SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2001

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 is charter)

Delaware	13-2646102
(State of other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

667 MADISON AVENUE, NEW YORK, N.Y. 10021-8087
(Address of principal executive offices) (Zip Code)

(212) 521-2000
(Registrant's telephone number, including area code)

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

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

Yes X No ____

Class	Outstanding at April 27, 2001
Common stock, $1 par value	197,239,900 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Balance Sheets

(Amounts in millions of dollars)	March 31, 2001	December 31, 2000
Assets:		
Investments:		
Fixed maturities, amortized cost of $26,961.8 and $27,167.5	$27,317.7	$27,244.3
Equity securities, cost of $1,434.7 and $1,462.5	2,580.5	2,682.5
Other investments	1,620.1	1,368.5
Short-term investments	10,863.2	9,100.3
Total investments	42,381.5	40,395.6
Cash	181.9	195.2
Receivables-net	16,212.1	15,301.6
Property, plant and equipment-net	3,017.9	3,206.3
Deferred income taxes	351.1	404.0
Goodwill and other intangible assets-net . . .	359.8	378.7
Other assets	4,697.5	4,291.3
Deferred acquisition costs of insurance subsidiaries	2,436.2	2,417.8
Separate Account business	3,885.9	4,286.6
Total assets	$73,523.9	$70,877.1
Liabilities and Shareholders' Equity:		
Insurance reserves and claims	$38,755.2	$39,054.3
Payable for securities purchased	1,511.3	971.4
Securities sold under repurchase agreements .	3,037.3	1,308.4
Long-term debt, less unamortized discount . .	5,887.1	6,040.0
Other liabilities	6,361.6	5,817.4
Separate Account business	3,885.9	4,286.6
Total liabilities	59,438.4	57,478.1
Minority interest	2,292.1	2,207.9
Shareholders' equity	11,793.4	11,191.1
Total liabilities and shareholders' equity	$73,523.9	$70,877.1

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Statements of Income

(In millions, except per share data)	Three Months Ended March 31, 2001	2000

Revenues:		
Insurance premiums	$2,530.1	$2,768.9
Investment income, net of expenses	593.0	594.9
Investment gains (losses)	407.4	(140.3)
Manufactured products (including excise taxes of $150.7 and $158.8)	1,069.6	1,013.5
Other	503.9	418.7
Total	5,104.0	4,655.7
Expenses:		
Insurance claims and policyholders' benefits	2,110.5	2,343.4
Amortization of deferred acquisition costs	423.6	393.0
Cost of manufactured products sold	546.6	545.8
Other operating expenses	1,013.1	946.7
Interest	86.3	88.4
Total	4,180.1	4,317.3
	923.9	338.4
Income tax	328.6	114.2
Minority interest	69.7	40.6
Total	398.3	154.8
Income before cumulative effect of changes in accounting principles	525.6	183.6
Cumulative effect of changes in accounting principles-net	(53.3)	
Net income	$ 472.3	$ 183.6
Net income per share:		
Income before cumulative effect of changes in accounting principles	$ 2.67	$ .90
Cumulative effect of changes in accounting principles-net	(.27)	
Net income	$ 2.40	$ .90
Weighted average number of shares outstanding	197.2	203.2

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Statements of Cash Flows

(Amounts in millions)	Three Months Ended March 31, 2001	2000
Operating Activities:		
Net income	$ 472.3	$ 183.6
Adjustments to reconcile net income to net cash used by operating activities-net	(321.6)	249.8
Cumulative effect of changes in accounting principles	53.3	
Changes in assets and liabilities-net:		
Reinsurance receivable	(140.1)	(1,011.8)
Other receivables	(154.0)	41.7
Prepaid reinsurance premiums	(219.8)	(126.3)
Deferred acquisition costs	(25.7)	(116.5)
Insurance reserves and claims	(265.8)	916.5
Other liabilities	412.3	(113.5)
Trading securities	160.2	(129.2)
Other-net	8.9	(20.5)
	(20.0)	(126.2)
Investing Activities:		
Purchases of fixed maturities	(28,249.6)	(11,586.5)
Proceeds from sales of fixed maturities	21,907.6	12,544.3
Proceeds from maturities of fixed maturities	6,656.7	585.1
Securities sold under agreements to repurchase	1,728.9	1,456.0
Purchase of equity securities	(312.2)	(620.7)

Proceeds from sales of equity securities	305.3	613.8
Change in short-term investments	(1,707.7)	(2,143.6)
Purchases of property, plant and equipment	(102.3)	(333.9)
Proceeds from sales of property, plant and equipment	261.0	31.8
Change in other investments	(273.9)	78.4
	213.8	624.7
Financing Activities:		
Dividends paid to shareholders	(24.6)	(25.7)
Dividends paid to minority interests	(7.9)	(9.4)
Purchases of treasury shares		(288.7)
Purchases of treasury shares by subsidiaries		(38.3)
Issuances of long-term debt		25.0
Principal payments on long-term debt	(154.0)	(7.9)
Redemption of CNA preferred stock		(79.0)
Receipts credited to policyholders	.8	1.3
Withdrawals of policyholders account balances	(20.8)	(37.6)
Other	(.6)	(.1)
	(207.1)	(460.4)
Net change in cash	(13.3)	38.1
Cash, beginning of period	195.2	183.9
Cash, end of period	$ 181.9	$ 222.0

See accompanying Notes to Consolidated Condensed Financial Statements.

(Dollars in millions, except per share data)

1. General:

Reference is made to the Notes to Consolidated Financial Statements in the 2000 Annual Report to Shareholders which should be read in conjunction with these consolidated condensed financial statements.

Accounting Changes

In the first quarter of 2001, the Company adopted the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities and SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities (collectively referred to as SFAS No. 133). The initial adoption of SFAS No. 133 did not have a significant impact on the equity of the Company; however, adoption of SFAS No. 133 resulted in a decrease to first quarter 2001 earnings of $53.3, net of taxes and minority interest of $33.0 and $8.0, respectively. Of this transition amount, approximately $50.5, net of taxes and minority interest, related to CNA's investments and investment-related derivatives. Because CNA already carried its investment and investment-related derivatives at fair value through other comprehensive income, there was an equal and offsetting favorable adjustment of $50.5 to shareholders' equity (accumulated other comprehensive income). See Note 2 for a complete discussion of the Company's adoption of these accounting pronouncements.

On January 1, 2001, the Company adopted the Codification of Statutory Accounting Principles ("Codification") for preparing its statutory-basis financial statements. Codification, which is intended to standardize regulatory accounting and reporting to state insurance departments, is effective January 1, 2001. However, statutory accounting principles will continue to be established by individual state laws and permitted practices. The states in which CNA's insurance subsidiaries conduct business required adoption of Codification (with certain modifications) for the preparation of statutory financial statements effective January 1, 2001. The Company's adoption of Codification, as modified, resulted in an increase in statutory capital and surplus as of January 1, 2001 by approximately $175.0, which primarily relates to deferred tax assets offset by insurance-related assessments and pension-related liabilities.

Additionally, CNA's property-casualty companies implemented a change, effective January 1, 2001, in the timing of recording written premiums for policies with future effective dates. This change was made in conjunction with changes required by Codification related to the recording of written premiums. The effect of this change was to reduce net written premiums by $113.0 for the three months ended March 31, 2001. This change has no impact on net earned premiums or net income.

Stock Split

On February 20, 2001, the Board of Directors declared a two-for-one stock split, by way of a stock dividend, effective March 21, 2001. All share and per share data have been restated to retroactively reflect the stock split.

Comprehensive Income

Comprehensive income includes all changes to shareholders' equity, including net income, except those resulting from investments by shareholders and distributions to shareholders. For the three months ended March 31, 2001 and 2000, comprehensive income totaled $624.9 and $188.2, respectively. Comprehensive income includes net income, unrealized appreciation (depreciation) and foreign currency translation gains or losses.

Net Income Per Share

Companies with complex capital structures are required to present basic and diluted earnings per share. Basic earnings per share excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. At March 31, 2001, earnings per common share assuming dilution is the same as basic earnings per share because the impact of securities that could potentially dilute basic earnings per common share is insignificant.

Stock Option Plan

In 2000, shareholders approved the Loews Corporation 2000 Stock Option Plan (the "Plan"). The aggregate number of shares of Common Stock for which options may be granted under the Plan is 2,000,000; and the maximum number of shares of Common Stock with respect to which options may be granted to any individual in any calendar year is 400,000. The exercise price per share may not be less than the fair market value of the Common Stock on the date of grant. Pursuant to the Plan, on January 24, 2001, options were granted for a total of 270,600 shares of Common Stock at an exercise price of $46.71 per share. These options vest ratably over a four year period and expire in ten years. The Company has elected to follow Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock options and awards. Under APB No. 25, no compensation expense is recognized when the exercise price of options equals the fair value (market price) of the underlying stock on the date of grant.

Reclassifications

Certain amounts applicable to prior periods have been reclassified to conform to the classifications followed in 2001.

During the first quarter of 2001, CNA reclassified equity method income from limited partnership investments. This income was previously classified in investment gains and is now classified in net investment income. The after-tax impact of this reclassification on net operating income before investment gains was an increase of $20.9 and $31.3 for the three months ended March 31, 2001 and 2000.

2. Derivative Financial Instruments

As discussed in Note 1, effective January 1, 2001, the Company accounts for derivative instruments and hedging activities in accordance with SFAS No. 133. A derivative is typically defined as an instrument whose value is "derived" from an underlying instrument, index or rate, has a notional amount, and can be net settled. Derivatives include, but are not limited

to, the following types of investments: interest rate swaps, interest rate caps and floors, put and call options, warrants, swaptions, futures, forwards and commitments to purchase securities and combinations of the forgoing. Derivatives embedded within non-derivative instruments (such as call options embedded in convertible bonds) must be split from the host instrument and accounted for under SFAS No. 133 when the embedded derivative is not clearly and closely related to the host instrument. In addition, non-investment instruments, including certain types of insurance contracts that have historically not been considered derivatives, can be derivatives or contain embedded derivatives under SFAS No. 133.

SFAS No. 133 requires that all derivative instruments be recorded in the balance sheet at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge of exposures to changes in fair value, cash flows or foreign currency exchange rates. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the nature of any hedge designation thereon. The Company's accounting for changes in the fair value of derivative instruments is as follows:

Nature of Hedge Designation	Derivative's Change in Fair Value Reflected in:
No hedge designation	Realized investment gains (losses).
Fair value	Realized investment gains (losses), along with the change in fair value of the hedged asset or liability.
Cash flow	Other comprehensive income, with subsequent reclassification to earnings when the hedged transaction, asset or liability impacts earnings.
Foreign currency	Consistent with fair value or a cash flow hedge above, depending on the nature of the hedging relationship.

Changes in the fair value of derivatives held in CNA's separate accounts are reflected in separate account earnings. Because separate account investments are generally carried at fair value with changes therein reflected in separate account earnings, hedge accounting is generally not applicable to separate account derivatives.

Use of Derivatives

Investment activities of non-insurance companies include investments in derivative instruments which are marked to market and reported as investment gains or losses in the income statement.

The Company invests in certain derivative instruments for a number of purposes, including; (i) for its asset and liability management activities, (ii) for income enhancements for its portfolio management

strategy, and (iii) to benefit from anticipated future movements in the underlying markets. If such movements do not occur as anticipated, then significant losses may occur.

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

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

CNA invests in derivative financial instruments in the normal course of business, primarily to reduce its exposure to market risk (principally interest rate risk, equity stock price risk and foreign currency risk) stemming from various assets and liabilities. CNA's principal objective under such market risk strategies is to achieve the desired reduction in economic risk, even if the position will not receive hedge accounting treatment. CNA may also use derivatives for purposes of income enhancement, primarily via the sale of covered call options.

CNA's use of derivatives is limited by statutes and regulations promulgated by the various regulatory bodies to which it is subject, and by its own derivative policy. The derivative policy limits which personnel are authorized to initiate derivative transactions. The policy prohibits the use of derivatives with a maturity greater than eighteen months, unless the derivative is matched with assets or liabilities having a longer maturity. The policy prohibits the use of derivatives containing greater than one-to-one leverage with respect to changes in the underlying price, rate or index. Also, the policy prohibits the use of borrowed funds, including funds obtained through repurchase transactions, to engage in derivative transactions.

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the gross fair value of the asset related to the instruments recognized in the consolidated condensed balance sheets. The Company mitigates the risk of non-performance by using multiple counterparties and by monitoring their creditworthiness. The Company generally requires collateral from its derivative investment counterparties depending on the amount of the exposure and the credit rating of the counterparty.

Risk Management Strategies Regarding Market Risk

The Company has exposure to economic losses due to interest rate risk arising from changes in the level of, or volatility of, interest rates. The Company attempts to mitigate its exposure to interest rate risk through active portfolio management, which includes rebalancing its existing portfolios or assets and liabilities, as well as changing the characteristics of investments to be purchased or sold in the future. In addition, various derivative financial instruments are used to modify the interest rate risk exposures of certain assets and liabilities. These strategies include the use of interest rate swaps, interest rate caps and floors, options, futures, forwards, and commitments to purchase securities. These instruments are generally used to lock in interest rates or unrealized gains, to shorten or lengthen durations of fixed maturity securities or investment contracts, or to hedge (on an economic basis) interest rate risks associated with investments, variable rate debt and

life insurance liabilities. As of the adoption date and March 31, 2001, none of the Company's holdings of these types of instruments have been designated as hedges of specific assets or liabilities, and therefore do not currently qualify for hedge accounting under generally accepted accounting principles ("GAAP").

The Company is exposed to equity price risk as a result of its investment in equity securities and equity derivatives. Equity price risk results from changes in the level or volatility of equity prices, which affect the value of equity securities, or instruments which derive their value from such securities. The Company attempts to mitigate its exposure to such risks by limiting its investment in any one security or index. The Company may also manage this risk by utilizing instruments such as options, swaps, futures and collars to protect appreciation in securities held. CNA uses derivatives in one of its separate accounts to mitigate equity price risk associated with its indexed group annuity contracts by purchasing Standard & Poor's 500 ("S&P 500") index futures contracts in a notional amount equal to the contract holder liability, which is calculated using the S&P 500 rate of return.

Foreign exchange rate risk arises from the possibility that changes in foreign currency exchange rates will impact the value of financial instruments denominated in a foreign currency. The Company's foreign transactions are primarily denominated in Canadian Dollars, British Pounds and the European Monetary Unit. The Company manages this risk via asset/liability matching and through the use of foreign currency futures and/or forwards. As of the adoption date and March 31, 2001, none of the Company's holdings of foreign currency derivatives have been designated as hedges of specific assets or liabilities, and therefore do not currently qualify for hedge accounting under GAAP.

A summary of the aggregate contractual or notional amounts and estimated fair values related to derivative financial instruments follows. The contractual or notional amounts are used to calculate the exchange of contractual payments under the agreements and are not representative of the potential for gain or loss on these instruments. Interest rates, equity prices and foreign currency exchange rates affect the fair value of derivatives. The fair values generally represent the estimated amounts that CNA would expect to receive or pay upon termination of the contracts at the reporting date. Dealer quotes are available for substantially all of CNA's derivatives. For derivative instruments not actively traded, fair values are estimated using values obtained from independent pricing services, costs to settle or quoted market prices of comparable instruments.

Derivative Financial Instruments

The Company's investments in derivative instruments are as follows:

March 31, 2001	Contractual/ Notional Value	Fair Value Asset (Liability)
Equity markets:		
Options		
Purchased-Global Crossing	$1,000.0	$ 944.0
-other	123.5	19.3
Written-Global Crossing	1,256.0	(244.0)
-other	929.1	(16.4)
Index futures-long	2.6	
Equity warrants	15.0	3.0
Collateralized debt obligation liabilities	170.0	(16.0)
Options embedded in convertible debt securities	869.0	161.0
Separate Accounts-options purchased	79.0	
-options written	87.0	(1.0)
-equity index futures - long	821.0	
Interest rate risk:		
Commitments to purchase government and municipal securities	343.0	
Interest rate caps	500.0	1.0
Futures-long	685.4	
-short	318.4	
Foreign currency forwards	114.0	
Separate Accounts-commitments to purchase government and municipal securities	65.0	1.0
-futures-short	26.0	
Commodities:		
Gold:		
Options-purchased	232.6	14.0
-written	160.0	(3.6)
Other	354.6	(2.1)
Total	$8,151.2	$860.2

Immediately following adoption of SFAS No. 133 on January 1, 2001, the Company's derivative instrument holdings were as follows:

January 1, 2001	Contractual/ Notional Value	Fair Value Asset (Liability)
Equity markets:		
Options		
Purchased-Global Crossing	$1,000.0	$ 664.0
-other	173.0	23.7
Written-Global Crossing	1,256.0	(1.0)
-other	269.6	(17.5)
Index futures- short	2.3	
Equity warrants	10.0	4.0
Collateralized debt obligation liabilities	170.0	(18.0)
Options embedded in convertible debt securities	845.0	231.0
Separate Accounts-options purchased	110.0	
-options written	118.0	(1.0)
-equity index futures-long	996.0	(13.0)
Interest rate risk:		
Interest rate caps	500.0	1.0
Futures-long	229.0	

-short	806.2	
Foreign currency forwards	13.0	
Separate Accounts-commitments to purchase government and municipal securities	111.0	1.0
-futures-short	76.0	
Commodities:		
Gold:		
Options-purchased	232.5	11.8
Other	8.6	
Total	$6,926.2	$886.0

Collateralized debt obligations represent a credit enhancement product that is typically structured in the form of a swap. CNA has determined that this product is a derivative under SFAS No. 133. CNA is no longer writing this product. Options embedded in convertible debt securities are classified as fixed maturity securities in the Consolidated Condensed Balance Sheets, consistent with the host instruments.

Fair Value Hedge

As of the adoption date, and as of March 31, 2001, CNA's collar position related to its investment in Global Crossing Ltd. ("Global Crossing") common stock was the only derivative position that has been designated as a hedge for accounting purposes. The nature of the transition adjustment related to this hedge was such that the $962.0 unrealized gain that existed on the Global Crossing common stock when the hedge was established has been preserved in accumulated other comprehensive income.

The effectiveness of this hedge is measured based on changes in the intrinsic value of the collar in relation to changes in the fair value of the Global Crossing common stock. Changes in the time value component of the collar's fair value are excluded from the hedge designation and

measurement of the effectiveness. For the three months ended March 31, 2001, the Global Crossing hedge was 100% effective. The change in the time value component of the collar was a pre-tax gain of $21.0 for the three months ended March 31, 2001, and has been recorded as an investment gain in the Consolidated Condensed Statements of Income.

3. Reinsurance:

The effects of reinsurance on earned premiums are shown in the following table:

	Direct	Assumed	Ceded	Net
	Three Months Ended March 31, 2001			
Property and casualty	$ 2,021.0	$ 310.0	$ 866.0	$ 1,465.0
Accident and health	876.0	56.0	61.0	871.0
Life	291.0	77.0	174.0	194.0
Total	$ 3,188.0	$ 443.0	$1,101.0	$ 2,530.0
	Three Months Ended March 31, 2000			
Property and casualty	$ 2,117.0	$ 519.0	$ 961.0	$ 1,675.0
Accident and health	919.0	63.0	107.0	875.0
Life	282.0	58.0	121.0	219.0
Total	$ 3,318.0	$ 640.0	$1,189.0	$ 2,769.0

In 1999, CNA entered into an aggregate excess-of-loss reinsurance treaty related to the 1999 through 2001 accident years covering substantially all of CNA's property-casualty lines of business (the "Aggregate Cover"). CNA has two sections of coverage under the terms of the Aggregate Cover. These coverages attach at defined loss ratios for each accident year. Coverage under the first section of the Aggregate Cover, which is available for all accident years covered by the contract, has annual limits of $500.0 with an aggregate limit of $1,000.0. The second section of the Aggregate Cover, which is available for accident year 2001, provides coverage up to $510.0 of losses for a maximum premium of $310.0. In the first quarter of 2001, CNA triggered the coverage under the second section of the Aggregate Cover for the 2001 accident year. As a result, CNA ceded $42.0 in premium and $39.0 of loss and loss adjustment expenses, and recorded an interest charge of $6.0 on the funds withheld balance.

In 2001, CNA entered into a one-year aggregate excess-of-loss reinsurance treaty related to the 2001 accident year covering substantially all property-casualty lines of business in the Continental Casualty Company pool (the "CCC Cover"). Ceded premiums in the amount of $1.0 were recorded for the CCC Cover. The loss protection provided by the CCC Cover has an aggregate limit of $750.0 to $825.0 depending on premium volume. The CCC

Cover provides continuous coverage in excess of the triggered coverage in the second section of the Aggregate Cover discussed above.

4. Receivables:

The Company's receivables are comprised of the following:

	March 31, 2001	December 31, 2000
Reinsurance	$ 9,537.4	$ 9,397.3
Other insurance	5,078.5	5,026.3
Security sales	1,239.9	470.5
Accrued investment income	393.4	424.3
Other	289.4	331.9
Total	16,538.6	15,650.3
Less allowance for doubtful accounts and cash discounts	326.5	348.7
Receivables-net	$16,212.1	$15,301.6

5. Shareholders' equity:

	March 31, 2001	December 31, 2000
Preferred stock, $.10 par value, Authorized--100,000,000 shares		
Common stock, $1 par value: Authorized--400,000,000 shares Issued and outstanding-197,239,900 and 197,228,000 shares	$ 197.2	$ 197.2
Additional paid-in capital	47.6	45.6
Earnings retained in the business	10,639.3	10,191.6
Accumulated other comprehensive income . . .	909.3	756.7
Total shareholders' equity	$11,793.4	$11,191.1

6. Restructuring and Other Related Charges:

At December 31, 2000, the remaining accrued restructuring and other related charges consisted of $7.0 of lease termination costs. During the first quarter of 2001, approximately $2.0 of these accrued costs were paid.

7. Significant Transactions:

Individual Life Reinsurance Transaction

Effective December 31, 2000, CNA completed a transaction with Munich American Reassurance Company ("MARC"), whereby MARC acquired CNA's individual life reinsurance business ("CNA Life Re") via an indemnity reinsurance agreement. CNA will continue to accept and retrocede business on existing CNA Life Re contracts until such time that CNA and MARC are able to execute novations of each of CNA Life Re's assumed and retroceded reinsurance contracts.

MARC assumed approximately $294.0 of liabilities (primarily future policy benefits and claim reserves) and approximately $209.0 in assets (primarily uncollected premiums and deferred policy acquisition costs). The net gain from the reinsurance transaction, which is subject to certain post-closing adjustments, has been recorded as deferred revenue and will be recognized in income over the next 12 to 18 months as CNA Life Re's assumed contracts are novated to MARC.

The CNA Life Re business contributed net earned premiums of $49.0 and pre-tax operating income of $10.0 for the three months ended March 31, 2000.

8. Business Segments:

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: property, casualty and life insurance (CNA Financial Corporation, an 87% owned subsidiary); the production and sale of cigarettes (Lorillard, Inc., a wholly owned subsidiary); the operation of hotels (Loews Hotels Holding Corporation, a wholly owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc., a 53% owned subsidiary); and the distribution and sale of watches and clocks (Bulova Corporation, a 97% owned subsidiary). Each operating entity is responsible for the operation of its specialized business and is headed by a chief executive officer having the duties and authority commensurate with that position.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2000. In addition, CNA does not maintain a distinct investment portfolio for each of its insurance segments, and accordingly, allocation of assets to each segment is not performed. Therefore, investment income and investment gains (losses) are allocated based on each segment's carried insurance reserves, as adjusted.

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

	Three Months Ended March 31,	
	2001	2000
Revenues (a):		
CNA Financial:		
Property and casualty	$ 2,160.9	$ 2,223.5
Life	532.3	395.4
Group	873.5	933.2
Other Insurance	45.0	(61.0)
Total CNA Financial	3,611.7	3,491.1
Lorillard	1,066.1	997.7
Loews Hotels	84.8	78.5
Diamond Offshore	224.4	190.5
Bulova	32.9	36.3
Corporate	84.1	(138.4)
Total	$ 5,104.0	$ 4,655.7

Income before taxes, minority interest and cumulative effect of changes in accounting principles:		
CNA Financial:		
Property and casualty	$ 376.5	$ 232.8
Life	133.5	53.6
Group	27.4	17.5
Other Insurance	13.3	(95.2)
Total CNA Financial	550.7	208.7
Lorillard	270.5	252.1
Loews Hotels	8.7	14.5
Diamond Offshore	47.2	44.8
Bulova	4.3	4.9
Corporate	42.5	(186.6)
Total	$ 923.9	$ 338.4
Net income (a):		
CNA Financial:		
Property and casualty	$ 217.8	$ 136.5
Life	75.2	30.8
Group	16.8	10.7
Other Insurance	3.1	(54.1)
Total CNA Financial	312.9	123.9
Lorillard	164.4	155.5
Loews Hotels	5.5	9.2
Diamond Offshore	14.7	13.8
Bulova	2.4	2.7
Corporate	25.7	(121.5)
	525.6	183.6
Cumulative effect of changes in accounting principles - net	(53.3)	
Total	$ 472.3	$ 183.6

(a) Investment gains (losses) included in Revenues and Net income are as follows:

	Three Months Ended March 31,	
	2001	2000
Revenues:		
CNA Financial:		
Property and casualty	$ 209.4	$ 45.6
Life	68.4	(10.2)
Group	7.4	3.2
Other Insurance	85.5	(5.3)
Total CNA Financial	370.7	33.3
Corporate and other	36.7	(173.6)
Total	$ 407.4	$(140.3)
Net income:		
CNA Financial:		
Property and casualty	$ 115.9	$ 25.5
Life	38.5	(6.1)
Group	4.1	1.8
Other Insurance	48.2	(2.9)
Total CNA Financial	206.7	18.3
Corporate and other	22.0	(112.8)
Total	$ 228.7	$ (94.5)

9. Legal Proceedings and Contingent Liabilities:

INSURANCE RELATED

Tobacco Litigation

Four insurance subsidiaries of CNA are defendants in a lawsuit arising out of policies allegedly issued to Liggett Group, Inc. ("Liggett"). The lawsuit was filed by Liggett and its current parent, Brooke Group Holding Inc., in the Delaware Superior Court, New Castle County, on January 26, 2000. The lawsuit, which involves numerous insurers, concerns coverage issues relating to a number of tobacco-related claims (currently over 1,100 pending) asserted against Liggett over the past 20 years. However, Liggett only began submitting claims for coverage under the policies in January 2000. CNA believes its coverage defenses are strong. Based on facts and circumstances currently known, management believes that the ultimate outcome of the pending litigation should not materially affect the financial condition or results of operations of the Company.

IGI Contingency

In 1997, CNA Reinsurance Company Limited ("CNA Re Ltd.") entered into an arrangement with IOA Global, Ltd. ("IOA"), an independent managing general agent based in Philadelphia, Pennsylvania, to develop and manage a book of accident and health coverages. Pursuant to this arrangement, IGI

Underwriting Agencies, Ltd. ("IGI"), a personal accident reinsurance managing general underwriter, was appointed to underwrite and market the book under the supervision of IOA. Between April 1, 1997 and December 1, 1999, IGI underwrote a number of reinsurance arrangements with respect to personal accident insurance worldwide ("the IGI Program"). Under various arrangements, CNA Re Ltd. both assumed risks as a reinsurer and also ceded a substantial portion of those risks to other companies, including other CNA insurance subsidiaries and ultimately to a group of reinsurers participating in a reinsurance pool known as the Associated Accident and Health Reinsurance Underwriters ("AAHRU") Facility. CNA's Group Operations business unit participated as a pool member in the AAHRU Facility in varying percentages between 1997 and 1999.

CNA has undertaken a review of the IGI Program and, among other things, has determined that a small portion of the premiums assumed under the IGI Program related to United States workers' compensation "carve-out" business. CNA is aware that a number of reinsurers with workers' compensation carve-out insurance exposure have disavowed their obligations under various legal theories. If one or more such companies are successful in avoiding or reducing their liabilities, then it is likely that CNA's liability will also be reduced. Moreover, based on information known at this time, CNA reasonably believes it has strong grounds for avoiding a substantial portion of its United States workers' compensation carve-out exposure through legal action.

As noted, CNA arranged substantial reinsurance protection to manage its exposures under the IGI Program. CNA believes it has valid and enforceable reinsurance contracts with the AAHRU Facility and other reinsurers with respect to the IGI Program, including the United States workers' compensation carve-out business. It is likely that certain reinsurers will dispute their liabilities to CNA; however, CNA is unable to predict the extent of such potential disputes at this time. Legal actions could result, and the resolution of any such actions could take years.

Based on CNA's review of the entire IGI Program, CNA has established reserves for its estimated exposure under the program and an estimate for recoverables from retrocessionaires.

CNA is pursuing a number of loss mitigation strategies. Although the results of these various actions to date support the recorded reserves, the estimate of ultimate losses is subject to considerable uncertainty. As a result of these uncertainties, the results of operations in future years may be adversely affected by potentially significant reserve additions. Management does not believe that any such future reserve additions will be material to the equity of the Company.

Environmental Pollution and Other Mass Tort and Asbestos Reserves

CNA's property-casualty insurance companies have potential exposures related to environmental pollution and other mass tort and asbestos claims.

Environmental pollution cleanup is the subject of both federal and state regulation. By some estimates, there are thousands of potential waste sites subject to cleanup. The insurance industry is involved in extensive litigation regarding coverage issues. Judicial interpretations in many cases have expanded the scope of coverage and liability beyond the original intent of the policies.

The Comprehensive Environmental Response Compensation and Liability Act of 1980 ("Superfund") and comparable state statutes ("mini-Superfunds") govern the cleanup and restoration of toxic waste sites and formalize the concept of legal liability for cleanup and restoration by "Potentially Responsible Parties" ("PRPs"). Superfund and the mini-Superfunds establish mechanisms to pay for cleanup of waste sites if PRPs fail to do so, and to assign liability to PRPs. The extent of liability to be allocated to a PRP is dependent on a variety of factors. Further, the number of waste sites subject to cleanup is unknown. To date, approximately 1,500 cleanup sites have been identified by the Environmental Protection Agency ("EPA") on its National Priorities List ("NPL"). The addition of new cleanup sites to the NPL has slowed in recent years. State authorities have designated many cleanup sites as well.

Many policyholders have made claims against various CNA insurance subsidiaries for defense costs and indemnification in connection with environmental pollution matters. These claims relate to accident years 1989 and prior, which coincides with CNA's adoption of the Simplified Commercial General Liability coverage form, which includes an absolute pollution exclusion. CNA and the insurance industry are disputing coverage for many such claims. Key coverage issues include whether cleanup costs are considered damages under the policies, trigger of coverage, allocation of liability among triggered policies, applicability of pollution exclusions and owned property exclusions, the potential for joint and several liability and the definition of an occurrence. To date, courts have been inconsistent in their rulings on these issues.

A number of proposals to reform Superfund have been made by various parties. However, no reforms were enacted by Congress during 2000, and it is unclear what positions the Congress or the administration will take and what legislation, if any, will result in the future. If there is legislation, and in some circumstances even if there is no legislation, the federal role in environmental cleanup may be significantly reduced in favor of state action. Substantial changes in the federal statute or the activity of the EPA may cause states to reconsider their environmental cleanup statutes and regulations. There can be no meaningful prediction of the pattern of regulation that would result.

Due to the inherent uncertainties described above, including the inconsistency of court decisions, the number of waste sites subject to cleanup, and the standards for cleanup and liability, the ultimate liability of CNA for environmental pollution claims may vary substantially from the amount currently recorded.

The following table provides data related to CNA's environmental pollution and other mass tort and asbestos-related claim and claim adjustment expense reserves.

	March 31, 2001		December 31, 2000	
	Environmental Pollution and Other Mass Tort	Asbestos	Environmental Pollution and Other Mass Tort	Asbestos
Gross reserves	$ 408.0	$ 816.0	$ 493.0	$ 848.0
Less ceded reserves	(132.0)	(206.0)	(146.0)	(245.0)
Net reserves	$ 276.0	$ 610.0	$ 347.0	$ 603.0

As of March 31, 2001 and December 31, 2000, CNA carried approximately

$276.0 and $347.0 of claim and claim expense reserves, net of reinsurance recoverables, for reported and unreported environmental pollution and other mass tort claims. Unfavorable environmental pollution and other mass tort net claim and claim adjustment expense reserve development for the three months ended March 31, 2001 amounted to $3.0. There was no environmental pollution and other mass tort net claim and claim adjustment expense reserve development for the three months ended March 31, 2000.

CNA's property-casualty insurance subsidiaries also have exposure to asbestos claims. Estimation of asbestos claim and claim adjustment expense reserves involves many of the same limitations discussed above for environmental pollution claims, such as inconsistency of court decisions, specific policy provisions, allocation of liability among insurers, missing policies and proof of coverage. CNA continues to see a rise in asbestos-related claims volume and believes that this phenomenon is driven by factors such as intensive advertising campaigns by plaintiff lawyers and the emergence of new defendants such as distributors of asbestos containing products.

As of March 31, 2001 and December 31, 2000, CNA carried approximately $610.0 and $603.0 of net claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported asbestos-related claims. Unfavorable asbestos net claim and claim adjustment expense reserve development for the three months ended March 31, 2001 and 2000 amounted to $21.0 and $27.0.

The results of operations in future years may continue to be adversely affected by environmental pollution and other mass tort and asbestos net claim and claim adjustment expenses. Management will continue to monitor these liabilities and make further adjustments as warranted.

NON-INSURANCE

TOBACCO RELATED

Lawsuits continue to be filed with increasing frequency against Lorillard and other manufacturers of tobacco products. Approximately 4,875 product liability cases are pending against cigarette manufacturers in the United States. Of these, approximately 1,225 cases are pending in a West Virginia court and approximately 3,040 cases are brought by flight attendants alleging injury from exposure to environmental tobacco smoke in the cabins of aircraft. Lorillard is a defendant in all of the flight

attendant suits served to date and is a defendant in most of the cases pending in West Virginia.

Excluding the flight attendant and West Virginia suits, approximately 575 product liability cases are pending against U.S. cigarette manufacturers. Of these 575 cases, Lorillard is a defendant in approximately 260. The Company is a defendant in approximately 65 actions, although it has not received service of process of approximately 35 of them.

Tobacco litigation includes various types of claims. In these actions, plaintiffs claim substantial compensatory, statutory and punitive damages, as well as equitable and injunctive relief, in amounts ranging into the billions of dollars. These claims are based on a number of legal theories including, among other things, theories of negligence, fraud, misrepresentation, strict liability, breach of warranty, enterprise liability, civil conspiracy, intentional infliction of harm, violation of consumer protection statutes, violation of anti-trust statutes, and failure to warn of the allegedly harmful and/or addictive nature of tobacco products.

Some cases have been brought by individual plaintiffs who allege cancer and/or other health effects claimed to have resulted from an individual's use of cigarettes and/or smokeless tobacco products, addiction to smoking, or exposure to environmental tobacco smoke ("Conventional Product Liability Cases"). Approximately 4,350 such actions are pending against Lorillard, including most of the cases filed in West Virginia and each of the pending flight attendant cases. In other cases, plaintiffs have brought claims as purported class actions on behalf of large numbers of individuals for damages allegedly caused by smoking ("Class Actions"). Approximately 30 such cases are pending against Lorillard. In other cases, plaintiffs are governmental entities or entities such as labor unions, private companies, hospitals or hospital districts, Indian Tribes, or private citizens suing on behalf of taxpayers. Plaintiffs in these cases seek reimbursement of health care costs allegedly incurred as a result of smoking, as well as other alleged damages ("Reimbursement Cases").

Approximately 50 such cases are pending, including suits brought by the U.S. federal government and the governments of several foreign nations or states of foreign nations. In addition, there are claims for contribution and/or indemnity in relation to asbestos claims filed by asbestos manufacturers or the insurers of asbestos manufacturers ("Claims for Contribution"). Approximately 25 such actions are pending. Lorillard is named as a defendant in each of the pending actions, although it has received service of process of only ten of the pending suits as of May 1, 2001.

In addition to the above, claims have been brought against Lorillard seeking damages resulting from alleged exposure to asbestos fibers which were incorporated, for a limited period of time, ending more than forty years ago, into filter material used in one brand of cigarettes manufactured by Lorillard ("Filter Cases"); approximately 20 such actions are pending.

SETTLEMENT OF STATE REIMBURSEMENT LITIGATION - On November 23, 1998, Lorillard, Philip Morris Incorporated, Brown & Williamson Tobacco Corporation and R.J. Reynolds Tobacco Company (the "Original Participating Manufacturers") entered into a Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, the Commonwealth of Puerto Rico, Guam, the U.S. Virgin Islands, American Samoa and the Commonwealth of the

Northern Mariana Islands (collectively, the "Settling States") to settle the asserted and unasserted health care cost recovery and certain other claims of those states. The Original Participating Manufacturers had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota (together with the Master Settlement Agreement (the "State Settlement Agreements").

The State Settlement Agreements provide that it is not an admission or concession or evidence of any liability or wrongdoing on the part of any party, and was entered into by the Original Participating Manufacturers to avoid the further expense, inconvenience, burden and uncertainty of litigation.

Lorillard recorded pre-tax charges of $279.2 and $260.1 for the three months ended March 31, 2001 and 2000, respectively, to account for its obligations under the State Settlement Agreements. Lorillard's portion of ongoing adjusted payments and legal fees is based on its share of domestic cigarette shipments in the year preceding that in which the payment is due. Accordingly, Lorillard records its portions of ongoing settlement payments as part of cost of manufactured products sold as the related sales occur.

The State Settlement Agreements require that the domestic tobacco industry make annual payments in the following amounts, subject to adjustment for several factors, including inflation, market share and industry volume: 2001, $9,900.0; 2002, $11,300.0; 2003, $10,900.0; 2004 through 2007, $8,400.0; and thereafter, $9,400.0. In addition, the domestic tobacco industry is required to pay settling plaintiffs' attorneys' fees, subject to an annual cap of $500.0, as well as additional amounts of $250.0 per annum for 2001 through 2003. These payment obligations are the several and not joint obligations of each settling defendant.

The State Settlement Agreements also include provisions relating to significant advertising and marketing restrictions, public disclosure of certain industry documents, limitations on challenges to tobacco control and underage use laws, and other provisions.

The Original Participating Manufacturers have also, as part of the Master Settlement Agreement, committed to work cooperatively with the tobacco grower community to address concerns about the potential adverse economic impact on that community. On January 21, 1999, the Original Participating Manufacturers reached an agreement in principle to establish a $5,150.0 trust fund payable over 12 years to compensate the tobacco growing communities in 11 states. Payments to the trust fund are to be allocated among the Original Participating Manufacturers according to their relative market share of domestic cigarette shipments, except that Philip Morris will pay more than its market share in the first year of the agreement but will have its payment obligations reduced in years 11 and 12 to make up for the overpayment. Lorillard's payments under the agreement will total approximately $515.0. All payments will be adjusted for inflation, changes in the unit volume of domestic cigarette shipments, and for the effect of any new increases in state or federal excise taxes on tobacco products which benefits the growing community.

The Company believes that the State Settlement Agreements will materially adversely affect its cash flows and operating income in future years. The degree of the adverse impact will depend, among other things, on the rates of decline in United States cigarette sales in the full price

and discount segments, Lorillard's share of the domestic full price and discount cigarette segments, and the effect of any resulting cost advantage of manufacturers not subject to payments under the State Settlement Agreements. Almost all domestic manufacturers have agreed to become subject to the terms of the Master Settlement Agreement.

CONVENTIONAL PRODUCT LIABILITY CASES - There are approximately 4,725 cases pending against manufacturers of tobacco products in United States federal and state courts in which individuals allege they or their decedents have been injured due to smoking cigarettes, due to exposure to environmental tobacco smoke, due to use of smokeless tobacco products, or due to nicotine dependence. Approximately 1,225 of these are individual cases pending in West Virginia. Approximately 3,040 of these cases have been filed by flight attendants purportedly injured by their exposure to environmental tobacco smoke in the aircraft cabin. Lorillard is a defendant in approximately 4,350 of these cases, including most of the cases pending in West Virginia, as well as all of the pending flight attendant cases. The Company is a defendant in fifteen of the cases filed by individuals, although nine of them have not been served on the Company. The Company is not a defendant in any of the flight attendant cases or in any of the conventional cases pending in West Virginia.

Plaintiffs in most of these cases seek unspecified amounts in compensatory and punitive damages. Plaintiffs in the flight attendant cases may not seek punitive damages as to injuries that arose prior to January 15, 1997. Plaintiffs in most of the West Virginia suits seek unspecified amounts of actual damages and punitive damages.

On April 5, 2001, a jury in the Circuit Court, Eleventh Judicial Circuit, Dade County, Florida returned a verdict in favor of Lorillard and the other defendants in the case of Fontana v. Philip Morris Incorporated, et al. Plaintiff alleged injury as a result of her exposure to environmental tobacco smoke in the cabin of aircraft in which she was employed as a flight attendant. Plaintiff has filed a motion for ruling on her reserved motions for mis-trial and a motion for new trial. Plaintiff also has filed a motion for judgment notwithstanding the verdict as to her damages claim.

Since January 1, 1999, a total of 14 trials have been held involving 17 cases filed by individual plaintiffs. Lorillard was a defendant in four of the cases. The Company was not a defendant in any of the cases tried to date since January 1, 1999. Juries returned verdicts in favor of the defendants in the four cases tried against Lorillard. In the 14 remaining cases, verdicts were returned in favor of the defendants in 10 of the matters. Juries found in plaintiffs' favor in the remaining four cases. In these four verdicts, juries awarded plaintiffs a total of $153.2 in actual damages and punitive damages. One of the four verdicts was vacated when the trial court granted defendant's motion for new trial. Plaintiff in that action had been awarded $.2 in actual damages. In two of the four cases, the courts have reduced the verdicts to $26.5 (from $51.5) and $32.8 (from $80.3), respectively. In the fourth case, the jury awarded plaintiffs $21.2. Appeals are pending in each of these actions. To date during 2001, juries have returned verdicts in favor of the defendants in four cases. Lorillard was a defendant in two of the matters. As of May 1, 2001, trial was proceeding in two cases in which neither the Company nor Lorillard were defendants. Several additional cases are scheduled for trial during 2001 against U.S. cigarette manufacturers and manufacturers of smokeless tobacco products. Lorillard is a defendant in some of these actions. As of May 1, 2001, trial dates were pending in approximately 20

of the cases filed by flight attendants. In addition, trial has been scheduled to begin during March 2002 in the cases brought by approximately 1,225 West Virginia smokers or users of smokeless tobacco products. These cases are presently scheduled to be tried pursuant to a multi-part trial plan.

During 2001, another cigarette manufacturer, Brown & Williamson Tobacco Corporation, paid $1.1 in damages and interest to a former smoker and his spouse for injuries they allegedly incurred as a result of smoking. Carter v. Brown & Williamson Tobacco Corporation (Circuit Court, Duval County, Florida, filed February 10, 1995). In a 1996 trial, the jury awarded plaintiffs a total of $.8 in actual damages at trial. Plaintiffs did not seek punitive damages. In a 1998 decision, the Florida Court of Appeal reversed the judgment, holding that plaintiffs' claims were barred by the statute of limitations. The Florida Supreme Court, however, reinstated the jury's damages award during 2000 and denied Brown & Williamson's motion for rehearing during 2001. Brown & Williamson has filed a petition for writ of certiorari with the U.S. Supreme Court from this case. Lorillard was not a defendant in this matter.

The California Supreme Court is reviewing decisions by the California Court of Appeals as to whether amendments to a California statute bars claims against cigarette manufacturers if the claims accrued between 1988 and 1998. Several cases against cigarette manufacturers, including Lorillard, have been dismissed based on application of the statute in question.

CLASS ACTIONS - There are approximately 50 purported class actions pending against cigarette manufacturers and other defendants. Lorillard is a defendant in approximately 30 of the approximately 50 cases seeking class certification. The Company is a defendant in seven of the purported class actions, although it has not received service of one of them. Lorillard also is a defendant in each of these seven actions. Two additional cases naming both the Company and Lorillard as defendants have not been served on any of the parties. Many of the purported class actions are in the pre-trial, discovery stage. Most of the suits seek class certification on behalf of residents of the states in which the cases have been filed, although some suits seek class certification on behalf of residents of multiple states. Plaintiffs in the purported class actions seek class certification on behalf of individuals who smoked cigarettes or were exposed to environmental tobacco smoke.

Various courts have ruled on motions for class certification in smoking and health-related cases. In twelve state court cases, which were pending in five states and the District of Columbia, courts have denied plaintiffs' class certification motions. In another thirteen cases, cigarette manufacturers have defeated motions for class certification before either federal trial courts or courts of appeal from cases pending in eleven states and the Commonwealth of Puerto Rico. The denial of class certification in a New York federal court case, however, was due to the court's interest in preserving judicial resources for a potentially broader class certification ruling in In re Simon (II) Litigation, discussed below. In six cases in which Lorillard is a defendant, plaintiffs' motions for class certification have been granted and appeals either have been rejected at the interlocutory stage, appeals have not yet been considered, or the plaintiffs' claims were resolved through a settlement agreement. These six cases are Broin (which was the matter concluded by the settlement agreement), Engle, Scott, Blankenship, Daniels and Brown.

Theories of liability asserted in the purported class actions include a broad range of product liability theories, including those based on consumer protection statutes and fraud and misrepresentation. Plaintiffs seek damages in each case that range from unspecified amounts to the billions of dollars. Most plaintiffs seek punitive damages and some seek treble damages. Plaintiffs in many of the cases seek medical monitoring. Plaintiffs in several of the purported class actions are represented by a well-funded and coordinated consortium of approximately 60 law firms from throughout the United States.

Trial began during July 1998 in the case of Engle v. R.J. Reynolds Tobacco Co., et al. (Circuit Court, Dade County, Florida, filed May 5, 1994). The trial court, as amended by the Florida Court of Appeal, granted class certification on behalf of Florida residents and citizens, and survivors of such individuals, who have suffered injury or have died from medical conditions allegedly caused by their addiction to cigarettes containing nicotine.

The case is being tried in three phases. The first phase involved consideration of certain issues claimed to be "common" to the members of the class and their asserted causes of action.

On July 7, 1999, the jury returned a verdict against defendants at the conclusion of the first phase. The jury found, among other things, that cigarette smoking is addictive and causes lung cancer and a variety of other diseases, that the defendants concealed information about the health risks of smoking, and that defendants' conduct "rose to a level that would permit a potential award or entitlement to punitive damages." The verdict permitted the trial to proceed to a second phase. The jury was not asked to award damages in the Phase One verdict.

By order dated July 30, 1999 and supplemented on August 2, 1999 (together, the "order"), the trial judge amended the trial plan in respect to the manner of determining punitive damages. The order provided that the jury will determine punitive damages, if any, on a lump-sum dollar amount basis for the entire qualified class. The Third District of the Florida Court of Appeal rejected as premature defendants' appeals from these rulings, and the Florida Supreme Court declined to review the orders at this time.

The first portion of Phase Two of the trial began on November 1, 1999 before the same jury that returned the verdict in Phase One. In the first part of Phase Two, the jury determined issues of specific causation, reliance, affirmative defenses, and other individual-specific issues related to the claims of three named plaintiffs and their entitlement to damages, if any.

On April 7, 2000, the jury found in favor of the three plaintiffs and awarded them a total of $12.5 in economic damages, pain and suffering damages and damages for loss of consortium. After awarding damages to one of the three plaintiffs, the jury appeared to find that his claims were barred by the statute of limitations. The purported final judgment entered by the trial court on November 6, 2000 reflected the damages award, and held only a portion of this plaintiff's claims were barred by the statute of limitations.

The second part of Phase Two of the trial began on May 22, 2000 and was heard by the same jury that heard the trial's prior phases. The second part of the trial's Phase Two considered evidence as to the punitive

damages to be awarded to the class. On July 14, 2000, the jury awarded a total of $145,000.0 in punitive damages against all defendants, including $16,250.0 against Lorillard.

On November 6, 2000, the Circuit Court of Dade County, Florida, entered a purported final judgment in favor of the plaintiffs that reflects the jury's three verdicts in favor of the plaintiffs. The court's purported final judgment also denied various of defendants' post-trial motions, which included a motion for new trial and a motion seeking reduction of the punitive damages award. Lorillard has noticed an appeal from the purported final judgment to the Third District of the Florida Court of Appeal and has posted its appellate bond in the amount of $104.0 pursuant to recent Florida legislation limiting the amount of an appellate bond required to be posted in order to stay execution of a judgment for punitive damages in a certified class action. Although this legislation is intended to apply to the Engle case, Lorillard cannot predict the outcome of any challenges to the possible application or constitutionality of this legislation. In the event this legislation is challenged and found to be invalid, Lorillard could be required to post a bond in an amount not capable of being bonded, resulting in execution of the judgment before it could be set aside on appeal. Lorillard believes that such a result would be unconstitutional and would also violate Florida law. Lorillard intends to take all appropriate steps to seek to prevent this scenario from occurring and believes these efforts should be successful.

Now that the jury has awarded punitive damages and a purported final judgment has been entered, it is unclear how the August 2, 1999 order will be implemented. The August 2, 1999 order provides that the lump-sum punitive damage amount, if any, will be allocated equally to each class member and acknowledges that the actual size of the class will not be known until the last case has withstood appeal, i.e., the punitive damage amount, if any, determined for the entire qualified class, would be divided equally among those plaintiffs who are ultimately successful. The order does not address whether defendants would be required to pay the punitive damage award, if any, prior to a determination of claims of all class members, which is Phase Three of the trial plan, a process that could take years to conclude. The purported final judgment entered by the court on November 6, 2000 directs that the amounts awarded by the jury are to be paid immediately. Phase Three would address potentially hundreds of thousands of other class members' claims, including issues of specific causation, reliance, affirmative defenses and other individual-specific issues regarding entitlement to damages, in individual trials before separate juries.

Lorillard remains of the view that the Engle case should not have been certified as a class action. That certification is inconsistent with the overwhelming majority of federal and state court decisions which have held that mass smoking and health claims are inappropriate for class treatment. Lorillard has challenged the class certification, as well as other numerous legal errors that it believes occurred during the trial. The

Company and Lorillard believe that an appeal of these issues on the merits should prevail.

Trial began during January 2001 in the case of Blankenship v. R.J. Reynolds Tobacco Company, et al. (Circuit Court, Ohio County, West Virginia) but a mistrial was declared while plaintiffs were presenting their evidence. Retrial has been scheduled to begin on September 5, 2001. Shortly before trial began, the court granted class certification on behalf of West Virginia residents who desire to participate in a medical

monitoring plan. The West Virginia Supreme Court declined to review defendants' writ from the class certification ruling. Lorillard is a defendant in the action. The case is to be tried under a multi-part trial plan.

Trial is scheduled to begin during June 2001 in the case of Scott v. The American Tobacco Company, et al. (District Court, Orleans Parish, Louisiana). The trial court has certified a class for purposes of medical monitoring and smoking cessation claims comprised of residents of the State of Louisiana who desire to participate in medical monitoring or smoking cessation programs and who began smoking prior to September 1, 1988, or who allege that defendants undermined compliance with the warnings on cigarette packages. The case is scheduled to be tried under a three-part trial plan. Lorillard is a defendant in the suit. Defendants have filed a writ application with the Louisiana Supreme Court for review of the trial plan and for decertification of the class.

During December 2000, the Superior Court of San Diego County, California issued an order in the case of Daniels v. Philip Morris, Incorporated, et al. that granted plaintiffs' motion for class certification on behalf of California residents who, while minors, smoked at least one cigarette between April 1994 and December 31, 1999. Defendants have filed a petition for writ of prohibition from the class certification ruling with the California Supreme Court. Trial in this matter is scheduled to begin during March 2002, although the parties have agreed to a continuance until May 2002. Lorillard is a defendant in this action.

During April 2001, the Superior Court of San Diego County, California issued an oral ruling in the case of Brown v. The American Tobacco Company, Inc., et al., in which it granted in part plaintiff's motion for class certification and certified a class comprised of residents of California who smoked at least one of defendants' cigarettes during the "applicable" class period and who were exposed to defendants' marketing and advertising activities in California. Certification was granted as to plaintiff's claims that defendants violated California Business and Professions Code Sections 17200 and 17500. The court denied the motion for class certification as to plaintiff's claims under the California Legal Remedies Act. The court has postponed entering a final ruling on the class certification in order to receive briefs with respect to the time frame encompassed by "the applicable class period." The court is scheduled to issue its ruling during July 2001.

On October 10, 1997, the parties to Broin v. Philip Morris Companies, Inc., et al. (Circuit Court, Dade County, Florida, October 31, 1991), a class action brought on behalf of flight attendants claiming injury as a result of exposure to environmental tobacco smoke, executed a settlement agreement which was approved by the trial court on February 3, 1998. Pursuant to the settlement agreement, among other things, Lorillard and three other U.S. cigarette manufacturers paid approximately $300.0 to create and endow a research institute to study diseases associated with cigarette smoke. In addition, the settlement agreement permits the plaintiff class members to file individual suits, but these individuals may not seek punitive damages for injuries that arose prior to January 15, 1997. As of May 1, 2001, approximately 3,040 such cases were pending against Lorillard and three other U.S. cigarette manufacturers before the Circuit Court of Dade County, Florida. The time for virtually all class members to file suits pursuant to the settlement agreement has expired.

During October 2000, the Circuit Court of Dade County, Florida entered an order that may be construed to hold that the flight attendants are not required to prove the substantive liability elements of their claims for negligence, strict liability and breach of implied warranty in order to recover damages. The court further ruled that the trials of these suits are to address whether the plaintiffs' alleged injuries were caused by their exposure to environmental tobacco smoke and, if so, the amount of damages to be awarded. It is not clear how the trial judges will apply this order. Defendants have noticed an appeal from the October 2000 order to the Third District of the Florida Court of Appeal. As of May 1, 2001, one of the flight attendant cases has been tried. On April 5, 2001 a jury in the Circuit Court, Eleventh Judicial Circuit, Dade County, Florida returned a verdict in favor of Lorillard and the other defendants in the case of Fontana v. Philip Morris Incorporated, et al. Plaintiff has filed post-trial motions that contests the verdict. As of May 1, 2001, approximately 20 additional flight attendant cases were scheduled for trial during 2001.

REIMBURSEMENT CASES - In addition to the cases settled by State Settlement Agreements described above, approximately 50 other suits are pending, comprised of cases brought by the U.S. federal government, county governments, city governments, unions, Indian tribes, hospitals or hospital districts, private companies and foreign governments filing suit in U.S. courts, in which plaintiffs seek recovery of funds allegedly expended by them to provide health care to individuals with injuries or other health effects allegedly caused by use of tobacco products or exposure to cigarette smoke. These cases are based on, among other things, equitable claims, including injunctive relief, indemnity, restitution, unjust enrichment and public nuisance, and claims based on antitrust laws and state consumer protection acts. Plaintiffs seek damages in each case that range from unspecified amounts to the billions of dollars. Most plaintiffs seek punitive damages and some seek treble damages. Plaintiffs in many of the cases seek medical monitoring. Lorillard is named as a defendant in most such actions. The Company is named as a defendant in 21 of the pending reimbursement cases, although it has not received service of five of these matters.

U.S. Federal Government Action - The federal government of the United States filed a reimbursement suit on September 22, 1999 in the United States District Court for the District of Columbia against Lorillard, other U.S. cigarette manufacturers, some parent companies and two trade associations. The Company is not a defendant in this action. Plaintiff asserts claims under the Medical Care Recovery Act, the Medicare Secondary Payer provisions of the Social Security Act, and the Racketeer Influenced and Corrupt Organizations Act. The government alleges in the complaint that it has incurred costs of more than $20,000.0 annually in providing health care costs under certain federal programs, including Medicare, military and veterans' benefits programs, and the Federal Employee Health Benefits Program. The federal government seeks to recover an unspecified amount of health care costs, and various types of declaratory relief, including disgorgement of profits, injunctive relief and declaratory relief that defendants are liable for the government's future costs of providing health care resulting from the defendants' alleged wrongful conduct.

During September 2000, the court granted in part and denied in part defendants' motion to dismiss the complaint. The court dismissed plaintiff's claims asserted under the Medical Care Recovery Act as well as those under Medicare as Secondary Payer Act. The court denied the motion

as to plaintiff's claims under the Racketeering Influenced and Corrupt Organizations Act. Plaintiff is seeking modification of the trial court's order as it relates to the dismissal of the Medical Care Recovery Act claim. In an amended complaint filed during February 2001, plaintiff attempted to plead with greater specificity the claims dismissed by the court in the September 2000 ruling. In addition, the Cherokee Nation Tribe has filed a motion for intervention and a proposed complaint in intervention on behalf of a purported nationwide class of Indian tribes. The court has not ruled on the motions.

Reimbursement Cases filed by Foreign Governments in U.S. Courts - Cases have been brought in U.S. courts by the nations of Belize, Bolivia, Ecuador, Guatemala, Honduras, Kyrgyz, Nicaragua, Panama, the Russian Federation, Tajikistan, Thailand, Ukraine and Venezuela, as well as by the Brazilian States of Espirito Santo, Goias, Mato Grosso do Sul, Piaui, Rio de Janeiro, Sao Paolo and Tocantins, and the Canadian Province of Ontario. Both the Company and Lorillard have been named as defendants in the cases filed by Belize, Bolivia, Ecuador, Honduras, Kyrgyz, the Russian Federation, Tajikistan, Ukraine and Venezuela, the seven Brazilian states and the Province of Ontario, Canada. The Company has not received service of process of the case filed by Honduras, Venezuela or the State of Sao Paolo, Brazil. The suits filed by Ecuador, Kyrgyz, Thailand have been voluntarily dismissed by the plaintiffs. The cases filed by Guatemala, Nicaragua, Ukraine and the Province of Ontario, Canada are pending on appeal following the entry of orders granting defendants' motions to dismiss the complaints. Each of the remaining cases is in the pre-trial, discovery stage.

In 1977, Lorillard sold its major trademarks outside of the United States and the international sales business in cigarettes associated with those brands. Performance by Lorillard of obligations under the 1977 agreement was guaranteed by the Company. Lorillard and the Company have received notice from Brown & Williamson Tobacco Corporation, which claims to be a successor to the purchaser, that indemnity will be sought under certain indemnification provisions of the 1977 agreement with respect to suits brought by various of the foregoing foreign jurisdictions, and in certain cases brought in foreign countries by individuals concerning periods prior to June 1977 and during portions of 1978.

Reimbursement Cases by Indian Tribes - Indian Tribes are the plaintiffs in six pending reimbursement suits. Most of these cases have been filed in tribal courts. Lorillard is a defendant in each of the cases. The Company is not named as a defendant in any of the pending tribal cases. Each of the pending cases is in the pre-trial, discovery stage.

Reimbursement Cases By Private Companies and Health Plans or Hospitals and Hospital Districts - Three cases are pending against cigarette manufacturers in which the plaintiffs are private companies, including not-for-profit insurance companies. Lorillard is a defendant in each of the pending cases. The Company has not been named as a defendant in any of the pending private company cases. Trial is proceeding in one of the suits, the case of Blue Cross and Blue Shield of New Jersey, which is pending in the U.S. District Court for the Eastern District of New York. One of the cases was filed in New York by eight German insurance companies. In addition, two suits filed by hospitals or hospital districts are pending. One of the cases is brought on behalf of approximately 175 hospitals operating in the state of New York. Lorillard is named as a defendant in both of the pending hospital or hospital district cases. The

Company is not named as a defendant in either of the pending hospital or hospital district cases.

Reimbursement Cases By Labor Unions - Approximately 20 reimbursement suits are pending in various federal or state courts in which the plaintiffs are labor unions, their trustees or their trust funds. Lorillard is a defendant in each of these suits. The Company is a defendant in two of the pending suits. Thirteen of the approximately 20 cases are on appeal from final judgments entered in defendants' favor by the trial courts. Ten of the thirteen cases on appeal are from a single ruling in favor of the defendants by a single New York state court. The remaining three cases on appeal are from rulings in defendants' favor by state courts in California, Michigan and the District of Columbia. Approximately 60 union cases have been dismissed in recent years. Some of these cases were dismissed voluntarily, while others were dismissed as a result of defendants' dispositive motions. Appeals were sought from some of these dismissal rulings and defendants have prevailed in each of these appeals to date. The Second, Third, Fifth, Seventh, Eighth, Ninth and Eleventh Circuit Courts of Appeal have found in favor of the defendants in each of the appeals from dismissal orders entered by the federal trial courts that were submitted to them, and the U.S. Supreme Court has denied petitions for writ of certiorari that sought review of some of these decisions. Several cases pending in state courts also have been dismissed. Each of the cases pending before trial courts is in the pre-trial, discovery stage.

Eastern District of New York Litigation - On April 18, 2000, a federal judge in the Eastern District of New York issued an order that consolidates, for settlement purposes only, ten pending cases involving Lorillard as well as other industry defendants. These cases include three contribution cases (Falise v. The American Tobacco Company, et al., H.K. Porter Company, Inc. v. The American Tobacco Company, Inc., et al. and Raymark Industries, Inc. v. The American Tobacco Company, Inc., et al.), two union cases (Bergeron, et al. v. Philip Morris, Inc., et al. and The National Asbestos Workers Medical Fund, et al. v. Philip Morris Incorporated, et al.), one private company case (Blue Cross and Blue Shield of New Jersey, Inc., et al. v. Philip Morris, Incorporated, et al.), two smoking and health class actions that have been served on defendants (Decie v. The American Tobacco Company, Inc., et al. and Simon v. Philip Morris Incorporated, et al.), one smoking and health class action in which none of the defendants have received service of process (Ebert v. Philip Morris, Incorporated, et al.) and one case that contains elements of both a smoking and health class action and a private citizen reimbursement case (Mason v. The American Tobacco Company, Inc., et al.). The judge's order directed the parties to select a mediator or special master in order to facilitate settlement discussions and also invited the federal government to join in the settlement discussions. On July 31, 2000, the federal judge orally proposed the formation of a national punitive damages class action for the purposes of settlement. Pursuant to the judge's proposal, Lorillard entered into discussions with a committee of counsel representing a broad-based group of plaintiffs in an effort to arrive at a comprehensive settlement of all exemplary and punitive damage claims, including claims involved in the Engle class action in Florida described above. The parties have been unable to reach an understanding and the negotiations have been suspended.

The federal judge directed that a combined suit be filed encompassing all of the claims pending before him that name cigarette manufacturers as defendants, the case of In re Simon (II) Litigation (U.S. District Court,

Eastern District, New York, filed September 6, 2000). The Company is a defendant in this proceeding. During March 2001, the court heard argument of plaintiffs' motion for class certification, plaintiffs' motion for appointment of class counsel, and defendants' motion to dismiss the complaint. In a November 2000 ruling, the court stated that "Simon II should be triable without appreciable delay should it be certified." To date, a trial date has not been set in this matter.

To date during 2001, a trial was held in one of the contribution cases, Falise. However, as noted below a mistrial was declared due to the inability of the jury to reach a verdict. The court has not scheduled re-trial of this matter. As of May 1, 2001, trial was proceeding in the private company case, Blue Cross and Blue Shield of New Jersey. Several Blue Cross and Blue Shield plans are plaintiffs in this action, but the proceeding trial is addressing the claims of only one of them, Empire Blue Cross and Blue Shield.

CONTRIBUTION CLAIMS - In addition to the foregoing cases, 23 cases are pending in which private companies seek recovery of funds expended by them to individuals whose asbestos disease or illness was alleged to have been caused in whole or in part by smoking-related illnesses. Lorillard is named as a defendant in each action, although it has not received service of process of thirteen of them. The Company is named as a defendant in 17 of the cases but has not received service of process of 13 of them. Fourteen of the 23 cases have been filed since December 1, 2000, including five initiated since April 1, 2001. During January of 2001, a mistrial was declared during jury deliberations in the case of Falise, et al. v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, New York), which was filed by the Trustees of the Johns Manville Trust. To date, retrial of this case has not been scheduled. Two other cases are set for trial during 2001. Trial in the case of Owens Corning v. R.J. Reynolds Tobacco Company, et al., pending in the Circuit Court of Jefferson County, Mississippi, is scheduled to begin during June 2001. Trial in the case of Fibreboard Corporation and Owens Corning v. R.J. Reynolds Tobacco Company, et al., pending in the Superior Court of Alameda County, California, is scheduled to begin during July 2001. The remaining cases are in the pre-trial, discovery stage.

FILTER CASES - A number of cases have been filed against Lorillard seeking damages for cancer and other health effects claimed to have resulted from exposure to asbestos fibers which were incorporated, for a limited period of time, ending more than forty years ago, into the filter material used in one of the brands of cigarettes manufactured by Lorillard. Approximately 20 such cases are pending in federal and state courts against Lorillard. The Company is not a defendant in any of the pending actions. Allegations of liability include negligence, strict liability, fraud, misrepresentation and breach of warranty. Plaintiffs in most of these cases seek unspecified amounts in compensatory and punitive damages. Trials have been held in fifteen such cases. Five such trials have been held since 1999. Juries have returned verdicts in favor of Lorillard in 11 of the 15 trials. Four verdicts have been returned in plaintiffs' favor, including in one of the two cases tried during 1999 and in one of the three cases tried during 2000. In the 1999 trial in which a jury found in favor of the plaintiffs, plaintiffs were awarded $2.2 in actual damages. In the one trial in 2000 in which the jury found in plaintiffs' favor, the jury awarded plaintiffs $1.1 in actual damages and the case was settled prior to a determination of punitive damages.

TOBACCO-RELATED ANTITRUST CASES - Wholesalers and Direct Purchasers Suits - Lorillard and other domestic and international cigarette manufacturers and their parent companies, including the Company, were named as defendants in nine separate federal court actions brought by tobacco product wholesalers for violations of U.S. antitrust laws and international law. The complaints allege that defendants conspired to fix the price of cigarettes to wholesalers since 1988 in violation of the

Sherman Act. These actions seek certification of a class including all domestic and international wholesalers similarly affected by such alleged conduct, and damages, injunctive relief and attorneys' fees. These actions were consolidated for pre-trial purposes in the U.S. District Court for the Northern District of Georgia. The Court has granted class certification for a four-year class (beginning in 1996 and ending in 2000) of domestic direct purchasers. The Company has been voluntarily dismissed without prejudice from all direct purchaser cases.

Indirect Purchaser Suits - Approximately 30 suits are pending in various state courts alleging violations of state antitrust laws which permit indirect purchasers, such as retailers and consumers, to sue under price fixing or consumer fraud statutes. Approximately 18 states permit such suits. Lorillard is a defendant in each of these indirect purchaser cases. One indirect purchaser suit, in Arizona, has been dismissed in its entirety. The Company was also named as a defendant in most of these indirect purchaser cases but has been voluntarily dismissed without prejudice from all of them.

Tobacco Growers Suit - DeLoach v. Philip Morris Inc., et al. (U.S. District Court, Middle District of North Carolina, filed February 16, 2000). Lorillard is named as a defendant in a lawsuit that, after several amendments, alleges only antitrust violations. The other major domestic tobacco companies are also presently named as defendants, and the plaintiffs have now added the major leaf buyers as defendants. This case was originally filed in U.S. District Court, District of Columbia, and transferred to a North Carolina federal court upon motion by the defendants. Plaintiffs seek certification of a class including all tobacco growers and quota holders (the licenses that a farmer must either own or rent to sell the crop), who sold tobacco or held quota under the federal tobacco leaf price support program since February 1996. The plaintiffs' claims relate to the conduct of the companies in the purchase of tobacco through the auction system under the federal program. The suit seeks an unspecified amount of actual damages, trebled under the antitrust laws, and injunctive relief.

* * * *

While Lorillard intends to defend vigorously all litigation which may be brought against it, it is not possible to predict the outcome of any of this litigation. Litigation is subject to many uncertainties. An unfavorable verdict has been returned and judgment has been entered against Lorillard in the Engle case, described above, and it is possible that additional cases could be decided unfavorably to Lorillard.

In addition, adverse developments in relation to smoking and health, including the release in 1998 of industry documents, have received widespread media attention. These developments may reflect adversely on the tobacco industry and, together with possible adverse outcomes in pending cases, could have adverse effects on the ability of Lorillard and other cigarette manufacturers to prevail in smoking and health litigation and could prompt the filing of additional litigation.

Lorillard believes that it has valid defenses to the cases pending against it as well as valid bases for appeal of the adverse verdict against it and Lorillard will continue to maintain a vigorous defense in all such litigation. Lorillard may enter into discussions in an attempt to settle particular cases if it believes it is appropriate to do so.

Except for the impact of the State Settlement Agreements as described above, management is unable to make a meaningful estimate of the amount or range of loss that could result from an unfavorable outcome of pending litigation. It is possible that the Company's results of operations or cash flows in a particular quarterly or annual period or its financial position could be materially adversely affected by an unfavorable outcome of certain pending litigation.

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

10. In the opinion of Management, the accompanying consolidated condensed financial statements reflect all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of March 31, 2001 and December 31, 2000 and the results of operations and changes in cash flows for the three months ended March 31, 2001 and 2000.

Results of operations for the first three months of each of the years is not necessarily indicative of results of operations for that entire year.

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

OVERVIEW

Loews Corporation reported net income for the 2001 first quarter of $472.3 million or $2.40 per share compared to $183.6 million or $.90 per share in the 2000 first quarter. Net income in the first quarter of 2001 includes net investment gains of $228.7 million or $1.16 per share compared to net investment losses of $94.5 million or $.47 per share in the comparable period of the prior year. Net income in the first quarter of 2001 also includes a charge for accounting changes of $53.3 million or $.27 per share, related to accounting for derivative instruments at the CNA subsidiary.

Net operating income, which excludes net investment gains and losses and accounting changes, for the quarter ended March 31, 2001 was $296.9 million or $1.51 per share compared to $278.1 million or $1.37 per share in 2000.

Gross revenues amounted to $5.1 billion in the first quarter of 2001, compared to $4.7 billion in the comparable period of the prior year.

At March 31, 2001, the Company had a book value of $59.79 per share compared to a book value of $56.74 per share at December 31, 2000.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

CNA Financial

Insurance operations are conducted by subsidiaries of CNA Financial Corporation ("CNA"). CNA is an 87% owned subsidiary of the Company.

Property and Casualty

The property and casualty segment is comprised of the following operating units of CNA: Agency Market Operations, Risk Management, Specialty Operations, Global Operations and Reinsurance Operations.

Net earned premiums for the property-casualty segment decreased $208.0 million, or 12.3%, to $1,478.0 million for the first three months of 2001 compared with the same period in 2000. This decline was comprised of decreases in Agency Market Operations of $102.0 million, Specialty Operations of $18.0 million, Risk Management of $15.0 million and Reinsurance Operations of $84.0 million. These decreases were partially offset by an increase in net earned premiums for Global Operations of $11.0 million.

The decrease in net earned premiums of Agency Market Operations was partially due to the continued effort to re-underwrite business and obtain adequate rates for exposures underwritten. Also, the premium decline was partially due to $24.0 million in additional ceded premiums related to accident year 2001 excess-of-loss reinsurance treaties. The net earned premiums declined for Specialty Operations related principally to active decisions to renew only those accounts which meet current underwriting guidelines supporting the ongoing commitment to underwriting discipline, especially in the dental professionals and physicians products.

Net earned premiums for Risk Management decreased as a result of a continued focus on re-underwriting the book of business. Reinsurance Operations also experienced a decrease in net earned premiums that reflects decisions not to renew contracts, especially multi-year contracts, that management believed did not meet its underwriting profitability targets. These contracts included credit and bond, London market lineslip insurance and European casualty facultative lines of business. The increase in net earned premiums for Global Operations was driven by growth in the commercial casualty and property lines in the European operations, as well as growth in the vehicle warranty line. These increases were partially offset by declines in the equipment maintenance warranty line of business and increased ceded premiums in the surety lines.

Underwriting results for the property-casualty segments remained relatively flat for the first three months of 2001 as compared with the same period in 2000. Excluding the $37.0 million (pre-tax) effect of the non-recurring ceding commission included in 2000 related to the sale of Personal Insurance to Allstate, underwriting results improved $36.0 million, most notably in

Commercial Insurance. The combined ratio increased 1.4 percentage points for the property-casualty segment to 111.4% for the first three months of 2001 as compared with the same period in 2000. Although total operating expenses have decreased, the expense and dividend ratio increased 3.3 percentage points to 37.1% due to the reduced net earned premium base. The loss ratio decreased 1.9 percentage points to 74.3% for the first three months of 2001 as compared with the same period in 2000 as a result of improved current year loss experience in Commercial Insurance and increased rate and improved experience in the Risk Management casualty line of business. These improvements were partially offset by Global Operations' adverse loss experience in the marine lines and adverse development in the surety lines.

Net operating income decreased $9.1 million in the first three months of 2001 as compared with the same period in 2000, primarily driven by decreased net investment income.

During the first quarter of 2001, CNA reclassified equity method income from limited partnership investments. This income was previously classified in investment gains, net of tax and minority interest, and is now classified in net investment income. The after-tax impact of this reclassification on net operating income for the property-casualty segment was $24.4 and $27.9 million in the first three months of 2001 and 2000, respectively.

Group
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Net earned premiums for Group Operations decreased $65.0 million, or 7.4%, to $818.0 million for the first three months of 2001 as compared with the same period in 2000. Net earned premiums declined $49.0 million as a result of the sale of the Life Reinsurance business on December 31, 2000 and $37.0 million in group reinsurance as a result of terminating contracts with unprofitable independent underwriting agencies. These declines were partially offset by growth of $18.0 million in Group Benefits lines of business.

Net operating income increased by $3.8 million in the first quarter of 2001 as compared with the same period in 2000. This improvement is a result of exiting unprofitable lines of business and lower expenses in Federal Markets, which more than offset the sale of Life Reinsurance.

The after-tax impact of the reclassification of limited partnership on net operating income for Group Operations was $.9 and $1.7 million in the first three months of 2001 and 2000, respectively.

Life
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Sales volume for Life Operations declined $409.0 million, or 40.2%, to $609.0 million for the first three months of 2001 as compared with the same period in 2000. Sales volume decreased primarily in institutional products and variable annuity sales influenced in part by the decline in the stock market. Sales to institutional markets tend to be "large case" institutional markets' sales, which can be sporadic, opportunistic and sensitive to independent agency ratings, and as such can be volatile over short periods. This decrease was partially offset by a growing in-force block of business in Long Term Care products and increased international annuity sales. Net earned premiums increased $36.0 million, or 17.0%, to $248.0 million for the first three months of 2001 as compared with the same period in 2000. This improvement is primarily attributable to the growing block of in-force business and increased new sales in Long Term Care, improved sales of structured settlements in the Retirement Services line and increased annuity sales internationally.

Net operating income for the first three months of 2001 was slightly lower than net operating income for the same period in 2000. This decrease was due to decreased investment income, partially offset by improved investment performance in the Index 500 product sold to institutions and favorable results in both the Individual Life and Long Term Care business.

The after-tax impact of the reclassification of limited partnership earnings on net operating income for Life Operations was a $5.2 million decrease in the first three months of 2001 and a $1.7 million increase for the same period in 2000.

Lorillard
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Lorillard, Inc. and subsidiaries ("Lorillard"). Lorillard, Inc. is a wholly owned subsidiary of the Company.

Revenues and net income increased by $68.4 and $8.9 million, or 6.9% and

5.7%, respectively, for the three months ended March 31, 2001, as compared to the corresponding period of the prior year.

The increase in revenue is primarily composed of an increase of approximately $111.1 million, or 11.1%, due to higher average unit prices, partially offset by a decrease of approximately $51.7 million, or 5.2%, reflecting lower unit sales volume for the three months ended March 31, 2001, as compared to the corresponding period of the prior year. Net investment income contributed $11.2 million to the increased revenues.

Lorillard's unit sales volume decreased by 3.9% for the quarter ended March 31, 2001, while Newport's unit sales volume increased by 5.0% primarily as a result of the introduction of the Newport Medium line extension and strengthened promotional support, as compared to the corresponding period of the prior year. The decrease in Lorillard's overall unit sales volume reflects lower unit sales of its Maverick and Old Gold brands in the discount market segment. This decline reflects increased competition in the discount segment and continued limitations imposed by certain competitors merchandising arrangements and general competitive conditions. Overall, industry unit sales volume is down by 3.7% through the quarter ended March 31, 2001.

Lorillard's market share was 9.57% for the quarter ended March 31, 2001 and 9.79% for the year ended December 31, 2000. Newport, a full price brand, accounted for 83.6% of Lorillard's unit sales for the quarter ended March 31,

2001. Newport's market share of the full price industry volume was 10.7% for the quarter ended March 31, 2001 and 10.5% for year ended December 31, 2000. Full price brand sales have increased from an average of 68.6% of industry sales during 1994 to an average of 73.6% during 2000. At March 31, 2001, full price brands represent 74.6% of industry sales.

Lorillard recorded pre-tax charges of $279.2 and $260.1 million for the three months ended March 31, 2001 and 2000 ($170.0 and $155.5 million after taxes), respectively, to accrue its obligations under various settlement agreements. Lorillard's portion of ongoing adjusted payments and legal fees is based on its share of domestic cigarette shipments in the year preceding that in which the payment is due. Accordingly, Lorillard records its portions of ongoing settlement payments as part of cost of manufactured products sold as the related sales occur. Funds required to meet the industry payment obligations have been provided by Lorillard's operating activities. See Note 9 of the Notes to Consolidated Condensed Financial Statements in Part I.

The Company believes that the implementation of the State Settlement Agreements will materially adversely affect its consolidated results of operations and cash flows in future periods. The degree of the adverse impact will depend, among other things, on the rates of decline in United States cigarette sales in the full price and discount segments, Lorillard's share of the domestic full price and discount segments, and the effect of any resulting cost advantage of manufacturers not subject to the Master Settlement Agreement.

Loews Hotels

Loews Hotels Holding Corporation and subsidiaries ("Loews Hotels"). Loews Hotels Holding Corporation is a wholly owned subsidiary of the Company.

Revenues increased by $6.3 million, or 8.0%, and net income decreased by $3.7 million, or 40.2%, for the three months ended March 31, 2001, as compared to the corresponding period of the prior year.

Revenues increased primarily due to revenues from the Philadelphia hotel which commenced operations in spring of 2000. Net income declined due to lower occupancy rates and increased depreciation and interest expenses related to the Philadelphia hotel.

Diamond Offshore

Diamond Offshore Drilling, Inc. and subsidiaries ("Diamond Offshore"). Diamond Offshore Drilling, Inc. is a 53% owned subsidiary of the Company.

Revenues and net income increased by $33.9 and $.9 million, or 17.8% and 6.5%, respectively, for the three months ended March 31, 2001, as compared to the corresponding period of the prior year. Revenues and net income included a gain from the sale of a drilling rig of $13.9 and $4.7 million, respectively, for the three months ended March 31, 2000.

Revenues from high specification floaters and other semisubmersible rigs increased by $12.3 million, or 6.5%, due primarily to the revenue generated by the Ocean Confidence, which began a five-year drilling program in the Gulf of Mexico on January 5, 2001 after completion of a conversion to a high specification semisubmersible drilling unit ($14.1 million), and increases in dayrates ($4.6 million) for the three months ended March 31, 2001, as compared

to the corresponding period of the prior year. Revenues from jackup rigs increased by $22.4 million, or 11.8%, due to increased dayrates ($19.1 million) and increased utilization rates ($3.7 million).

Net income for the three months ended March 31, 2001 increased due primarily to the increased revenues discussed above, partially offset by increased interest and depreciation expenses.

Bulova

Bulova Corporation and subsidiaries ("Bulova"). Bulova Corporation is a 97% owned subsidiary of the Company.

Revenues and net income decreased by $3.4 and $.3 million, or 9.4% and 11.1%, respectively, for the three months ended March 31, 2001, as compared to the corresponding period of the prior year. Revenues decreased due primarily to lower unit sales volume, partially offset by higher watch unit prices. Net income decreased due to the lower revenues, partially offset by improved gross margins attributable to Bulova's product sales mix within its brands.

Corporate

Corporate operations consist primarily of investment income, including investment gains (losses) from the Company's investment portfolio, as well as equity earnings from investment in a shipping operation, corporate interest expenses and other corporate administrative costs.

The components of investment gains (losses) included in Corporate operations are as follows:

	Three Months Ended March 31, 2001	2000
	(In millions)	
Revenues:		
Derivative instruments (1)	$ 8.2	$(111.6)
Fixed maturities	7.3	2.3
Equity securities, including short positions (1)	13.1	(60.9)
Short-term investments, primarily U.S. government securities	(.1)	(1.5)
	28.5	(171.7)
Income tax (expense) benefit	(10.0)	60.1
Net income (loss)	$ 18.5	$(111.6)

(1) Includes gains (losses) on short sales, equity index futures and options aggregating $16.9 and $(142.0), for the three months ended March 31, 2001 and 2000, respectively. The Company has maintained short positions in the form of futures or options - most recently as put options - since 1996. Substantially all of the index short positions were closed during the second quarter of 2000. See Item 3, "Quantitative and Qualitative Disclosures About Market Risk."

Exclusive of securities transactions, revenues increased by $22.3 million and net income increased $17.1 million for the three months ended March 31, 2001, as compared to the corresponding period of the prior year, due primarily to increased equity income from the Company's investment in a shipping joint venture and increased investment income, as compared to the prior year. Shipping revenues were $11.3 million for the three months ended March 31, 2001, as compared to a loss in the comparable period of the prior year.

Liquidity and Capital Resources:
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CNA Financial
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The principal operating cash flow sources of CNA's property/casualty and life insurance subsidiaries are premiums and investment income. The primary operating cash flow uses are payments for claims, policy benefits and operating expenses.

For the three months ended March 31, 2001, net cash used in operating activities was $123.0 million as compared with $492.0 million for the same period in 2000. The improvement related primarily to decreased net outflows

from underwriting activities, including decreased paid losses, partially offset by decreased Federal income tax refunds.

For the three months ended March 31, 2001, net cash inflows from investment activities was $272.0 million as compared with $672.0 million for the same period in 2000. Cash flows from investing activities were principally related to purchases and sales of invested assets. Cash inflows decreased from the prior year as invested asset purchases increased. Effective January 30, 2001, CNA sold the 180 Maiden Lane, New York, facility. The sale of this property provided additional liquidity to CNA with net sale proceeds of $277.0 million.

For the three months ended March 31, 2001, net cash used in financing activities was $170.0 million as compared with $154.0 million for the same period in 2000. Cash flows from financing activities include proceeds from the issuance of debt or equity instruments, outflows for dividends or repayment of debt and outlays to reacquire equity instruments.

As of April 30, 2001, CNA replaced its $750.0 million revolving credit facility (the "Prior Facility") with a new $500.0 million revolving credit facility (the "New Facility"). No loans were outstanding under either the Prior Facility or the New Facility. The Prior Facility was scheduled to expire on May 10, 2001. The New Facility is split into two parts, a $250.0 million component with a 364-day expiration date (with an option by CNA to turn this part of the New Facility into a one-year term loan) and a $250.0 million component with a 3-year expiration date. CNA pays a facility fee to the lenders of the New Facility for having funds available for loans under both components. The facility fee on the 364-day component is 12.5 basis points (which is the same as the fee on the Prior Facility) while the fee on the 3-year component is 15 basis points. In addition to the facility fees, if CNA borrows under the New Facility at its current debt rating, it will pay an interest rate on outstanding loans equal to the London Interbank Offering Rate ("LIBOR") plus 50 basis points for the 364-day component and LIBOR plus 47.5 basis points for the 3-year component. If CNA has outstanding loans equaling more than 50% of the amounts available under the New Facility, CNA also will pay a utilization fee of 12.5 basis points on such loans. The New Facility will be used for general corporate purposes including supporting the commercial paper program. During the first three months of 2001, CNA reduced its commercial paper borrowings by $127.0 million and letters of credit by $161.0 million.

Lorillard
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Lorillard and other cigarette manufacturers continue to be confronted with an increasing level of litigation and regulatory issues. Lawsuits continue to be filed with increasing frequency against Lorillard and other manufacturers of tobacco products. Approximately 4,875 product liability cases are pending against cigarette manufacturers in the United States. Of these, approximately 1,225 cases are pending in a West Virginia court, and approximately 3,040 cases are brought by flight attendants alleging injury from exposure to environmental tobacco smoke in the cabins of aircraft. Lorillard is a defendant in all of the flight attendant suits served to date and is a defendant in most of the cases pending in West Virginia.

On July 14, 2000, the jury in Engle v. R.J. Reynolds Tobacco Co., et al. awarded a total of $145.0 billion in punitive damages against all defendants, including $16.3 billion against Lorillard. Lorillard remains of the view that the Engle case should not have been certified as a class action. That certification is inconsistent with the overwhelming majority of federal and state court decisions which have held that mass smoking and health claims are inappropriate for class treatment. Lorillard has challenged class certification, as well as other numerous legal errors that it believes occurred during the trial. The Company and Lorillard believe that an appeal of these issues on the merits should prevail.

Lorillard has noticed an appeal from the purported final judgment to the Third District of the Florida Court of Appeal and has posted its appellate bond in the amount of $104.0 million pursuant to recent Florida legislation limiting the amount of an appellate bond required to be posted in order to stay execution of a judgment for punitive damages in a certified class action. Although this legislation is intended to apply to the Engle case, Lorillard cannot predict the outcome of any challenges to the possible application or constitutionality of this legislation. In the event this legislation is challenged and found to be invalid, Lorillard could be required to post a bond in an amount not capable of being bonded, resulting in execution of the judgment before it could be set aside on appeal. Lorillard believes that such a result would be unconstitutional and would also violate Florida law. Lorillard intends to take all appropriate steps to prevent this scenario from occurring and believes these efforts should be successful.

The terms of the State Settlement Agreements require significant payments to be made to the Settling States which began in 1998 and continue in perpetuity. See "Results of Operations" and Note 9 of the Notes to Consolidated Condensed Financial Statements for additional information regarding this settlement and litigation matters.

The United States federal excise tax on cigarettes is presently $17 per 1,000 cigarettes ($.34 per pack of 20 cigarettes). The federal excise tax on cigarettes is scheduled to increase by $2.50 per 1,000 cigarettes in the year 2002. Various states have proposed, and certain states have recently passed, increases in their state tobacco excise taxes. Such actions may adversely affect Lorillard's volume, operating revenues and operating income.

Loews Hotels

Loews Hotels is developing one hotel with its partners at Universal Orlando in Florida, which is scheduled to open in 2002. Capital expenditures in relation to this hotel project are being funded by a combination of equity from Loews Hotels and its partners, and mortgages.

Funds from operations continue to exceed operating requirements. Funds for other capital expenditures and working capital requirements are expected to be provided from existing cash balances and operations.

Diamond Offshore

During the first quarter of 2001, oil and natural gas prices remained above historical averages. The persistence of higher than average product prices has resulted in improving dayrates and utilization in all of the markets in which Diamond Offshore competes. Assuming higher than average product prices continue, at least in the short term, Diamond Offshore expects continued growth for the offshore drilling industry.

Diamond Offshore's domestic jack-up market, which improved in 2000 as independent operators acted quickly to take advantage of high natural gas

prices, has remained robust during the first quarter of 2001. Diamond Offshore believes the outlook for this market is for continued strength.

Diamond Offshore has been encouraged by the improvement in the market for its semisubmersible rig fleet, especially for intermediate water-depth semisubmersible offshore rigs, which lagged behind the recovery experienced in the jack-up market in 2000. Diamond Offshore anticipates the revival of dayrates and utilization in this market to continue in 2001.

Historically, the offshore drilling industry has been highly competitive and cyclical, and Diamond Offshore cannot predict the extent to which the current favorable conditions may continue. A decline in oil or gas prices could reduce demand for Diamond Offshore's drilling services and adversely affect both utilization and dayrates.

On April 6, 2001, Diamond Offshore redeemed all of its outstanding 3.75% Convertible Subordinated Notes (the "Notes") in accordance with the indenture under which the Notes were issued. Prior to April 6, 2001, $12.4 million principal amount of the Notes had been converted into 307,071 shares of Diamond Offshore's common stock at the stated conversion price of $40.50 per share. The remaining $387.6 million principal amount of the Notes was redeemed at 102.08% of the principal amount, plus accrued interest, for a total cash payment of $397.7 million.

On April 11, 2001, Diamond Offshore issued $460.0 million principal amount of 1.5% convertible senior debentures (the "1.5% Debentures") due April 15, 2031. The 1.5% Debentures are convertible into shares of Diamond Offshore's common stock at an initial conversion rate of 20.3978 shares per each $1,000 principal amount, subject to adjustment in certain circumstances. Upon conversion, Diamond Offshore has the right to deliver cash in lieu of shares of its common stock. The transaction resulted in net proceeds of approximately $449.2 million. Diamond Offshore will pay contingent interest to holders of the 1.5% Debentures during any six-month period commencing after April 15, 2008 if the average market price of a 1.5% Debenture for a measurement period preceding such six-month period equals 120% or more of the principal amount of such 1.5% Debenture and Diamond Offshore pays a regular cash dividend during such six-month period. The contingent interest payable per $1,000 principal amount of 1.5% Debentures in respect of any quarterly period will equal 50% of regular cash dividends paid by Diamond Offshore per share on its common stock during that quarterly period multiplied by the conversion rate. Diamond Offshore may redeem all or a portion of the 1.5% Debentures at any time on or after April 15, 2008 at a price equal to 100% of the principal amount.

During the first quarter of 2001, Diamond Offshore expended $19.8 million, including capitalized interest expense, primarily for the Ocean Baroness and Ocean Nomad rig upgrades. During 2001, Diamond Offshore expects to spend approximately $145.0 million for rig upgrade capital expenditures with $125.0 million projected for the deepwater upgrade of the Ocean Baroness.

The initial estimated cost for the deepwater upgrade of the Ocean Baroness is approximately $180.0 million with an expected delivery date in the first quarter of 2002. During the first quarter of 2001, Diamond Offshore expended $8.2 million for the deepwater upgrade of the Ocean Baroness.

During the first quarter of 2001, Diamond Offshore expended $14.0 million in association with its continuing rig enhancement program and to meet other corporate requirements. Diamond Offshore has budgeted $106.0 million for 2001

capital expenditures associated with its continuing rig enhancement program and other corporate requirements.

Bulova

Funds from operations continue to exceed operating requirements. Bulova's cash and cash equivalents, and investments amounted to $30.1 million at March 31, 2001, as compared to $16.9 million at December 31, 2000. Funds for other capital expenditures and working capital requirements are expected to be provided from operations.

Majestic Shipping

As previously reported in the Company's 2000 Annual Report on Form 10-K, a subsidiary and an affiliate of the Company have entered into agreements for newbuilding of eight supertankers, the total cost of the eight ships is estimated to amount to approximately $660.0 million. The financing for these ships will be provided by equity contributions by the Company and Hellespont Shipping Corporation, and bank debt supported by the Company.

Investments:

Investment activities of non-insurance companies include investments in fixed income securities, equity securities including short sales, derivative instruments and short-term investments, and are carried at fair value. Equity securities, which are considered part of the Company's trading portfolio, short sales and derivative instruments are marked to market and reported as investment gains or losses in the income statement.

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

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

The credit exposure associated with these instruments is generally limited to the positive market value of the instruments and will vary based on changes in market prices. The Company enters into these transactions with large financial institutions and considers the risk of nonperformance to be remote.

The Company does not believe that any of the derivative instruments utilized by it are unusually complex, nor do these instruments contain imbedded leverage features which would expose the Company to a higher degree of risk. See "Results of Operations" and "Quantitative and Qualitative Disclosures about Market Risk" for additional information with respect to derivative instruments, including recognized gains and losses on these instruments. See also Note 4 of the Notes to Consolidated Financial Statements in the 2000 Annual Report on Form 10-K.

Insurance

A summary of CNA's general account investments, at carrying value, are as follows:

	March 31, 2001	December 31, 2000	Change in Unrealized Gains (Losses)
	(In millions)		
Fixed maturity securities:			
U.S. Treasury securities and obligations of government agencies .	$ 7,225.0	$ 5,298.0	$ (5.0)
Asset-backed securities	5,708.0	7,623.0	27.0
Tax exempt securities	2,219.0	3,349.0	(32.0)
Taxable securities	11,677.0	10,328.0	252.0
Redeemable preferred stock	56.0	54.0	
Total fixed maturity securities .	26,885.0	26,652.0	242.0
Equity securities	2,368.0	2,412.0	(100.0)
Short-term and other investments . . .	7,833.0	6,058.3	
Total	$37,086.0	$35,122.3	$ 142.0

	March 31, 2001	December 31, 2000
	(In millions)	
Short-term and other investments:		
Commercial paper	$ 4,074.0	$ 3,290.6
Money market funds	1,467.0	620.4
U.S. Treasury securities	355.0	382.9
Others	335.0	428.7
Other investments	1,602.0	1,335.7
Total short-term and other investments	$ 7,833.0	$ 6,058.3

CNA's general and separate account investment portfolio consists primarily of publicly traded government bonds, asset-backed securities, mortgage-backed securities, municipal bonds and corporate bonds.

Total net unrealized gains of the general account investments was $1,549.0 million at March 31, 2001 compared with $1,310.0 million at December 31, 2000. The unrealized position at March 31, 2001 was composed of an unrealized gain

of $345.0 million for fixed maturities, and an unrealized gain of $1,204.0 million for equity securities.

CNA's investment policies for both the general and separate accounts emphasize high credit quality and diversification by industry, issuer and issue. Assets supporting interest rate sensitive liabilities are segmented within the general account to facilitate asset/liability duration management.

The general account portfolio consists primarily of high quality (rated BBB or higher) bonds, 92.0% and 93.0% of which are rated as investment grade at March 31, 2001 and December 31, 2000.

At March 31, 2001 and December 31, 2000, approximately 99.0% and 98.0% of the general account portfolio are U.S. Government agencies or were rated by Standard & Poor's or Moody's Investors Service. The remaining bonds were rated by other rating agencies, outside brokers or Company management.

Below investment grade bonds are high yield securities rated below BBB by bond rating agencies, as well as other unrated securities that, in the opinion of management, are below investment-grade. High-yield securities generally involve a greater degree of risk than investment-grade securities. However, expected returns should compensate for the added risk. This risk is also considered in the interest rate assumptions for the underlying insurance products.

Included in CNA's general account fixed maturity securities at March 31, 2001 are $5,708.0 million of asset-backed securities, at fair value, consisting of approximately 43.0% in collateralized mortgage obligations ("CMOs"), 31.0% in U.S. government agency issued pass-through certificates, 20.0% in corporate asset-backed obligations and 6.0% in corporate mortgage-backed pass-through certificates. The majority of CMOs held are actively traded in liquid markets and are priced by broker-dealers.

Short-term investments at March 31, 2001 and December 31, 2000 primarily consisted of commercial paper and money market funds.

CNA invests in certain derivative financial instruments primarily to reduce its exposure to market risk (principally interest rate, equity price and foreign currency risk). CNA considers the derivatives in its general account to be held for purposes other than trading. Derivative securities are recorded at fair value at the reporting date.

Certain Derivatives in separate accounts are held for trading purposes. CNA uses these derivatives to mitigate market risk by purchasing S&P 500 index futures in a notional amount equal to the contract liability relating to Life Operations' Index 500 guaranteed investment contract product.

Accounting Standards

In the first quarter of 2001, the Company adopted the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities and SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities (collectively referred to as SFAS No. 133). The Company's initial adoption of SFAS No. 133 did not have a significant impact on the equity of the Company; however, adoption of SFAS No. 133 resulted in a decrease to first quarter 2001 earnings of $53.3 million after tax and minority interest. Of this transition amount, approximately $50.5 million, net of taxes and minority interest, related to CNA's investments and investment-related derivatives.

Because CNA already carried its investment and investment-related derivatives at fair value through other comprehensive income, there was an equal and offsetting favorable adjustment of $50.5 million, after tax and minority interest, to shareholders' equity (accumulated other comprehensive income). See Note 2 of the Notes to Consolidated Condensed Financial Statements for a complete discussion of the Company's adoption of these accounting pronouncements.

On January 1, 2001, the Company adopted the Codification of Statutory Accounting Principles ("Codification") for preparing statutory-basis financial statements. Codification, which is intended to standardize regulatory accounting and reporting to state insurance departments, is effective January 1, 2001. However, statutory accounting principles will continue to be established by individual state laws and permitted practices. The states in which CNA's insurance subsidiaries conduct business required adoption of Codification (with certain modifications) for the preparation of statutory financial statements effective January 1, 2001. The Company's adoption of Codification, as modified, resulted in an increase in statutory capital and surplus as of January 1, 2001 by approximately $175.0 million, which primarily relates to deferred tax assets offset by insurance-related assessments and pension-related liabilities.

Additionally, CNA's property-casualty companies implemented a change, effective January 1, 2001, in the timing of recording written premiums for policies with future effective dates. This change was made in conjunction with changes required by Codification related to the recording of written premiums. The effect of this change was to reduce net written premiums by $113.0 million for the three months ended March 31, 2001. This change has no impact on net earned premiums or net income.

Forward-Looking Statements

When included in this Report, the words "believes," "expects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements. Such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, the impact of competitive products, policies and pricing; product and policy demand and market responses; development of claims and the effect on loss reserves; the performance of reinsurance companies under reinsurance contracts; general economic and business conditions; changes in financial markets (interest rate, credit, currency, commodities and equities) or in the value of specific investments; changes in foreign, political, social and economic conditions; regulatory initiatives and compliance with governmental regulations; changes in foreign and domestic oil and gas exploration and production activity, and expenditures related to rig conversion and upgrade; changes in rating agency policies and practices, the results of financing efforts, and agreements and various other matters and risks, many of which are beyond the Company's control.

The tobacco industry continues to be subject to health concerns relating to the use of tobacco products and exposure to environmental tobacco smoke, legislation, including actual and potential excise tax increases, increasing marketing and regulatory restrictions, governmental regulation, privately imposed smoking restrictions, litigation, including risks associated with adverse jury and judicial determinations, courts reaching conclusions at variance with the general understandings of applicable law, bonding requirements and the absence of adequate appellate remedies to get timely

relief from any of the foregoing, and the effects of price increases related to concluded tobacco litigation settlements and excise tax increases on consumption rates. Developments in any of these areas, which are more fully described elsewhere in this Report could cause the Company's results to differ materially from results that have been or may be projected by or on behalf of the Company. These forward-looking statements speak only as of the date of this Report. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company is a large diversified financial services company. As such, it and its subsidiaries have significant amounts of financial instruments that involve market risk. The Company's measure of market risk exposure represents an estimate of the change in fair value of its financial instruments. Changes in the trading portfolio would be recognized as investment gains (losses) in the income statement. Market risk exposure is presented for each class of financial instrument held by the Company at March 31, 2001 and December 31, 2000, assuming immediate adverse market movements of the magnitude described below. The Company believes that the various rates of adverse market movements represent a measure of exposure to loss under hypothetically assumed adverse conditions. The estimated market risk exposure represents the hypothetical loss to future earnings and does not represent the maximum possible loss nor any expected actual loss, even under adverse conditions, because actual adverse fluctuations would likely differ. In addition, since the Company's investment portfolio is subject to change based on its portfolio management strategy as well as in response to changes in the market, these estimates are not necessarily indicative of the actual results which may occur.

The following tables present the Company's market risk by category (equity markets, interest rates, foreign currency exchange rates and commodity prices) on the basis of those entered into for trading purposes and other than trading purposes.

Trading portfolio:

Category of risk exposure:	Fair Value Asset (Liability)		Market Risk	
	March 31, 2001	December 31, 2000	March 31, 2001	December 31, 2000
(Amounts in millions)				
Equity markets (1):				
Equity securities	$ 194.3	$ 248.2	$ 49.0	$(62.0)
Options - purchased	18.1	22.7	(11.0)	4.0
- written	(12.4)	(17.5)	(3.0)	(3.0)
Index futures - long			1.0	
- short				1.0
Short sales	(217.5)	(201.1)	(54.0)	50.0
Separate Accounts - Equity securities (a)	3.0	2.7	1.0	(1.0)
- Other invested assets	371.3	404.3	7.0	(7.0)
Interest rate (2):				
Futures - long			(56.0)	17.0
- short			24.0	(52.0)
Separate Accounts - Fixed maturity securities	287.8	410.1	(17.0)	19.0
Commodities:				
Gold (3):				
Options - purchased	14.0	11.8	(14.0)	(12.0)
- written	(3.6)		4.0	

Note: The calculation of estimated market risk exposure is based on assumed adverse changes in the underlying reference price or index of (1) an increase in equity prices of 25% at March 31, 2001 and a decrease in equity prices of 25% at December 31, 2000, (2) an increase in interest rates of 100 basis points at March 31, 2001 and a decrease in interest rates of 100 basis points at December 31, 2000 and (3) an increase in gold prices of 20%. Adverse changes on options which differ from those presented above would not necessarily result in a proportionate change to the estimated market risk exposure.

(a) In addition, the Separate Accounts carry positions in equity index futures. A decrease in equity prices of 25% would result in market risk amounting to $(201.0) and $(245.0) at March 31, 2001 and December 31, 2000, respectively. This market risk would be offset by decreases in liabilities to customers under variable insurance contracts.

Historically, the most significant areas of market risk in the Company's trading portfolio result from positions held in S&P futures contracts, short sales of certain equity securities and put options purchased on the S&P 500 index. The Company enters into these positions primarily to benefit from anticipated future movements in the underlying markets that Company management expects to occur. If such movements do not occur or if the market moves in the opposite direction from what management expects, significant losses may occur. The Company has maintained short positions, in the form of futures or options - - most recently as put options - since 1996. Substantially all of these index short positions were closed during the second quarter of 2000.

Exposure to market risk is managed and monitored by senior management. Senior management approves the overall investment strategy employed by the Company and has responsibility to ensure that the investment positions are

consistent with that strategy and the level of risk acceptable to it. The Company may manage risk by buying or selling instruments or entering into offsetting positions.

Other than trading portfolio:

Other than trading portfolio:

Category of risk exposure:	Fair Value Asset (Liability)		Market Risk	
	March 31, 2001	December 31, 2000	March 31, 2001	December 31, 2000
(Amounts in millions)				

Equity markets (1):				
Equity securities:				
General accounts (a)	$ 2,367.9	$ 2,411.6	$ (337.0)	$ (456.0)
Separate accounts	180.7	212.4	(45.0)	(53.0)
Other invested assets	1,340.0	1,333.0	(137.0)	(112.0)
Separate Accounts - Other Invested Assets	437.7	443.4	(109.0)	(111.0)
Interest rate (2):				
Fixed maturities (a)	27,317.7	27,244.3	(1,450.0)	(1,458.0)
Short-term investments (a)	10,863.2	9,100.3	(4.0)	(4.0)
Other derivative securities	4.2	2.1	26.0	1.0
Separate Accounts (a):				
Fixed maturities	2,200.3	2,292.5	(117.0)	(118.0)
Short-term investments	155.8	150.4		
Long-term debt	(5,633.6)	(5,747.0)		

Note: The calculation of estimated market risk exposure is based on assumed adverse changes in the underlying reference price or index of (1) a decrease in equity prices of 25% and (2) an increase in interest rates of 100 basis points.

(a) Certain securities are denominated in foreign currencies. An assumed 20% decline in the underlying exchange rates would result in an aggregate foreign currency exchange rate risk of $(554.0) and $(581.0) at March 31, 2001 and December 31, 2000, respectively.

Equity Price Risk - The Company has exposure to equity price risk as a result of its investment in equity securities and equity derivatives. Equity price risk results from changes in the level or volatility of equity prices which affect the value of equity securities or instruments that derive their value from such securities or indexes.

Equity price risk was measured assuming an instantaneous 25% change in the underlying reference price or index from its level at March 31, 2001 and December 31, 2000, with all other variables held constant.

Interest Rate Risk - The Company has exposure to interest rate risk, arising from changes in the level or volatility of interest rates. The Company attempts to mitigate its exposure to interest rate risk by utilizing instruments such as interest rate swaps, interest rate caps, commitments to purchase securities, options, futures and forwards. The Company monitors its sensitivity to interest rate risk by evaluating the change in the value of its financial assets and liabilities due to fluctuations in interest rates. The evaluation is performed by applying an instantaneous change in interest rates of varying magnitudes on a static balance sheet to determine the effect such a change in rates would have on the recorded market value of the Company's investments and the resulting effect on shareholders' equity. The analysis presents the sensitivity of the market value of the Company's financial

instruments to selected changes in market rates and prices which the Company believes are reasonably possible over a one-year period.

The sensitivity analysis estimates the change in the market value of the Company's interest sensitive assets and liabilities that were held on March 31, 2001 and December 31, 2000 due to instantaneous parallel shifts in the yield curve of 100 basis points, with all other variables held constant. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Accordingly the analysis may not be indicative of, is not intended to provide, and does not provide a precise forecast of the effect of changes of market interest rates on the Company's earnings or shareholders' equity. Further, the computations do not contemplate any actions the Company could undertake in response to changes in interest rates.

The Company's long-term debt, including interest rates swap agreements, as of March 31, 2001 and December 31, 2000 is denominated in U.S. Dollars. The Company's debt has been primarily issued at fixed rates, and as such, interest expense would not be impacted by interest rate shifts. The impact of a 100 basis point increase in interest rates on fixed rate debt would result in a decrease in market value of $343.8 and $352.0 million at March 31, 2001 and December 31, 2000, respectively. A 100 basis point decrease would result in an increase in market value of $389.6 and $398.8 million at March 31, 2001 and December 31, 2000, respectively.

The sensitivity analysis assumes an instantaneous shift in market interest rates changing by 100 basis points from their levels at March 31, 2001 and December 31, 2000, with all other variables held constant.

Foreign Exchange Rate Risk - Foreign exchange rate risk arises from the possibility that changes in foreign currency exchange rates will impact the value of financial instruments. The Company has foreign exchange rate exposure when it buys or sells foreign currencies or financial instruments denominated in a foreign currency. This exposure is mitigated by the Company's asset/liability matching strategy and through the use of futures for those instruments which are not matched. The Company's foreign transactions are primarily denominated in Canadian Dollars, British Pounds, and the European Monetary Unit. The sensitivity analysis also assumes an instantaneous 20% change in the foreign currency exchange rates versus the U.S. Dollar from their levels at March 31, 2001 and December 31, 2000, with all other variables held constant.

Commodity Price Risk - The Company has exposure to commodity price risk as a result of its investments in gold options. Commodity price risk results from changes in the level or volatility of commodity prices that impact instruments which derive their value from such commodities. Commodity price risk was measured assuming an instantaneous change of 20% from their levels at March 31, 2001 and December 31, 2000.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

1. CNA is involved in various lawsuits including environmental pollution claims. Information involving such lawsuits is incorporated by reference to Note 9 of the Notes to Consolidated Condensed Financial Statements in Part I.

2. As noted in Item 3 Legal Proceedings of the Company's Report on Form 10-K for the year ended December 31, 2000, Lorillard is defendant in various lawsuits seeking damages for cancer and health effects claimed to have resulted from the use of cigarettes or from exposure to tobacco smoke. Information involving such lawsuits is incorporated by reference to such Item 3 Legal Proceedings. The Company is a defendant in some of these cases. Material developments in relation to the foregoing are described below and incorporated by reference to Note 9 of the Notes to Consolidated Condensed Financial Statements in Part I.

CONVENTIONAL PRODUCT LIABILITY CASES -

Trial is proceeding in the Superior Court of Los Angeles County, California in the case of Boeken v. Philip Morris Incorporated. Neither the Company nor Lorillard are defendants in this matter.

Trial is proceeding in the Superior Court of Middlesex County, New Jersey in the case of Mehlman v. Philip Morris, Inc., et al. Neither the Company nor Lorillard are defendants in this matter.

On April 5, 2001, a jury in the Circuit Court, Eleventh Judicial Circuit, Dade County, Florida returned a verdict in favor of Lorillard and the other defendants in the case of Fontana v. Philip Morris Incorporated, et al. Plaintiff alleged injury as a result of her exposure to environmental tobacco smoke in the cabin of aircraft in which she was employed as a flight attendant. Plaintiff has filed a motion for ruling on her reserved motions for mis-trial and a motion for new trial. Plaintiff also has filed a motion for judgment notwithstanding the verdict as to her damages claim.

CLASS ACTIONS -

In the case of Aksamit v. Brown & Williamson Tobacco Corporation, et al. (U.S. District Court, South Carolina, filed November 20, 1997), plaintiffs have voluntarily dismissed the suit without prejudice.

In the case of Arnitz v. Philip Morris Incorporated, et al. (Circuit Court, Hillsborough County, Florida, filed June 6, 2000), plaintiff has withdrawn his class certification claims and has dismissed Lorillard from the suit.

In the case of Avallone v. The American Tobacco Company, et al. (Superior Court, Middlesex County, New Jersey, filed April 23, 1998), the court has entered an order dismissing the action. The Company was a defendant in the case.

In the case of Badillo v. American Tobacco Company, et al. (U.S. District Court, Nevada, filed October 8, 1997), the court has heard argument of plaintiffs' motion for class certification. The Company is a defendant in the case.

In the case of Blankenship v. American Brands, Inc., et al. (Circuit Court, Ohio County, West Virginia, filed January 31, 1997), the court has denied defendants' motion for class decertification. The court has scheduled re-trial of this matter to begin during September 2001.

In the case of Brown v. The American Tobacco Company, et al. (Superior Court, San Diego County, California, filed June 10, 1997), the court granted in part plaintiff's motion for class certification and certified a class comprised of residents of California who smoked at least one of defendants' cigarettes during the "applicable" class period and who were exposed to defendants' marketing and advertising activities in California. Certification was granted as to plaintiff's claims that defendants violated California Business and Professions Code Sections 17200 and 17500. The court denied the motion for class certification as to plaintiff's claims under the California Legal Remedies Act. The court has postponed entering a final ruling on the class certification in order to receive briefs with respect to the time frame encompassed by "the applicable class period." The court is scheduled to issue its ruling during July 2001.

In the case of Daniels v. Philip Morris Companies, Inc., et al. (Superior Court, San Diego County, California, filed April 2, 1998), defendants have filed a writ proceeding with the California Supreme Court to review the trial court's order that granted plaintiffs' motion for class certification.

In the case of Guillory v. American Brands, Inc., et al. (U.S. District Court, Northern District, Illinois, filed June 10, 1997), the court has denied plaintiffs' motion for class certification. Plaintiffs have sought leave to pursue an interlocutory appeal from this ruling.

In the case of National Tobacco Consumers Group Number 2 v. R.J. Reynolds Tobacco Company, et al. (U.S. District Court, Massachusetts, filed July 18, 2000), plaintiff has voluntarily dismissed the action.

In the case of Nwanze v. Philip Morris Companies Inc., et al. (U.S. District Court, Southern District, New York, filed September 29, 1997), the U.S. Court of Appeals for the Second Circuit has affirmed the final judgment entered by the trial court in defendants' favor. The Company was a defendant in the case.

In the case of Perry v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, Tennessee, filed September 30, 1996), the court has granted defendants' motion to dismiss the complaint for failure to state a claim. The deadline for plaintiffs to notice an appeal from the ruling has not expired.

In the case of Richardson v. Philip Morris Incorporated, et al. (Circuit Court, Baltimore City, Maryland, filed May 24, 1996), the court has entered an order dismissing the action.

In the case of Scott v. The American Tobacco Company, et al. (District Court, Orleans Parish, Louisiana, filed May 24, 1996), defendants have filed a writ application with the Louisiana Supreme Court that seeks decertification of the class ordered by the trial court and review of the trial court's trial plan. The case is scheduled to be tried pursuant to a three-part trial plan beginning on June 18, 2001.

REIMBURSEMENT CASES -

U.S. State and Local Governmental Reimbursement Cases -

In the case of State of Missouri v. American Tobacco Company, Inc., et al. (Circuit Court, City of St. Louis, Missouri, filed May 12, 1997), judgment has become final pursuant to the MSA.

Reimbursement Cases filed by Foreign Governments in U.S. Courts -

In the case of The Kyrgyz Republic v. The Brooke Group Ltd., Inc., et al. (U.S. District Court, Southern District, Florida, filed January 22, 2001), the court has entered the parties' stipulation of dismissal without prejudice. The Company was a defendant in the case.

In the case of The Republic of Ecuador v. Philip Morris Companies, Inc., et al. (Circuit Court, Eleventh Judicial Circuit, Dade County, Florida, filed January 21, 2000), plaintiff has voluntarily dismissed the suit without prejudice. The Company was a defendant in the case.

The following additional Reimbursement Case by Foreign Governments in U.S. Courts has been filed:

The case of The Republic of Belize v. Philip Morris Companies, Inc., et al. (Circuit Court, Eleventh Judicial Circuit, Dade County, Florida, filed April 5, 2001). The Company is a defendant in the case.

Reimbursement Cases by Labor Unions -

In the case of National Asbestos Workers, et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, New York, filed February 27, 1998), the court has vacated its schedule that set the case for trial during September 2001. Another trial date has not been set. The Company is a defendant in the case.

In the case of Oberle (Trustees of the Connecticut Pipe Trades Health Fund), et al. v. Philip Morris, Inc., et al. (U.S. District Court, Connecticut, filed July 1, 1997), the court granted defendants' motion to dismiss the complaint. The deadline for plaintiffs to notice an appeal has not expired.

The following additional Reimbursement Case by Labor Unions has been filed:

The case of Obra Social del Personal de la Industria del Vestido, et al. v. American Tobacco Co., Inc., et al. (Superior Court, District of Columbia, filed March 23, 2001).

Reimbursement Cases by Private Companies and Health Plans -

In the case of Blue Cross and Blue Shield of New Jersey, Inc., et al. v. Philip Morris, Incorporated, et al. (U.S. District Court, Eastern District, New York, filed April 29, 1998), trial is proceeding as to the claims of one of the plan plaintiffs, Empire Blue Cross and Blue Shield.

In the case of Regence Blueshield, et al. v. Philip Morris, Incorporated, et al. (U.S. District Court, Western District, Washington, filed April 29, 1998), the U.S. Court of Appeals for the Ninth Circuit has denied plaintiffs' motion for reconsideration of its ruling that affirmed the dismissal of the case.

Eastern District of New York Litigation -

On March 15, 2001, the court heard argument of the parties' various motions and took them under advisement in In re Simon (II) Litigation, the case being used by the court as a mechanism to explore possible settlements of punitive damages claims. The motions included plaintiffs' motion for class certification, plaintiffs' motion for approval of class counsel, and defendants' motion to dismiss the complaint. Plaintiffs seek certification of eight separate sub-classes. The putative sub-classes include individual smokers; individuals with pending product liability actions; multi-employer health benefit plans; non-governmental third party payors; and asbestos entities.

Trial is proceeding in the case of Blue Cross and Blue Shield of New Jersey, Inc., et al. v. Philip Morris, Incorporated, et al., as to the severed claims of one of the plan plaintiffs, Empire Blue Cross and Blue Shield.

CONTRIBUTION CLAIMS -

The following additional Contribution Claims have been filed:

The case of Asbestos Claims Management Corporation, et al. v. RJR Nabisco, Inc., et al. (Circuit Court, Claiborne County, Mississippi, filed April 18, 2001). The Company is a defendant in the case. As of May 1, 2001, neither the Company nor Lorillard had received service of process.

The case of Combustion Engineering, Inc., et al. v. RJR Nabisco, Inc., et al. (Circuit Court, Claiborne County, Mississippi, filed April 18, 2001). The Company is a defendant in the case. As of May 1, 2001, neither the Company nor Lorillard had received service of process.

The case of Gasket Holdings, et al. v. RJR Nabisco, Inc., et al. (Circuit Court, Jefferson County, Mississippi, filed December 18, 2000). The Company is a defendant in the case. As of May 1, 2001, neither the Company nor Lorillard has received service of process.

The case of Gasket Holdings, et al. v. RJR Nabisco, Inc., et al. (Circuit Court, Claiborne County, Mississippi, filed April 18, 2001). The Company is a defendant in the case. As of May 1, 2001, neither the Company nor Lorillard had received service of process.

The case of Owens-Illinois, Inc., et al. v. R.J. Reynolds Tobacco Company, et al. (Circuit Court, Sharkey County, Mississippi, filed December 15, 2000).

The case of T&N, Ltd., et al. v. RJR Nabisco, Inc., et al. (Circuit Court, Claiborne County, Mississippi, filed April 18, 2001). The Company is a defendant in the case. As of May 1, 2001, neither the Company nor Lorillard had received service of process.

The case of W.R. Grace & Co. Conn., et al. v. RJR Nabisco, Inc., et al. (Circuit Court, Jefferson County, Mississippi, filed April 24, 2001). The Company is a defendant in the case. As of May 1, 2001, neither the Company nor Lorillard had received service of process.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits--

None

(b) Current reports on Form 8-K --

On January 9, 2001, Registrant filed a report on Form 8-K regarding the issuance of a press release stating that a subsidiary exercised its final option for the new construction of a supertanker.

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, thereunto duly authorized.

LOEWS CORPORATION
(Registrant)

Dated: May 3, 2001

By /s/ Peter W. Keegan

PETER W. KEEGAN
Senior Vice President and
Chief Financial Officer
(Duly authorized officer
and principal financial
officer)