Government agencies and Government-sponsored enterprises</b> | <b>\$ 3,735</b>             | <b>\$ 113</b>                  |
| AAA  | 488                         | 10                             |
| AA   | 1,093                       | 19                             |
| A  | 2,558                       | 57                             |
| BBB  | 6,319                       | 167                            |
| Non-investment grade   | 1,031                       | 37                             |
| Total  | \$ 15,224                   | \$ 403                         |

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

| <b>September 30, 2018</b><br><b>(In millions)</b> | <b>Estimated<br/>Fair Value</b> | <b>Gross<br/>Unrealized<br/>Losses</b> |
|---|---------------------------------|--|
| <b>Due in one year or less</b>                    | <b>\$ 231</b>                   | <b>\$ 6</b>                            |
| <b>Due after one year through five years</b>      | <b>2,540</b>                    | <b>37</b>                              |
| <b>Due after five years through ten years</b>     | <b>10,369</b>                   | <b>294</b>                             |
| <b>Due after ten years</b>                        | <b>2,084</b>                    | <b>66</b>                              |
| <b>Total</b>                                      | <b>\$ 15,224</b>                | <b>\$ 403</b>                          |

### **Duration**

A primary objective in the management of CNA's investment portfolio is to optimize return relative to corresponding liabilities and respective liquidity needs. CNA's views on the current interest rate environment, tax regulations, asset class valuations, specific security issuer and broader industry segment conditions and domestic and global economic conditions, are some of the factors that enter into an investment decision. CNA also continually

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monitors exposure to issuers of securities held and broader industry sector exposures and may from time to time adjust such exposures based on its views of a specific issuer or industry sector.

A further consideration in the management of CNA's investment portfolio is the characteristics of the corresponding liabilities and the ability to align the duration of the portfolio to those liabilities and to meet future liquidity needs, minimize interest rate risk and maintain a level of income sufficient to support the underlying insurance liabilities. For portfolios where future liability cash flows are determinable and typically long term in nature, CNA segregates investments for asset/liability management purposes. The segregated investments support the long term care and structured settlement liabilities in Other Insurance Operations.

The effective durations of CNA's fixed income securities and short term investments are presented in the following table. Amounts presented are net of payable and receivable amounts for securities purchased and sold, but not yet settled.

|   | September 30, 2018      |                                  | December 31, 2017       |                                  |
|---|-------------------------|----------------------------------|-------------------------|----------------------------------|
|   | Estimated<br>Fair Value | Effective<br>Duration<br>(Years) | Estimated<br>Fair Value | Effective<br>Duration<br>(Years) |
| <b>(In millions of dollars)</b>                   |                         |                                  |                         |                                  |
| Investments supporting Other Insurance Operations | \$ 16,155               | 8.2                              | \$ 16,797               | 8.4                              |
| Other investments                                 | 25,407                  | 4.5                              | 26,817                  | 4.4                              |
| <b>Total</b>                                      | <b>\$ 41,562</b>        | <b>5.9</b>                       | <b>\$ 43,614</b>        | <b>5.9</b>                       |

The duration of the total portfolio is aligned with the cash flow characteristics of the underlying liabilities.

The investment portfolio is periodically analyzed for changes in duration and related price risk. Additionally, CNA periodically reviews the sensitivity of the portfolio to the level of foreign exchange rates and other factors that contribute to market price changes. A summary of these risks and specific analysis on changes is included in the Quantitative and Qualitative Disclosures about Market Risk included under Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017.

**Short Term Investments**

The carrying value of the components of CNA's Short term investments are presented in the following table:

|                          | September 30,<br>2018 | December 31,<br>2017 |
|--------------------------|-----------------------|----------------------|
| <b>(In millions)</b>     |                       |                      |
| Short term investments:  |                       |                      |
| Commercial paper         | \$ 895                | \$ 905               |
| U.S. Treasury securities | 227                   | 355                  |

|                              |    |              |          |
|------------------------------|----|--------------|----------|
| Other                        |    | <b>168</b>   | 176      |
| Total short term investments | \$ | <b>1,290</b> | \$ 1,436 |

### **CRITICAL ACCOUNTING ESTIMATES**

Certain accounting policies require us to make estimates and judgments that affect the amounts reflected in the Consolidated Condensed Financial Statements. Such estimates and judgments necessarily involve varying, and possibly significant, degrees of uncertainty. Accordingly, certain amounts currently recorded in the financial statements will likely be adjusted in the future based on new available information and changes in other facts and circumstances. See the Critical Accounting Estimates and the Insurance Reserves sections of our MD&A included under Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017 for further information.

### **ACCOUNTING STANDARDS UPDATE**

For a discussion of accounting standards updates that have been adopted or will be adopted in the future, please read Note 1 of the Notes to Consolidated Condensed Financial Statements included under Item 1.

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**FORWARD-LOOKING STATEMENTS**

Investors are cautioned that certain statements contained in this Report as well as some statements in other SEC filings and periodic press releases and some oral statements made by us and our subsidiaries and our and their officials during presentations may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act ). Forward-looking statements include, without limitation, any statement that does not directly relate to any historical or current fact and may project, indicate or imply future results, events, performance or achievements. Such statements may contain the words expect, intend, plan, anticipate, estimate, believe, continue, will likely result, and similar expressions. In addition, any statement concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions taken by us or our subsidiaries are also forward-looking statements as defined by the Act. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to a variety of risks and uncertainties, many of which are beyond our control, that could cause actual results to differ materially from those anticipated or projected.

Developments in any of the risks or uncertainties facing us or our subsidiaries, including those described under Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017, Part II, Item 1A, Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 and in our other filings with the SEC, could cause our results to differ materially from results that have been or may be anticipated or projected. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date they are made and we expressly disclaim any obligation or undertaking to update these statements to reflect any change in our expectations or beliefs or any change in events, conditions or circumstances on which any forward-looking statement is based.

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

There were no material changes in our market risk components as of September 30, 2018. See the Quantitative and Qualitative Disclosures about Market Risk included under Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017 for further information. Additional information related to portfolio duration and market conditions is discussed in the Investments section of Management's Discussion and Analysis of Financial Condition and Results of Operations included under Part I, Item 2.

**Item 4. Controls and Procedures.**

The Company maintains a system of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), which is designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, including this Report, is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Company under the Exchange Act is accumulated and communicated to the Company's management on a timely basis to allow decisions regarding required disclosure.

The Company's management, including the Company's principal executive officer (CEO) and principal financial officer (CFO), conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Report and, based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of September 30, 2018.

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2018 that have materially affected or that are reasonably likely to materially affect the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

Information on our legal proceedings is set forth in Notes 9 and 10 to the Consolidated Condensed Financial Statements included under Part I, Item 1.

**Item 1A. Risk Factors.**

Our Annual Report on Form 10-K for the year ended December 31, 2017 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 include a detailed discussion of certain risk factors facing the company. No updates or additions have been made to such risk factors as of September 30, 2018.



**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

Items 2 (a) and (b) are inapplicable.

**(c) STOCK REPURCHASES**

| Period                                 | (a) Total number<br>of shares<br>purchased | (b)<br>Average<br>price paid per<br>share | (c) Total number<br>of<br>shares purchased as            | (d) Maximum number of shares<br>(or approximate<br>dollar value)                             |
|--|--|---|--|--|
|  |  |   | part of<br>publicly<br>announced<br>plans or<br>programs | of shares that<br>may yet be<br>purchased under<br>the plans or<br>programs (in<br>millions) |
| July 1, 2018 - July 31, 2018           | 1,056,383                                  | \$ 49.38                                  | N/A  | N/A  |
| August 1, 2018 - August 31, 2018       | 374,935                                    | 49.82                                     | N/A  | N/A  |
| September 1, 2018 - September 30, 2018 | 347,132                                    | 49.89                                     | N/A  | N/A  |

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

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

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SIGNATURES

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

LOEWS CORPORATION

(Registrant)

Dated: November 5, 2018

By: /s/ David B. Edelson

DAVID B. EDELSON  
Senior Vice President and  
Chief Financial Officer  
(Duly authorized officer  
and principal financial  
officer)